

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Finance & Operations Committee**

**Thursday, February 7, 2008**

**9:45 a.m. - 11:45 a.m.**

**600 McNamara Alumni Center, East Committee Room**

**Board Members**

Steven Hunter, Chair  
Dean Johnson, Vice Chair  
Clyde Allen  
Linda Cohen  
John Frobenius  
Venora Hung

**Student Representatives**

Nathan Swanson  
Mark Torma

**A G E N D A**

1. Issues Related to: Annual Capital Financing & Debt Management Report - R. Pfutzenreuter (pp. 2-3)
2. Issues Related to: Private Equity - R. Pfutzenreuter/S. Mason (pp. 4-13)
3. Update: Enterprise Financial System Implementation - R. Pfutzenreuter/M. Volna (p. 14)
4. Consent Report - Review/Action - R. Pfutzenreuter (pp. 15-24)
5. Information Items - R. Pfutzenreuter (pp. 25-27)



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**February 7, 2008**

**Agenda Item:** Issues Related to: Annual Capital Financing & Debt Management Report

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter

**Purpose:**

policy       background/context       oversight       strategic positioning

In accordance with Board of Regents Policy: *Debt Transactions*, the *Annual Capital Financing and Debt Management Report* is presented to provide an update of the University's debt profile.

A copy of the *Annual Capital Financing & Debt Management Report* will be distributed at the meeting.

**Outline of Key Points/Policy Issues:**

The University's approach to debt management is to accomplish the following objectives:

- Focus administrative management of debt on overall portfolio of debt rather than individual debt transactions.
- Link the debt structure and external debt service requirements with the budget process.
- Maintain a long-term core debt rating of Aa/AA category and a short-term core debt rating of A-1/P-1 by Moody's Rating Service and Standard & Poor's, respectively.

Outstanding bonds and other debt payable at 6/30/07 is \$796 million with a total effective interest rate of 4.36%.

Significant FY07 debt transactions:

- Issuance of \$137,250,000 in Special Purpose Revenue Bonds (State Supported Debt) Series 2006 on December 14, 2006. The proceeds are to be used for certain costs of the Stadium Project. Approximately \$26,000,000 of the proceeds has been drawn to reimburse the University for such project expenses incurred to date.

The Series 2006 bonds are special limited obligations of the University. Specified transfers expected to be made by the State of Minnesota (pursuant to legislation providing for the appropriation of such transfers from the general fund of the state) are pledged for the payment of the Series 2006 Bonds.

- Issuance of \$61,000,000 in tax-exempt Commercial Paper Notes, Series B on March 1, 2007. The proceeds are to be used to finance (a) the purchase of land and buildings; (b) construction and remodeling projects to be undertaken by the University; and (c) the acquisition and installation of equipment by the University. Approximately \$47,000,000 of the proceeds has been drawn to reimburse the University for such project expenses incurred to date.

FY08 Debt transactions to date:

- The Board of Regents approved a resolution related to the issuance of additional commercial paper of \$135,000,000 for purchases of land and buildings, construction and remodeling projects, and acquisition and installation of equipment (October 2007). Tax-exempt Commercial Paper Notes, Series C, in the amount of \$70,000,000 were issued on November 28, 2007. Approximately \$59,000,000 of the proceeds has been drawn to reimburse the University for such project expenses incurred to date. The remaining \$65,000,000 of authorized commercial paper is expected to be issued in early FY09.
- Goldman Sachs exercised an option, effective July 1, 2007, to convert the Floating Amount payments to the University on an existing swap agreement from the Municipal Swap Index (BMA) to 64% of 3-month LIBOR. This swap agreement expires July 1, 2012.
- JP Morgan Chase exercised an option, effective November 23, 2007, to convert the Floating Amount payments to the University on an existing swap agreement from the Municipal Swap Index (BMA) to 64% of 3-month LIBOR. This swap agreement expires August 28, 2012.

Two existing committees are used for developing debt policy and seeking advice in new debt management practices:

- Debt Management Advisory Committee (DMAC), chaired by Regent Allen.
- Debt Oversight Group (DOG), which includes executive leadership across University functional areas.

A Debt Process Team (DPT) exists for purposes of discussion and documentation of the University's external debt management processes, including the investment of and spending of bond proceeds and accounting and tax compliance.

