

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Finance & Operations Committee**

**Thursday, March 10, 2011**

**1:30 – 3:30 p.m.**

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

**Board Members**

John Frobenius, Chair  
Venora Hung, Vice Chair  
Clyde Allen  
Richard Beeson  
Patricia Simmons  
Steve Sviggum

**Student Representatives**

Matt Privratsky  
Chantal Wilson

**A G E N D A**

1. Annual Investment Consultants Report: Cambridge Associates - R. Pfitzenreuter/  
S. Mason (p. 2)
2. Annual Insurance & Risk Management Report - M. Volna/S. Pardoe (p. 3-22)
3. University Biennial Budget Update - R. Pfitzenreuter (p. 23)
4. Enterprise Financial System Update - R. Pfitzenreuter (p. 24)
5. Consent Report - Review/Action - R. Pfitzenreuter (pp. 25-32) **REVISED**
6. Information Items - R. Pfitzenreuter (pp. 33-83) **REVISED**



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** Annual Investment Consultants Report: Cambridge Associates

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfitzenreuter  
Associate Vice President Stuart Mason

**Purpose:**

policy       background/context       oversight       strategic positioning

A Cambridge Associates representative is present to make their annual report regarding the Consolidated Endowment Fund (CEF) investment performance review and to discuss asset allocation versus peer college and university endowments.

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

- Comparison of CEF investment performance to peers and “best performing” colleges and universities, highlighting the current asset allocation relative to the Regents’ strategic target asset allocations of the portfolio.
- Review of the current asset allocation for CEF and implications of return and risk.
- Capital markets update and observations regarding overvalued/undervalued sectors of the global capital markets.

**Background Information:**



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** Annual Insurance & Risk Management Report

review       review/action       action       discussion

**Presenters:** Associate Vice President Michael Volna  
Steven Pardoe, Director, Risk Management & Insurance

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide a report on the risk management and insurance programs at the University for fiscal year 2010.

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

Total cost of risk (which is the sum of self-insurance costs and the cost of commercially-purchased insurance) for 2010 was \$12.8 million, compared with \$13.3 million for the prior fiscal year, a decrease of 2.9%. Factors contributing to the decrease include:

- Improve in RUMINCO paid losses and incurred but not reported accruals.
- Reductions in self-insurance costs, primarily worker's compensation paid losses.
- A 5.5% increase in commercial insurance costs, mainly related to property insurance.

**Background Information:**

This report is prepared and presented to the Board of Regents Finance and Operations Committee on an annual basis.

# UNIVERSITY OF MINNESOTA

***Annual Report***  
*Of the*  
***Office of Risk Management and Insurance***  
*As of*  
***Fiscal Year Ended***  
***30 June, 2010***

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## I. Overview

### ***Mission of the Office of Risk Management and Insurance***

The Office of Risk Management and Insurance ('Risk Management') assumes as principle that a 'risk-free' University is one in which no productive activity can take place. Risk Management finds ways to promote and enable Research, Teaching and Outreach while concurrently managing the risk inherent to those core missions.

The Office of Risk Management and Insurance:

- Provides consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to problematic risk and insurance provisions of many of the contracts the University seeks to enter into annually.

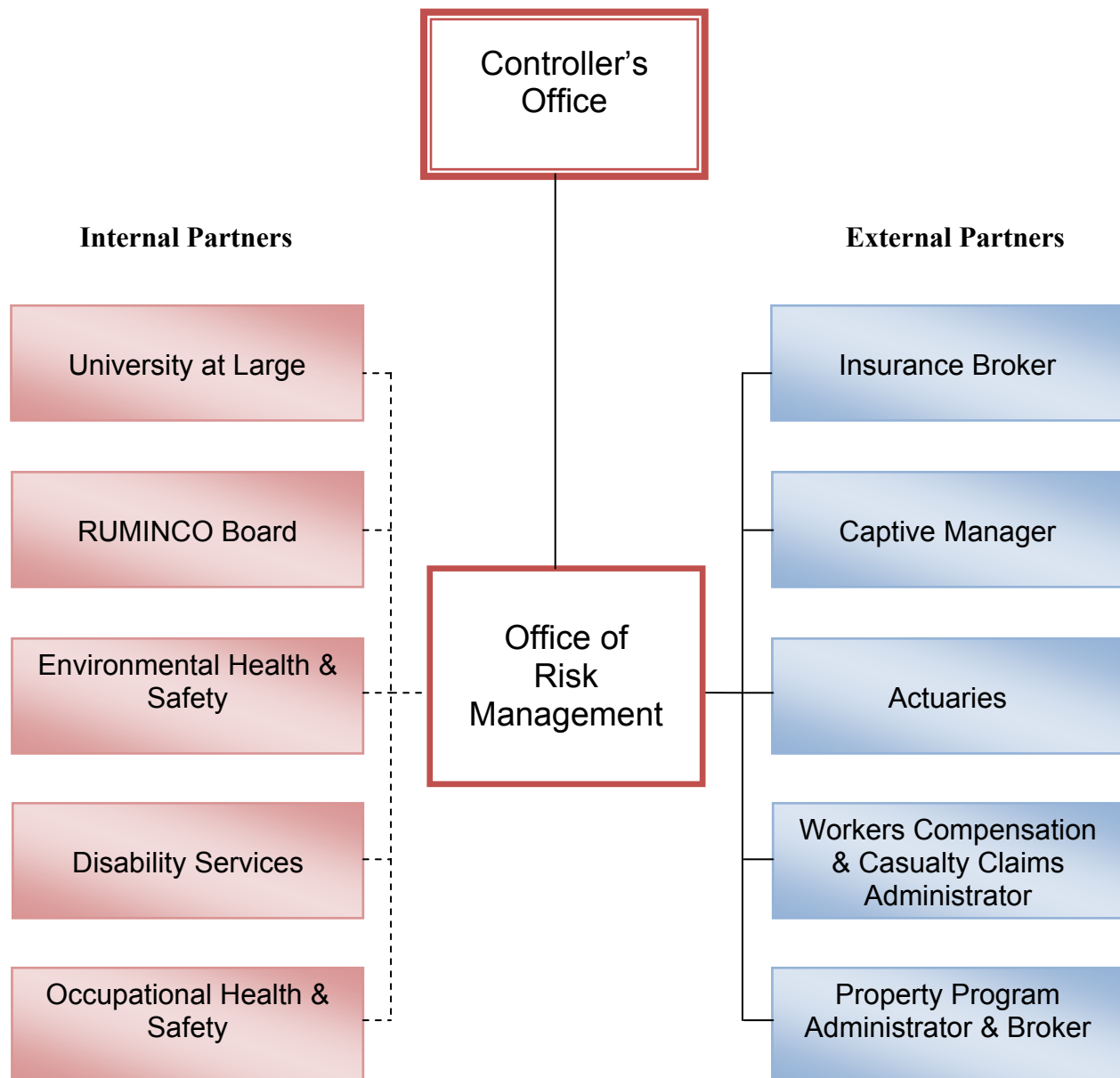
This report summarizes the scope of operations of the University's Office of Risk Management and Insurance as of fiscal year-end June 30, 2010.