## **Background Information:**

Board of Regents Policy: *Debt Transactions* was revised June 2004:

- Maintain University's long-term core debt rating of Aa/AA category and short-term core debt rating of A-1/P-1.
- Distinguish between core debt and special purpose debt.
- Issue debt for qualified capital projects only and not for University operating costs.
- Align maturity of debt with life expectancy of projects to be financed.

*Annual Capital Financing and Debt Management Report* presented to the Finance & Operations Committee in December 2006, 2005, and 2004.

This item responds to the following priority of the Board of Regents 2007-2009 Workplan: Strengthen long-term financial planning.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**February 7, 2008**

**Agenda Item:** Issues Related to: Private Equity

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter  
Chief Investment Officer Stuart Mason

**Purpose:**

policy       background/context       oversight       strategic positioning

To review the portfolio characteristics of the Private Equity allocation in the Consolidated Endowment Fund (CEF).

**Outline of Key Points/Policy Issues:**

The CEF, which totals \$1.2 billion as of November 30, 2007, has a strategic asset allocation totaling 20% to Private Capital. This portion of the portfolio produced a 27% return in the last 12 months and an average of 28% annually over the last three years. The discussion is intended to provide details about the composition and characteristics of this part of the CEF portfolio.

**Background Information:**

This Office of Investments & Banking presentation responds to the Board's request for a better understanding of the private investments within the CEF.

This item responds to the following priority of the Board of Regents 2007-2009 Workplan: Strengthen long-term financial planning.

# Review of Private Capital Portfolio

# Private Capital

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## Venture Capital:

- Invest in new / emerging companies
- Develop new innovations
- 7-10 year time frame

## Buyout:

- Investing in established companies
- Expand existing franchises, improve economics
- 3-5 year time frame

## Distressed Debt:

- Investing in troubled companies or distressed assets
- Restructure debt in bankruptcy, reposition assets, aggressive collection
- 1-4 year time frame

# Private Capital

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## Strategic Objectives

- **Portfolio diversification**
- **Privately negotiated transactions produce attractive returns relative to public markets**
- **Capitalize on opportunities not available in the public markets**

# Private Capital

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## Strategic Allocation Targets

	<u>Target</u>	<u>Current*</u>
• Venture Capital	6%	6.3%
• Buyout	7%	6.8%
• Distressed Debt	<u>7%</u>	<u>4.9%</u>
<b>Total</b>	<b>20%</b>	<b>18.0%</b>

- Percent of total CEF portfolio

\* (as of 12/31/07)



# Private Capital

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## Performs best when...

Rationale for  
balanced  
allocation

**Venture Capital -**

**Growing economic conditions**

**Buyout -**

**Late downturn / early  
expansion**

**Distressed Debt -**

**Recession trough, emerging  
recovery**

# Private Capital – Venture Capital

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## Strategy:

- Top tier, access constrained, consultant driven
- 25-35% healthcare, 70-75% technology
- 66% early stage, 33% later stage
- 80% US, 20% International

## Current Portfolio:

- \$60 million market value of direct investments
- \$120 million committed, 9 active relationships
- \$15 million fund of funds

## 2008 Strategy:

- Add 2-3 new relationships: Lightspeed, Foundation, SAIF, Benchmark, Accel
- Close on Qiming (\$10 million), CDH (\$2 million), Index Europe (4.9 million euro)
- Add'l commitment target: \$15-20 million

# Private Capital – Buyout

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## Strategy:

- **Global exposure: 50% US, 50% International**
- **Control positions – developed markets**
- **Growth capital – developing markets**
- **Established track records**

## Current Portfolio:

- **\$63 million market value of direct investments**
- **\$168 million committed, 8 active direct relationships**
- **\$17 million fund of funds**

## 2008 Strategy:

- **Consider growth capital outside the US**
- **Projected market value: 10 % of CEF**
- **Virtually no new capacity**

# Private Capital – Distressed Debt

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## Strategy:

- Small / mid cap companies
- Control oriented strategies, some peripheral strategies
- Deeply discounted assets, no bond trading strategies
- Established track records

## Current Portfolio:

- \$60 million market value of direct investments
- \$105 million committed, 4 active direct relationships

## 2008 Strategy:

- Add selectively – market opportunities are increasing
- Add'l commitment target: \$15-20 million

# Private Capital Performance

(as of 9/30/07)

	Quarter	1 Year	3 Year	5 Year
<b>Private Capital</b>	<b>5.4%</b>	<b>27.8%</b>	<b>49.7%</b>	<b>28.9%</b>
<b>Total CEF</b>	<b>1.1%</b>	<b>17.6%</b>	<b>18.1%</b>	<b>17.3%</b>
<b>S&amp;P 500</b>	<b>2.0%</b>	<b>13.4%</b>	<b>13.4%</b>	<b>15.5%</b>
<b>Russell 3000</b>	<b>1.6%</b>	<b>16.5%</b>	<b>13.7%</b>	<b>16.2%</b>
<b>Russell 2000</b>	<b>(3.1%)</b>	<b>12.4%</b>	<b>13.4%</b>	<b>18.8%</b>



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**February 7, 2008**

**Agenda Item:** Update: Enterprise Financial System Implementation

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter  
Associate Vice President Michael Volna

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide the Finance and Operations Committee with an update on the implementation of the PeopleSoft Enterprise Financial System.

**Outline of Key Points/Policy Issues:**

The project continues to be on track to meet the go-live date of July 2008. Since the last update to the Board, the project successfully completed two more phases: the technical design phase and the “build”, or coding phases. The project also met milestones on work related to integrating existing enterprise systems, such as the student and human resource systems. Finally, the project continues to prepare the financial user community for the rollout of the new system through organizational design and change management activities, the development of training plans, and financial competencies assessments.

A presentation will be made to the Finance and Operations Committee outlining the status of the project, including timeline and budget.

**Background Information:**

The University purchased the PeopleSoft Enterprise Financial System software in September 2003, pursuant to Board approval. The University has pursued a two-phased approach to implementation. Phase 1, a preparatory and exploratory phase, ran from January 2004 through July 2005. Phase 2, the implementation phase, began August 2005 and runs up to the go-live date of July 2008.

The Board has received eight status reports on the software purchase and implementation efforts, beginning in July 2002 through the most recent report in May 2007.

This item responds to the following priority of the Board of Regents 2007-2009 Workplan: Identify and monitor appropriate metrics and outcomes for significant projects.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**February 7, 2008**

**Agenda Item:** Consent Report

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter

**Purpose:**

policy       background/context       oversight       strategic positioning

General Contingency

To approve allocations from General Contingency greater than \$250,000.

Purchase of Goods and Services over \$250,000

To approve purchases of goods and services over \$250,000, in compliance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**Outline of Key Points/Policy Issues:**

General Contingency

There are no items in the General Contingency report requiring Board approval.

Purchase of Goods and Services Over \$250,000

- To Cellular Specialties, Inc. for an estimated \$1,248,628 to furnish, deliver and install public safety radio and Nextel cellular communications equipment for the Department of Public Safety. The acquisition of radio and cellular communications in steam tunnels is funded by the Central Security Infrastructure project for fiscal years FY08 and FY09. Vendor was selected through a competitive process.
- To Communication Power Corporation for \$280,172 for 7T Amplifier System Upgrade for the Radiology Department, Center for Magnetic Resonance Research. The 7T Amplifier System will be purchased with departmental funds currently available for this research. Vendor was selected through a competitive process.
- To Enventis Telecom for \$1,700,000 to purchase network hardware and software and to provide annual Cisco Smartnet hardware and software support for the period of April 1, 2008 through March 31, 2009 for Networking and Telecommunications Services, a division of the Office of Information Technology. The campus data network is centrally (O&M) funded. This expense is budgeted for FY08 and will be budgeted for FY09. Vendor was selected through a competitive process.

- To Multi-Venue Productions for up to \$375,000 for post-event clean ups in Athletic Facilities from February 28, 2008 to April 30, 2009 for Intercollegiate Athletic Facilities. The post-event clean ups are funded by Athletic Facilities budgets for the current fiscal year. Vendor was selected through a competitive process.
- To Service des Relations Internationales, The University of Montpellier III for an amount not to exceed \$750,000 for providing study abroad academic credit programs for the Learning Abroad Center for the Academic Years 2007-2008, 2008-2009, and 2009-2010 in Montpellier, France. The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center. See enclosed documentation regarding basis of vendor selection.
- To Thermo Electron North America LLC for \$730,093 for model LTQ-Orbitrap XL mass spectrometer with ETD upgrade and Accela uHPLC for the Biochemistry, Biophysics and Molecular Biology Department. The mass spectrometer will be purchased with funds from the MAES Hatch funds, the Academic Health Center, the Office of the Vice President for Research, the College of Biological Sciences, and the College of Food, Agricultural and Natural Resources. Vendor was selected through a competitive process.