## I. Overview (cont.)

### *Organizational Structure*

The Office of Risk Management:

- Acts at the direction of the Controller's Office;
- Has a dotted line relationship with many University entities and resources; and
- Directly controls the activities of insurance vendors and suppliers.



## I. Overview (cont.)

### ***FY10: Milestones and Accomplishments***

#### **Workers Compensation Revitalization**

##### **Independent Review**

In terms of employee contact, employee satisfaction, and overall cost, the university's self-insured Workers Compensation is a very important program. Risk Management commissioned an independent review of the program by the same Workers' Compensation consultant, Marty VonDrasek, who reviewed the program in 1999. Ms. VonDrasek found that "...over the past ten years, and more significantly in the last two years, the recommendations from 1999 have been implemented and with great success".

##### **Electronic Reporting**

In conjunction with the Office of information Technology, Risk Management developed and implemented a web-based claim reporting tool. This tool is replacing the current paper/FAX manual information stream, saving hundreds of input hours and preventing transcription errors. Claim notices are instantly routed to our Third Party Claims Administrator, promoting quick response to our Employees, and helping us stay with Minnesota reporting time guidelines. Relevant information is automatically routed, in real-time, to University Offices and Departments with a need to know or ability to help.

##### **Trends**

The year-on-year percent change in the overall cost of the program and the claims count is trending downward with respect overall University payroll. These are welcome trends.

#### **Extra-Minnesota Liability Limits**

Outside Minnesota, the University enjoys no statutory 'Tort Cap' liability protection. As University operations diversify geographically, the chance of incurring uncapped liabilities in an alien jurisdiction will increase. Risk Management purchased \$40 million in excess General and Auto Liability Limits for lawsuits brought outside Minnesota jurisdiction. Seventy-six percent of the cost was offset by non-renewing two policies whose coverages were rolled into the new policy during negotiations.

#### **Property**

The rates, terms and conditions of the Property Insurance written under the MHEC program had not been tested on the open market in well over a decade. After consultation with University senior management, Risk Management introduced competition to the MHEC Master Property Program. The result was FY11 savings of \$1.36MM and preservation of the MHEC relationship.



## II. Risk Finance Programs

### General Approaches to Risk Finance

The financial consequences of risk may be **Retained** or **Transferred**.

- **Risk retention** (often called “self-insurance”) is characterized by the assumption (retention) of financial risk consequences. This retention ranges from a deductible to carrying no insurance whatsoever. Optimally, risk retention will be the result of pre-considered choice.
- **Risk transfer** is characterized by the passing of the financial consequences of risk to a third party (typically an insurer) via purchase of a contract (typically an insurance policy) that specifies the terms and conditions of the transfer.

Broadly, the University treats its risk as follows:

- Liability – **Transferred** to Captive Insurer (RUMINCO)
- Workers Compensation – **Retained**; Self-Insured
- Property and Miscellaneous Insurance – **Transferred** to Commercial Insurers

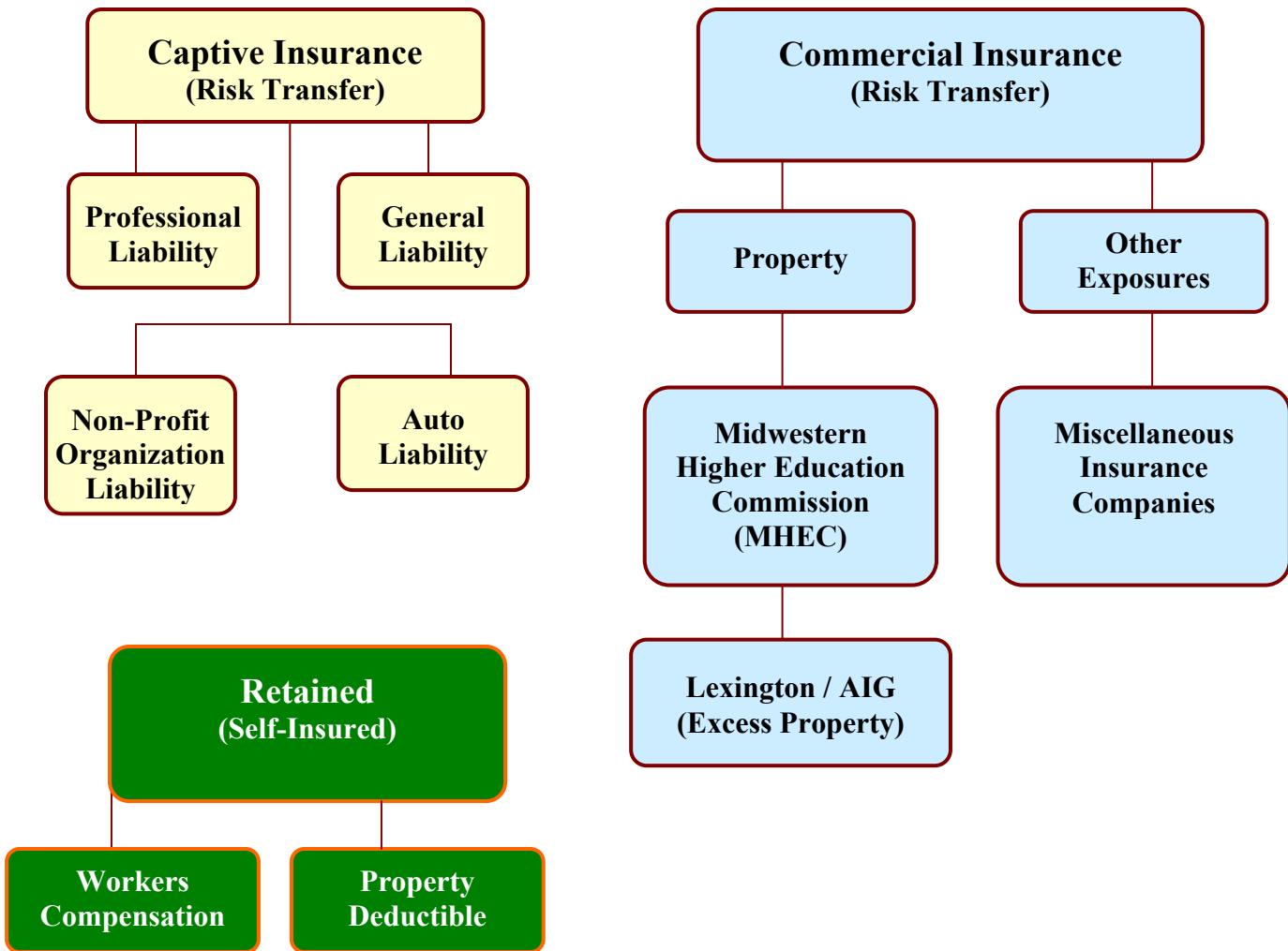
There are specific rationales behind the decision to transfer or retain a specific risk. The guiding principle has been that if it is financially possible and reasonable for the University to retain risk, it is best to do so, as retention tends to be more economical in the long run.