### **Background Information:**

#### General Contingency

Allocations from the General Contingency in excess of \$250,000 require Board approval. Allocations of less than \$250,000 are reported in the Board of Regents Finance and Operations Committee each month in which the committee meets.

### **President's Recommendation for Action:**

The President recommends approval of the Consent Report.



## General Contingency

### 2007-08 General Contingency:

Recipient	Allocation	Balance	Purpose
<b>FY2008 General Contingency</b>			
Carryforward from FY2007 into FY2008	330,646	<b>\$1,400,000</b>	
1 Wind to Hydrogen unused FY07 allocation	(261,000)	1,991,646	Return unused funds
2 Office of the President	66,674	1,924,972	Expenses related to the University Senate Judicial Committee
3 Vice President for University Services	18,775	1,906,197	Sponsor "An Evening with Ken Burns at Northrop"
4 AVP for Campus Planning and Project Development	64,100	1,842,097	Design of the Veterans Tribute for TCF Bank stadium
5 AVP for Campus Planning and Project Development	175,000	1,667,097	Update of Twin Citites campus master plan
6			
7 <b>New items this reporting period:</b>			
8			
9 AVP for Campus Planning and Project Development	245,000	1,422,097	Capital improvements to Eastcliff
10			
11 <b>Balance as of January 31, 2008</b>		<b>1,422,097</b>	
12			
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\* Subject to Board approval due to cost of \$250,000 or more

Purchase of Goods and Services over \$250,000

To Cellular Specialties, Inc. (CSI) for an estimated \$1,248,628 to furnish, deliver and install public safety radio and Nextel cellular communications equipment for the Department of Public Safety.

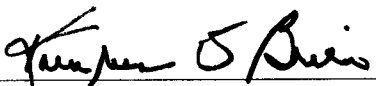
*Radio and cellular communications are needed in the steam tunnels to address security concerns because law enforcement or other staff members that work in the steam tunnels are unable to communicate when they are working in the utility tunnels located beneath the university campuses in the Twin Cities area. This presents numerous security and life safety concerns.*

*Through a competitive Request for Proposal process, Cellular Specialties, Inc. (CSI) provided the best price and displayed the experience necessary to provide this service.*

*The acquisition of radio and cellular communications in steam tunnels is funded by the Central Security Infrastructure project for fiscal years FY08 and FY09.*

Submitted by: Terrence Cook, Director of Emergency Management  
Room 140, University Office Plaza  
Minneapolis Campus  
Phone: (612) 625-2802  
Fax: (612) 625-6660

Approval for this item requested by:

  
\_\_\_\_\_  
VP Signature

Date 1/22/08

Purchase of Goods and Services \$250,000 and Over

To Communication Power Corporation for \$280,172.00 for 7T Amplifier System Upgrade for the Radiology Department, Center for Magnetic Resonance Research (CMRR).

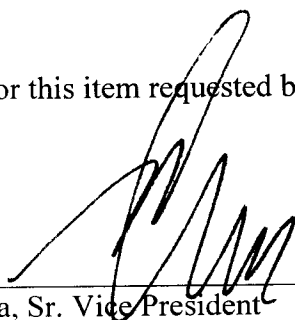
*CMRR's current 7T amplifier has regular electronic component failures which leads to unreliable operation, extensive downtimes, and repair costs. This new amplifier will be based on improved technology and electronic components that will be more reliable and will permit new experimental capabilities, including running broadband multi-channel transmit experiments (transmit-SENSE) and high duty cycle frequency-modulated imaging (SWIFT and RASER).*

*Through a competitive bid process, the Communication Power Corporation provided the only bid. Their quote is consistent with previous purchases of similar items.*

*The 7T Amplifier System will be purchased with departmental funds currently available for this research.*

Submitted by: Michael Garwood, CMRR Associate Director  
2021 6<sup>th</sup> Street SE  
Minneapolis, MN 55455  
Phone: (612) 626-2001  
Fax: (612) 626-2004

Approval for this item requested by:

  
\_\_\_\_\_  
Frank Cerra, Sr. Vice President

1/3/08  
\_\_\_\_\_  
Date

## Purchase of Goods and Services over \$250,000

To Enventis Telecom for \$1,700,000 to purchase network hardware and software and to provide annual Cisco Smartnet hardware and software support for the period of April 1, 2008 through March 31, 2009 for Networking and Telecommunications Services (NTS), a division of the Office of Information Technology (OIT).

*Cisco hardware is required to support the University of Minnesota's complex network which is made up of Cisco hardware purchased from the Network Upgrade RFP done in January, 2004. Smartnet hardware and software support is required to ensure continuous operation and timely repairs on University Network equipment manufactured by Cisco.*

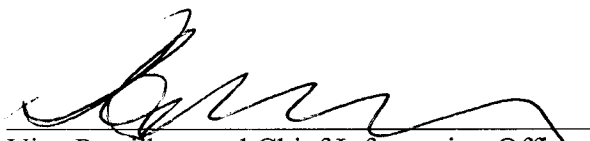
*Cisco hardware enables network connections for students, faculty, and staff. Smartnet support provides 24 x 7 access to Cisco.com for online tools and technical assistance, access to the Cisco Technical Assistance Center (TAC), Cisco IOS Software updates, and advance replacement of failed hardware. Smartnet support reduces the risk of network down-time. Without a support contract there will be repair delays that will affect service to the University community.*

*Enventis Telecom won the reverse auction held 2/1/06 by the University's Purchasing Department for Cisco equipment and Cisco Smartnet support. This is option number two of three options to renew this contract.*

*The campus data network is centrally (O&M) funded. This expense is budgeted for FY08 and will be budgeted for FY09.*

Submitted by:  
Diane Wollner  
Director of Finance  
Office of Information Technology  
Phone: (612) 626-1311

Approval of this item is requested by:

  
\_\_\_\_\_  
Vice President and Chief Information Officer

1-11-2008  
\_\_\_\_\_  
Date

Purchase of Goods and Services over \$250,000

To Multi-Venue Productions (M.V.P.) for up to \$375,000 for post-event clean ups in Athletic Facilities from February 28, 2008 to April 30<sup>th</sup>, 2009 for Intercollegiate Athletic Facilities.

*Post event clean ups are defined as providing clean-up after any event (sports, academic, cultural, social, business, etc.) held in Williams Arena, the Sports Pavilion, Mariucci Arena, or Ridder Arena with more than 1,500 spectators/participants in attendance. Athletic Facilities will continue working relationships with organizations looking for clean up opportunities as fundraisers for those events of 1,500 spectators or less.*


*With the number of events in these arenas during the event season, it is critical to maintaining the overall appearance of the public areas of the facilities by utilizing a professional organization for these clean ups. This includes, but is not limited to, public seating areas, public restrooms, concourse and stairwells and importantly, suites and club rooms.*

*Through a competitive bid process, Multi-Venue Productions provided the best price and displayed the experience necessary for contract period.*

*The post event clean ups are funded by Athletic Facilities budgets for the current fiscal year.*

Submitted by: Jeff Seifriz, Director of Athletic Facilities  
Room 141, Bierman Field Athletic Building  
Mpls Campus  
Phone: (612) 624 -7559  
Fax: (612) 624 - 4152

Approval for this item requested by:



VP or Exce. VP Signature

1/18/08

Date

## Contract for Services over \$250,000

To Service des Relations Internationales, The University of Montpellier III for a not to exceed amount of \$750,000.00 for providing study abroad academic credit programs for the Learning Abroad Center for the Academic Years 2007-2008 , 2008-2009, and 2009-2010 in Montpellier, France.

The Learning Abroad Center contracts with Service des Relations Internationales, The University of Montpellier III to provide services to support overseas study programs. Services include, but are not limited to the following;

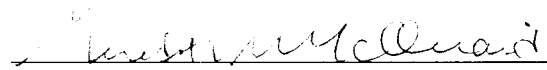
- Student services – pre-departure and on-site orientation, airport transfers, room and board arrangements including home-stays, health and safety management, and in-country travel and liability insurance.
- Academic program and facilities – enrollment requirements, academic program design, delivery and procedures, course content, tutorial sessions, faculty members, transportation for course related travel, program evaluations, and administration and granting of credit.