Generally, this principle is abrogated by exposure to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. The University requires \$1 billion in property insurance limit. Because there is no good way to fund that sort of amount internally, the University purchases an insurance policy to transfer that exposure to a third party.

## II. Risk Finance Programs (cont.)

### University Structures

Much activity of the Office of Risk Management centers on the establishment, maintenance and continuing refinement of risk finance mechanisms. The University finances its Property and Casualty risk using a combination of three main mechanisms:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal combination of risk financing methods. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

The following sections describe the University's Captive, Retained and Commercially Insured risk financing programs.

## II. Risk Finance Programs (cont.)

### Captive Insurance

**RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company)** is a captive insurance company, a wholly owned subsidiary of the University of Minnesota. It was incorporated in 1978 during a nationwide crisis in the medical malpractice insurance market. At that time, the University Hospitals and Clinics and the Medical School faced 400% increases in premiums. After exploring various risk financing options, the University decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- General Liability; and
- Professional Liability

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel furnished an opinion that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liability. The University chose to discontinue the purchase of Excess Liability from commercial insurers and rely solely on the limits underwritten through RUMINCO. As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- Automobile Liability
- Non-Profit Organization Liability

Over one-third of a century, RUMINCO has proven itself to be a useful funding tool for the University. It is a formalized, disciplined way to finance risk, yet retains flexibility and provides long-term stability.

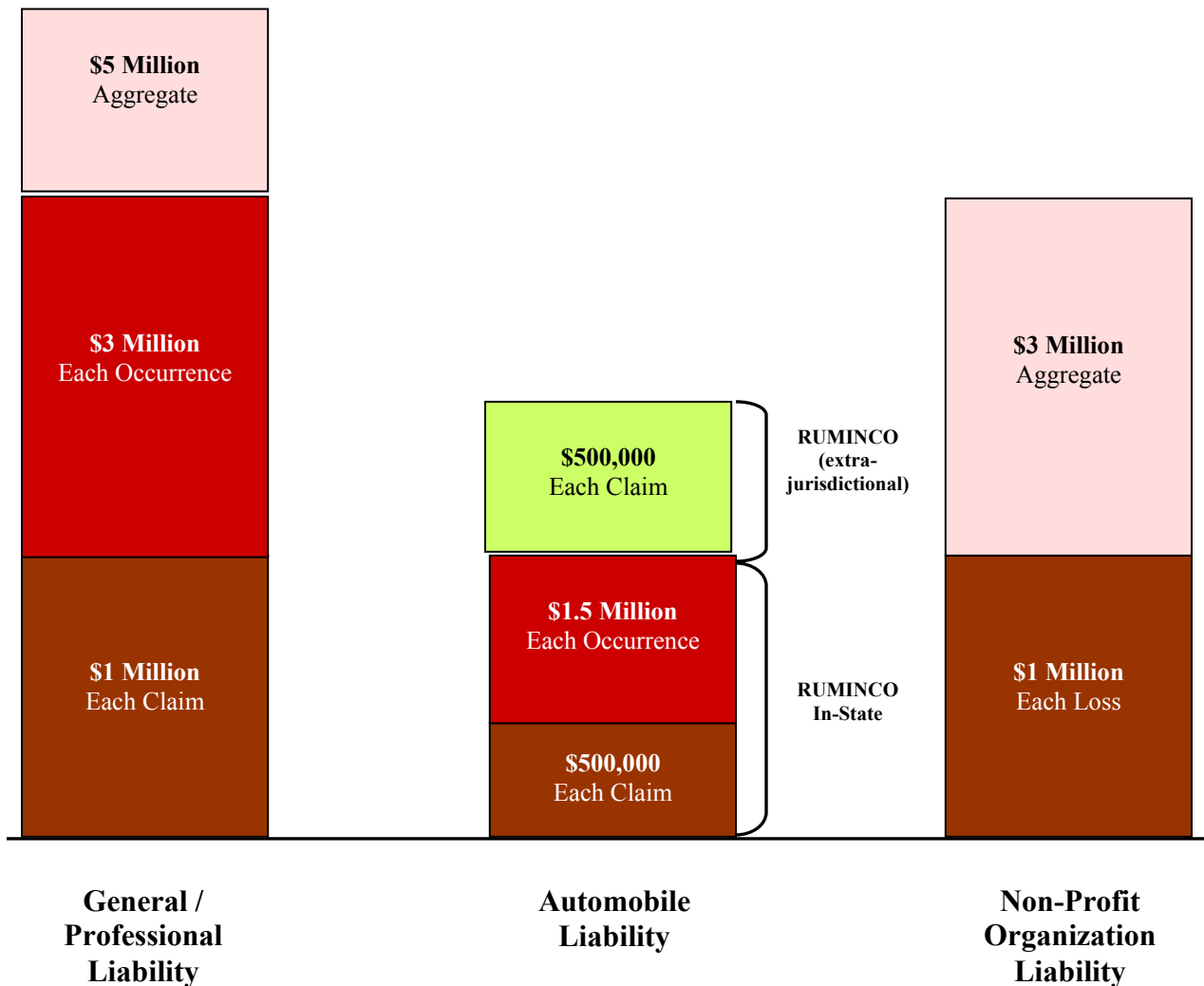
The graph on the next page summarizes RUMINCO's current coverage structure, and is followed by descriptions of each line of coverage in the order laid out in the bullets above.

## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *Summary of RUMINCO Ltd. Limits*

Limits within the RUMINCO program are generally in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit effectively waives the Statute's protection.



## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *General Liability*

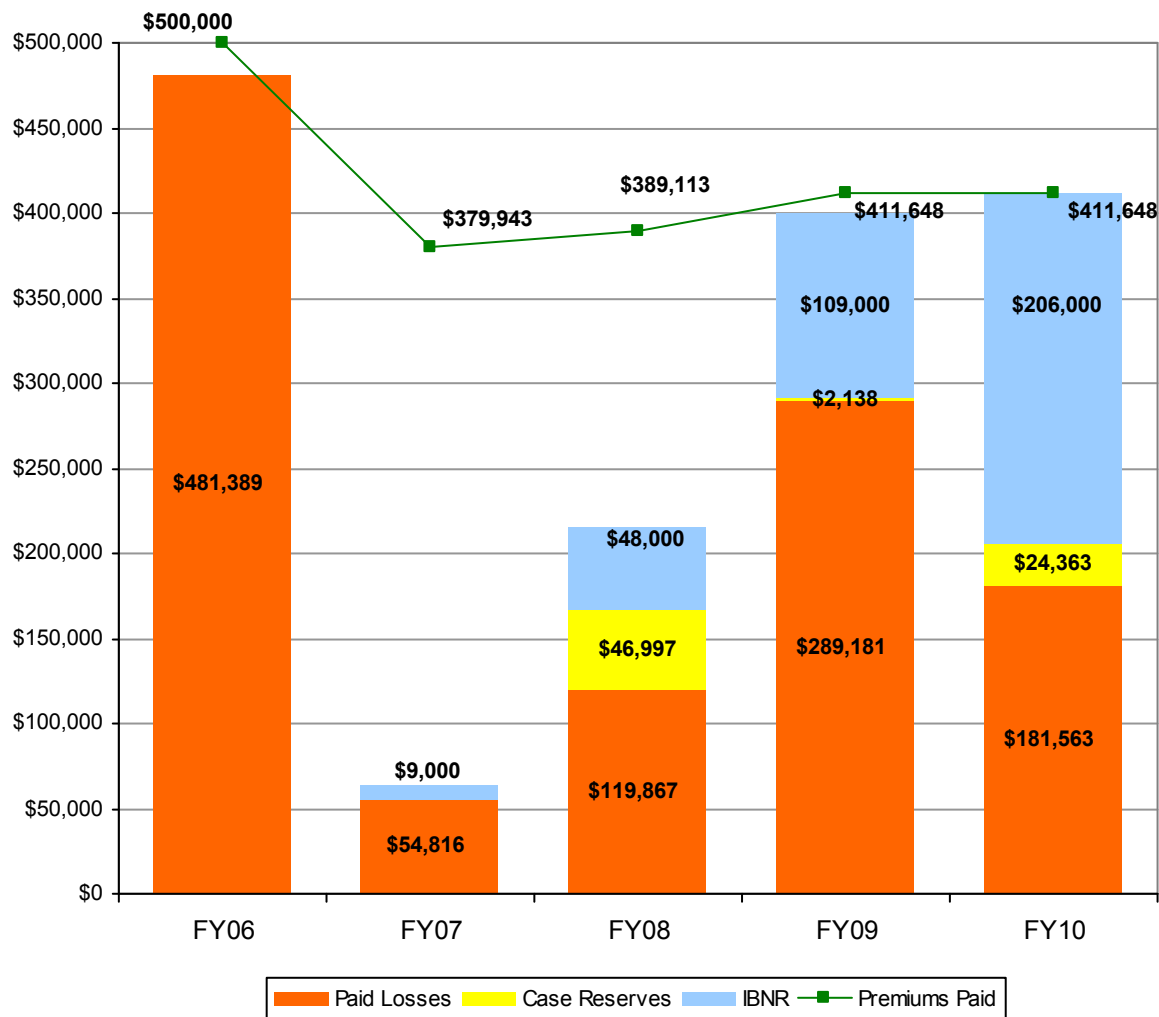
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** General liability insures the University's legal liability for third party bodily injury or property damage.

**Principal Frequency Exposure:** Premises injuries to third parties (slip-and-falls).

**Principal Severity Exposure:** Concentrations of people in facilities such as dormitories, stadiums and arenas exposed to fire, collapse, explosion, etc.

**Five-Year Premium and Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *Professional Liability*

**Carrier:** RUMINCO Ltd.

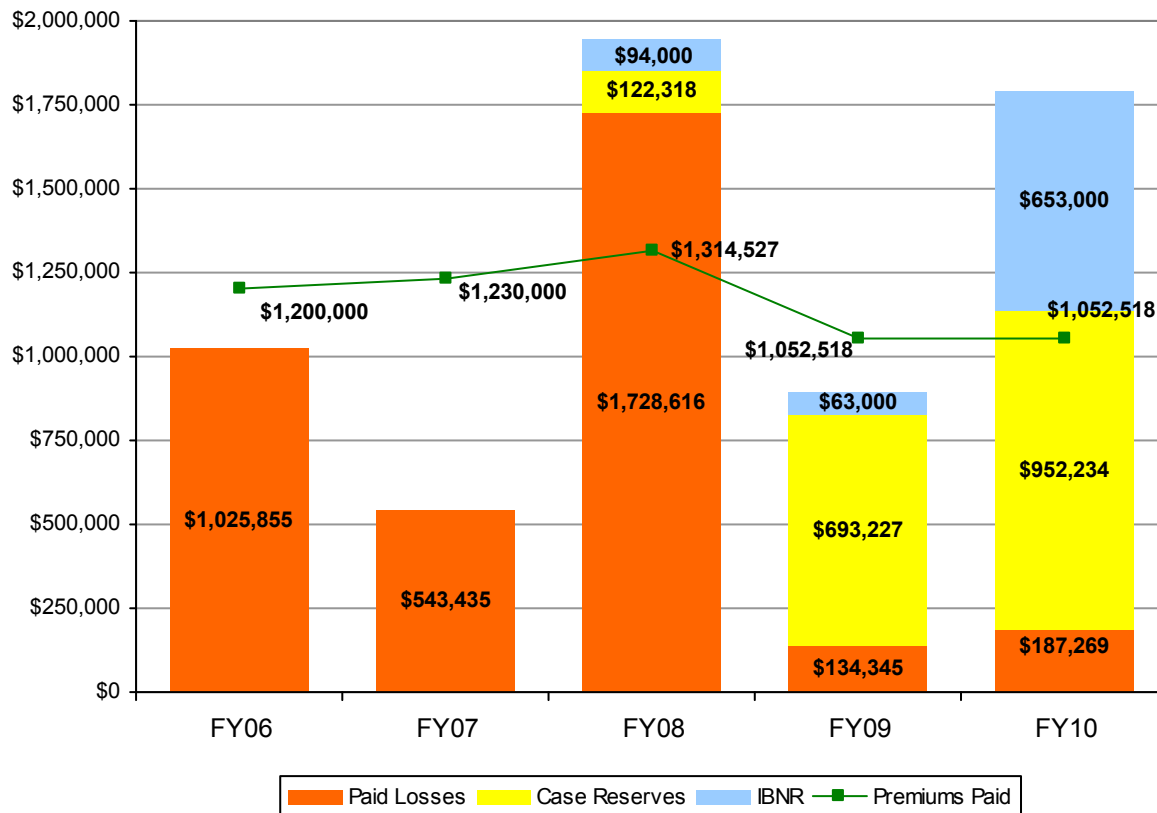
**Coverage Summary:** Legal liability for damages arising out of professional services, including:

- Medical (including the Medical School and Boynton Health Service physicians), surgical, dental or nursing treatment, including the related furnishing of food or beverages
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies of appliances
- Handling of or performing post-mortem examinations
- Services by any person as a member of a formal accreditation or similar professional board or committee of the University, or as a person charged with the duty of executing directives of any such board or committee
- Service by accountants, architects, engineers, lawyers, and teachers acting within the scope of their duties as employees of the University

**Principal Frequency Exposure:** Medical Malpractice

**Principal Severity Exposure:** Medical Malpractice

**Five-Year Premium and Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *Automobile Liability*

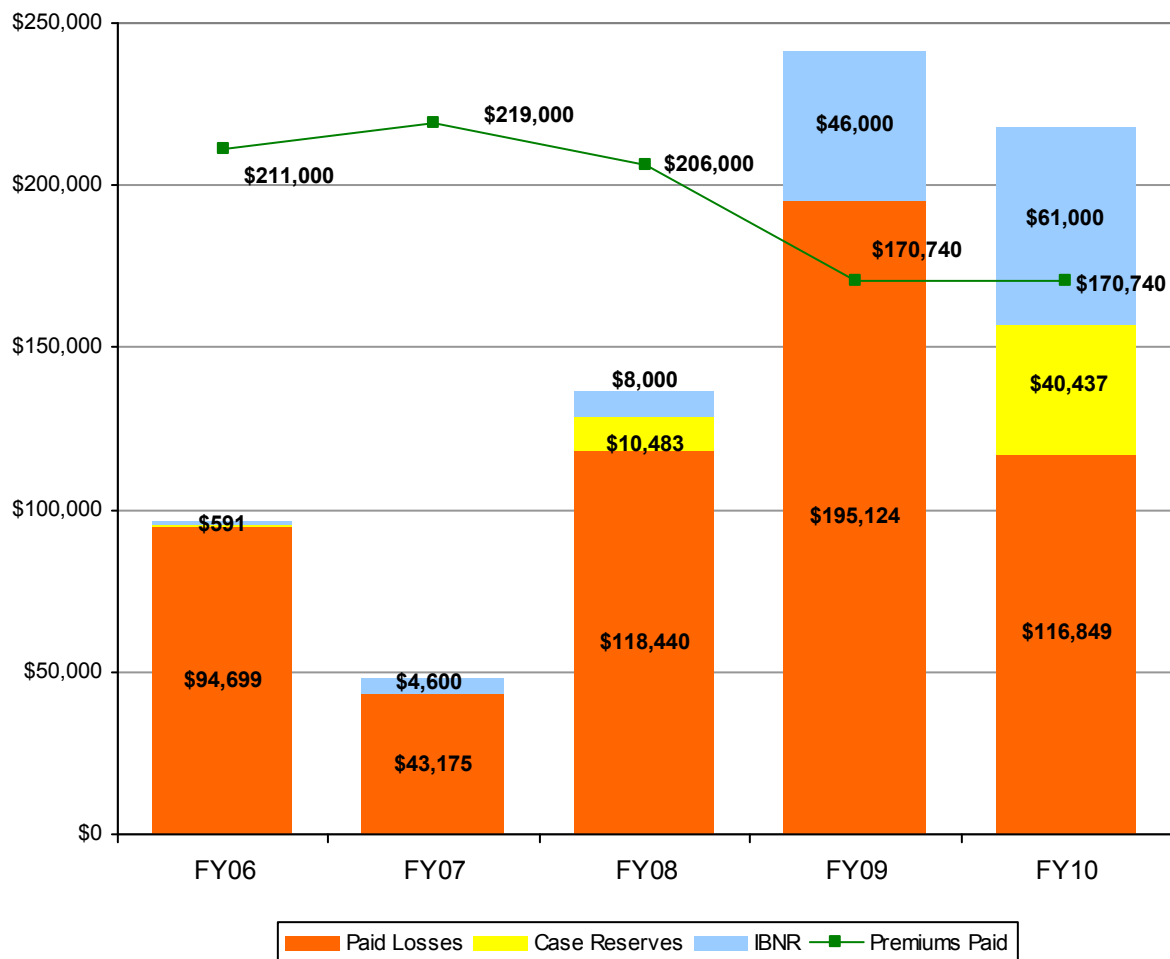
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** Auto Liability covers legal liability for bodily injury and property damage arising out of the use of 775 owned vehicles, hired autos, and non-owned autos operated with the permission of the University.

**Principal Frequency Exposure:** Collision damage to third parties' vehicles.

**Principal Severity Exposure:** Vehicle accidents involving multiple passenger vehicles.

**Five-Year Premium & Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *Non-Profit Organization Liability*

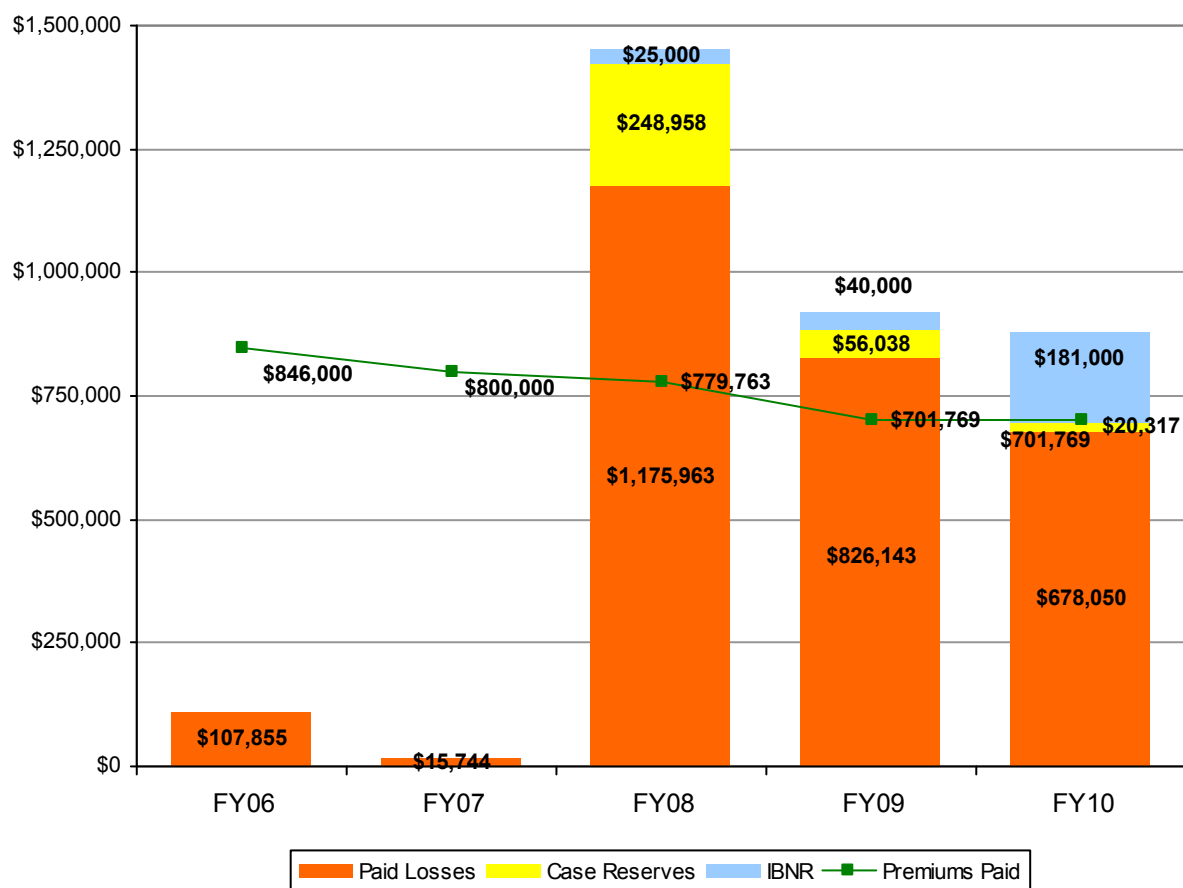
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** This policy covers liability claims not triggered by Bodily Injury or Property Damage, including:

- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

**Principal Frequency & Severity Exposures:** Employment related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

**Five-Year Premium & Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.





## II. Risk Finance Programs (cont.)

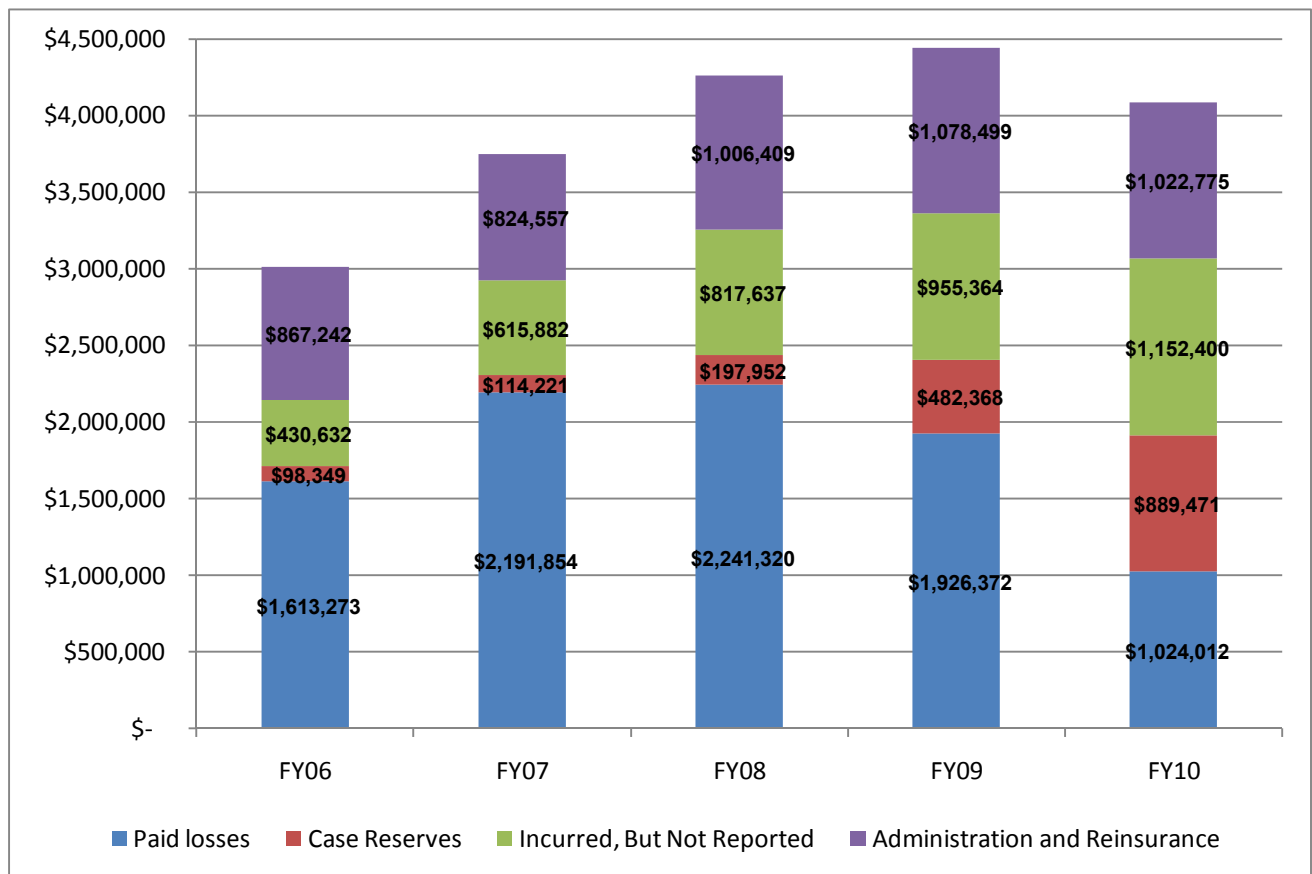
### Retained (Self-insured)

### *Workers Compensation*

**Coverage Summary:** Medical costs and wage loss for University employees who are injured while acting in the scope of their duties.

**Limits:**

The University is a qualified self-insurer under Minnesota law. It assumes liability up to \$1,800,000 in any one Workers' Compensation occurrence. The Workers Compensation Reinsurance Association (WCRA) provides excess protection. The WCRA was created by the State of Minnesota as a funding source, acting as an excess insurer for catastrophic claims.