The Learning Abroad Center is anticipating higher enrollments in the next few years due to the University of Minnesota's initiative to have 50% of students participating in a study abroad experience during their academic career. In addition, two significant grants supporting curriculum integration for study abroad will increase the participation in overseas programs. As a result of the study abroad initiatives, there is a need for additional contracted services driving contracts over \$250,000, thus requiring Regents approval.

Costs for students participating on study abroad programs are based on a per student fee which is very similar in most cases to the costs students would incur if they were paying tuition, fees, and room and board to attend classes on the U of M campus. The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center.

Submitted by: Elvin Balkcum, Director  
Learning Abroad Center  
Office of International Programs  
645 Heller Hall  
Minneapolis Campus  
Phone: 612-625-5593  
Fax: 612-626-8009

Approval for this item requested by:

  
\_\_\_\_\_  
Associate Vice President and Dean

1/15/08  
\_\_\_\_\_  
Date

## **Rationale for Exception to Competitive Bidding**

This purchase has not been competitively bid because a comprehensive and diligent process to select external administrators is used by the Learning Abroad Center (LAC).

External administrators, third parties who work with the LAC's directors to design and customize programs in particular cities for the University of Minnesota, are researched, and selected based on (1) their familiarity with and contacts in a particular city, (2) student and LAC's assessments of the external program administrator's past performance, (3) demonstrated ability to provide for the housing, health and safety of participants, and (4) references from other Universities. The continued success of the program depends on the administrator's ability to provide a safe, productive and memorable student experience in the particular country or city. The risk of vendor non-performance in this area is a risk to the program and a risk to students. LAC's selection process is the optimal process to assure that the University's interests are protected for this type of purchase.

Costs for students participating on study abroad programs are based on a per student fee which is very similar in most cases to the costs students would incur if they were paying tuition, fees, and room and board to attend classes on the U of M campus. The program fees cover the costs of the academic program and the administrative costs for the Learning Abroad Center.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.

## Purchase of Goods and Services over \$250,000

To Thermo Electron North America LLC for \$730,093 for model LTQ-Orbitrap XL mass spectrometer with ETD upgrade and Accela uHPLC for the Biochemistry, Biophysics and Molecular Biology Department.

The purchase of the LTQ-Orbitrap XL mass spectrometer will support proteomic and metabolomic research at the University of Minnesota. Presently over 150 researchers from more than 40 University Departments are already using the Mass Spectrometry and Proteomics facility for biomarker discovery and metabolite identification. This newest addition will add significantly to their research. The added capabilities that this instrument would provide include: unsurpassed mass accuracy and resolution; electron transfer dissociation (ETD) capabilities; and top-down proteomics approaches.

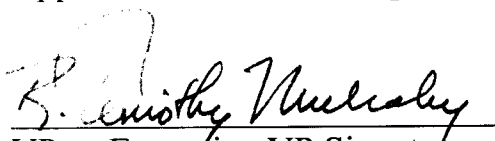
Through a competitive bid process, the LTQ-Orbitrap mass spectrometer was selected considering both its cost and unmatched performance features.

The mass spectrometer will be purchased with funds from: the MAES Hatch funds, the Academic Health Center, the Office of the Vice President for Research, the College of Biological Sciences and the College of Food, Agriculture and Natural Resources.

Submitted by:

Thomas Krick, Manager Mass Spectrometry Proteomics Facility  
6-155 Jackson Hall  
Mpls Campus  
Phone: (612) 624-7715  
Fax: (612)625-2163

Approval for this item requested by:

  
VP or Executive VP Signature

1/16/08  
Date





**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**February 7, 2008**

**Agenda Item:** Information Items

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter

**Purpose:**

policy       background/context       oversight       strategic positioning

Annual Report on Central Reserves

To report on the status of the University's Central Reserves.