## II. Risk Finance Programs (cont.)

### Commercial Insurance

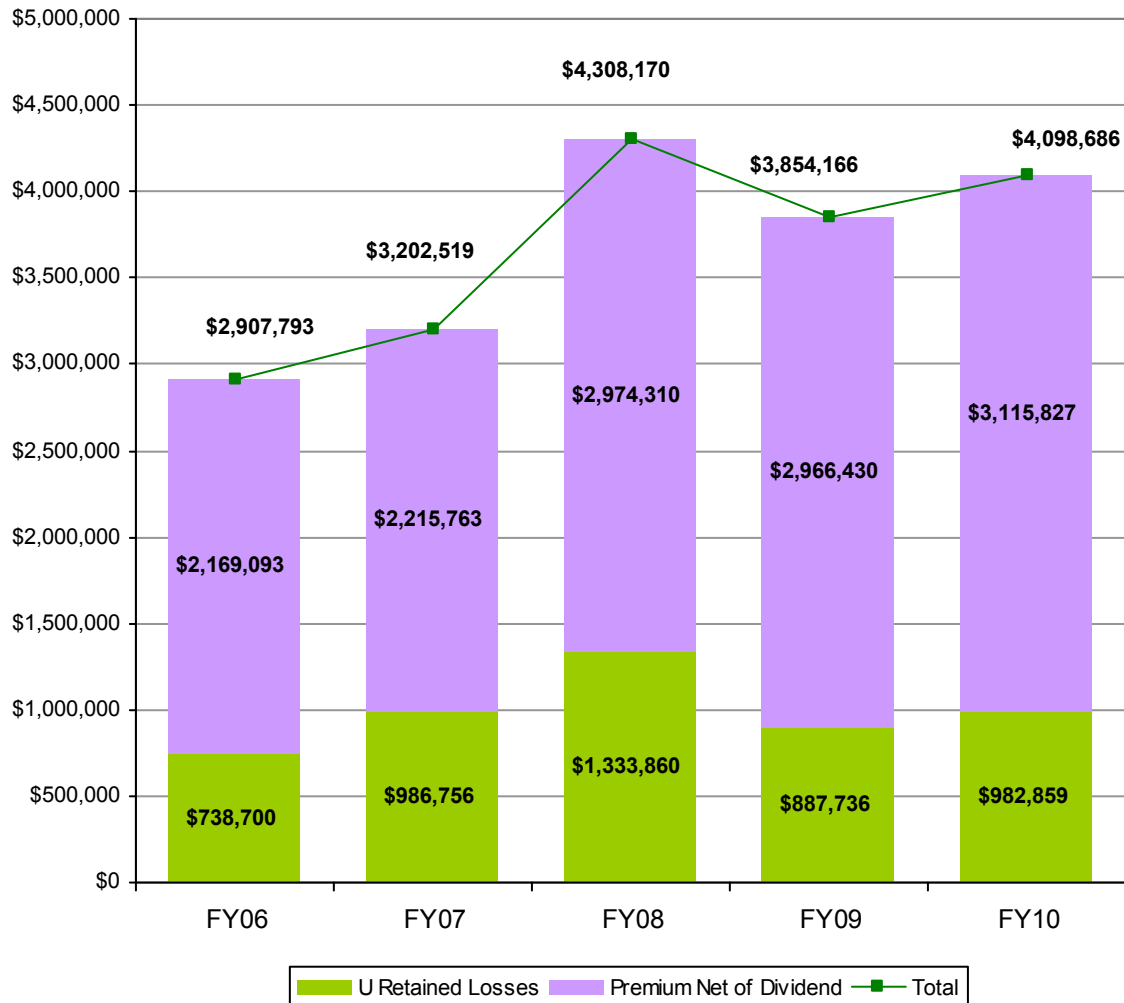
#### *Property Insurance*

**Carrier:** Chartis (via Midwest Higher Education Compact ['MHEC'] Master Property Program)

**Coverage Summary:** Covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils.

**Limits:** \$1 Billion per occurrence.

**Five-Year Loss History:** Property premiums are set based on historical claim patterns and current exposure aggregations. Premiums are used to fund losses, and are fully retained by the insurance company if not expended on loss events. The University retains the first \$200,000 of each loss in the form of a deductible. Departments see only \$10,000 of this, with the Office of Risk Management funding the remainder.



## II. Risk Finance Programs (cont.) Commercial Insurance (cont.)

### *Miscellaneous Commercial Insurance Coverage*

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was \$475,084 in FY10. Here is a brief overview of the purchased policies with premiums exceeding \$10,000:

**EXCESS LIABILITY – EXTRA MN:** This policy provides \$40MM in coverage excess a \$1MM Self-insured Retention (Deductible) for liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

**FIDELITY & CRIME:** Coverage for loss of money or securities due to employee theft and dishonesty, computer fraud, and related perils.

**FINE ARTS:** Primary coverage for fine arts (i.e., artwork, books, manuscripts, antiques, etc).

**INTERCOLLEGIATE ATHLETICS:** This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

**NON-OWNED AIRCRAFT LIABILITY:** Covers the University's liability arising out of use of non-owned aircraft rented or chartered by the University. The limit is \$25 million per occurrence, and is intended to be excess of any policies purchased by the owner of the aircraft.

**HULL & LIABILITY (Primary & Excess):** Physical Damage and Liability coverage up to \$1M of primary plus \$14M of excess liability arising out of the use of the 86-foot *Blue Heron* research vessel.

**SHOWBOAT HULL & LIABILITY:** Coverage is purchased through Paddleford Company for the University's hull & liability exposure arising out of its sponsorship of the *Showboat* dinner theatre. The boat is moored at the University's dock on the Mississippi.

### **Discontinued**

The coverages provided in these policies were negotiated into the new "Excess Liability– Extra MN" policy.

**AUTOMOBILE EXCESS LIABILITY (Extra-Minnesota Jurisdiction):** Provided \$5,000,000 Automobile Liability limits for University automobile liabilities arising outside the State of Minnesota.

**EXCESS LIABILITY (METRODOME):** Coverage applied to the University's liability arising out of its use of the Metrodome, and provided \$4,000,000 of liability insurance excess of \$1,000,000 in primary coverage through RUMINCO.