**Outline of Key Points/Policy Issues:**

Annual Report on Central Reserves:

- The approved budget plan included revenues totaling \$32,800,000, mostly in investment income. This figure has been revised to \$25,000,000. The \$7,800,000 lower estimate is due to a combination of three factors affecting central reserves income: (a) meaningful lower average balance in the Temporary Investment Pool; (b) significantly lower than projected investment yield on the portfolio due to prevailing market conditions; and (c) realization of a capital loss on one investment. Other miscellaneous income has increased by \$550,000. The actual carry forward into fiscal year 2007-08 has decreased by \$52,692, reflecting updated balances on June 30, 2007. Net resources are now anticipated to decline a total of \$7,302,692.
- The approved central reserves budget plan included a transfer out totaling \$17,358,000 for a variety of projects. The revised budget plan includes a decrease in the transfer out totaling \$4,468,000 due to cancellation of prior planned expenditures and modifications in the timing of other planned project expenditures.
- The combination of the decrease in anticipated investment income and revisions to the previously planned project transfers results in a revised June 30, 2008 central reserves ending balance of \$25,773,645. The revised projected June 30, 2008 central reserves balance will temporarily fall below the Board of Regents policy requirement of \$28,479,160 by \$2,705,515. The President's Recommended Fiscal Year 2008-09 Central Reserves Budget Plan will restore this balance to the required level.

**Background Information:**

Central Reserves refers to monies that are unrestricted as to purpose or use and that are available for immediate expenditure by the senior management of the University. Reserves are budgeted through an annual reserves spending plan that is prepared and submitted to the Board of Regents for approval along with the annual budget plan. Once approved by the Board, funds are allocated for the express and exclusive purpose stated, and further action is not required for allocations or expenditures consistent with the spending plan.

In accordance with the approved Finance and Operations Committee Work Plan for 2007-08, this financial update on Central Reserves is requested in February 2008.

This item responds to the following priority of the Board of Regents 2007-2009 Workplan: Schedule discussions on the University's future resource needs in human resources, finance, technology, and physical plant.

# CENTRAL RESERVES SUMMARY

As of December 31, 2007  
FY 2007-08

	a	b	c=(b-a)	d	e=(d-b)
	Approved Budget FY 2007-08	Revised Budget FY 2007-08	Change to Budget	Actual As Of 12/31/07	Variance To Revised Budget
<u>Resources</u>					
Beginning Balance 6/30/07	\$ 28,109,440	\$ 28,056,748	-52,692	31,358,343	\$ 3,301,595
TIP Investment Income/Realized Gains*	32,800,000	25,000,000	-7,800,000	767,229	-24,232,771
Less Distribution of Income to Participants	-600,000	-600,000	0	-262,807	337,193
Other Investment Income	0	0	0	0	0
Total Investment Income/Realized Gains	<u>32,200,000</u>	<u>24,400,000</u>	<u>-7,800,000</u>	<u>504,422</u>	<u>-23,895,578</u>
Internal Loan Transfer	0	0	0	0	0
Real Estate Sales	0	0	0	0	0
Other Income	<u>100,000</u>	<u>650,000</u>	<u>550,000</u>	<u>37,041</u>	<u>-612,959</u>
<b>Total Resources</b>	<b>60,409,440</b>	<b>53,106,748</b>	<b>-7,302,692</b>	<b>31,899,806</b>	<b>-21,206,942</b>
<u>Expenditures and Transfers Out</u>					
Expenses	95,000	95,000	0	95,000	0
General Contingency	1,400,000	1,400,000	0	1,400,000	0
Project Transfers	17,358,000	12,890,000	-4,468,000	17,358,000	4,468,000
Transfers Out: To O&M	<u>12,948,103</u>	<u>12,948,103</u>	<u>0</u>	<u>12,948,103</u>	<u>0</u>
<b>Total Expenditures and Transfers Out</b>	<b>31,801,103</b>	<b>27,333,103</b>	<b>-4,468,000</b>	<b>31,801,103</b>	<b>4,468,000</b>
<b>Ending Balance, 6/30/08</b>	<b>\$ 28,608,337</b>	<b>\$ 25,773,645</b>	<b>\$ -2,834,692</b>	<b>\$ 98,703</b>	<b>\$ -25,674,942</b>
Board Required 4% of State O&M and Specials Appropriations	\$ 28,479,160	\$ 28,479,160			
Balance over/(under) required reserve	129,177	(2,705,515)			