### III. Estimate of Savings: Captive and Self-insurance

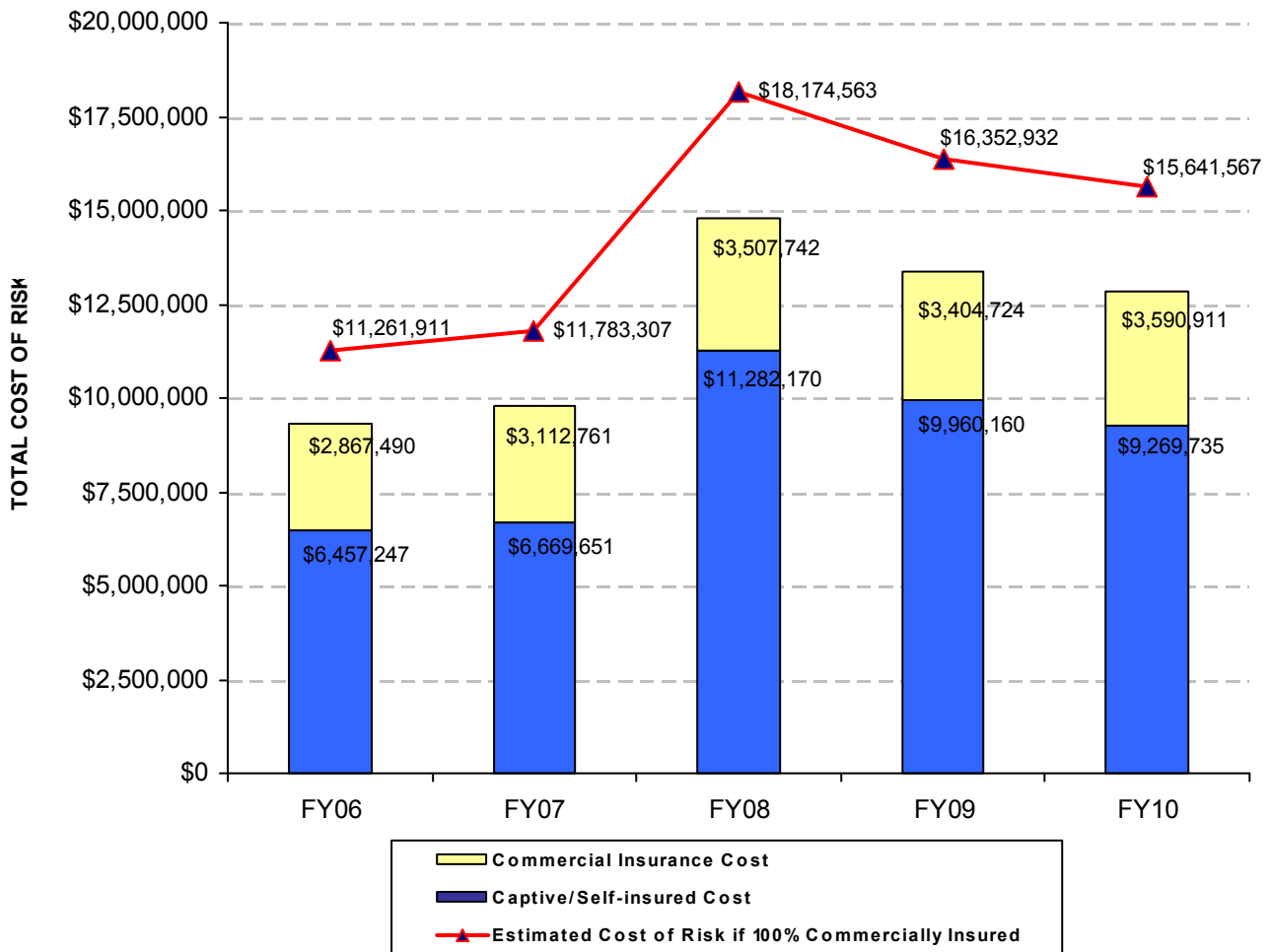
Cost of Risk is:

- Commercial Insurance Premiums**
- + [Captive Losses and Self-insured Losses + Associated Administrative Expenses]**
- + Brokerage and Consultative Costs**

When the University captivizes or self-insures an exposure, it assumes additional risk.

In return, the University gains the potential to avoid the profit and expense load inherent to commercial insurance products, This model assumes that load to add 30% to pure risk transfer cost.

The chart below shows the University's actual cost of risk (vertical bars) versus the estimated cost of risk had the University opted to commercially insure risks it currently captivizes or self-insures (red line). The gap between the two represents the savings, which total in excess of \$13 million over the last five years.



## University of Minnesota Cost of Risk Summary Fiscal Years 2006 – 2010

COST ITEM	FY06	FY07	FY08	FY09	FY10
<b>Captive</b>					
Paid Losses	\$1,692,570	\$657,012	\$2,420,120	\$1,138,538	\$409,668
Case Reserves	18,000	7,649	1,139,858	536,637	1,037,350
Incurring, But Not Reported (ESTIMATE)	5,000	100,000	574,000	1,379,000	1,101,000
Liability Claims Administrator	49,350	42,159	54,624	50,724	74,075
Captive Administrative Expenses	88,426	148,144	131,177	148,305	140,793
Litigation Cost	649,997	692,967	1,083,375	1,103,282	1,245,967
<b>Total Captive</b>	<b>\$2,503,343</b>	<b>\$1,647,931</b>	<b>\$5,403,154</b>	<b>\$4,356,486</b>	<b>\$4,008,853</b>
<b>Self-Insurance</b>					
Workers' Compensation	2,142,254	2,921,957	3,256,909	3,364,104	3,065,883
WC Reinsurance Association	89,047	95,350	109,815	130,873	158,827
Special Compensation Fund	282,918	204,758	273,999	244,764	261,894
WC Claims Administrator	233,085	221,554	245,326	317,428	298,348
Litigation Cost	222,439	248,656	308,934	305,033	251,371
Bill Review Service	23,753	38,239	27,985	35,191	33,641
WC Actuarial	16,000	16,000	12,000	12,000	7,144
WC Broker Consultation	—	—	28,350	33,210	11,550
<b>WC Total</b>	<b>3,009,496</b>	<b>3,746,514</b>	<b>4,263,318</b>	<b>4,442,603</b>	<b>4,088,658</b>
Retained Property Losses [1]	738,700	986,756	1,333,860	887,736	982,859
Electronic Data Processing [2]	51,180	91,211	55,499	22,184	31,568
Automobile Physical Damage	124,174	101,189	125,338	154,891	173,682
<b>Total Self-insurance</b>	<b>\$3,923,550</b>	<b>\$4,925,670</b>	<b>\$5,778,015</b>	<b>\$5,507,414</b>	<b>\$5,276,767</b>
<b>Commercial Insurance</b>					
All Risk Property	\$2,578,036	\$2,827,147	\$3,061,018	\$2,987,422	\$3,115,827
Property Experience Dividend	(408,943)	(611,384)	(86,708)	(20,992)	0
Total Property Insurance	2,169,093	2,215,763	2,974,310	2,966,430	3,115,827
Automobile Liability (out of state) [4]	185,400	191,554	51,881	53,610	—
Boynnton Professional Liability [3]	20,250	—	—	—	—
Broadcaster's Liability	5,960	5,960	5,365	5,365	5,365
Child Care Center	1,406	1,406	1,275	931	1,173
Excess Liability for Metrodome [4]	115,952	115,952	119,164	101,894	—
Excess Liability - Extra MN	—	—	—	—	205,511
Fidelity & Crime	49,553	49,407	43,232	19,967	19,967
Fine Arts	55,988	55,988	43,750	18,495	17,549
Intercollegiate Athletics	70,970	79,772	76,000	39,000	34,195
Nonowned Aircraft Liability	20,545	20,545	17,649	19,187	18,229
Special Events	26,102	24,365	—	—	—
RSO Liability	5,000	5,000	7,725	8,047	8,067
Hull & Liability (Blue Heron Watercraft)	18,042	15,599	15,599	15,599	18,315
Excess Marine Liability	9,540	9,450	9,450	9,450	9,450
Pollution (Blue Heron Watercraft)	900	1,000	1,075	1,075	1,212
Upward Bound AD&D	206	310	310	376	376
Showboat	—	10,433	7,648	7,648	6,925
Study Abroad (France)	—	6,500	6,500	7,203	—
Consultation	2,513	6,400	19,737	—	—
Brokerage	110,070	103,397	128,750	128,750	128,750
<b>Total Commercial Insurance</b>	<b>\$2,867,490</b>	<b>\$2,918,801</b>	<b>\$3,529,420</b>	<b>\$3,403,027</b>	<b>\$3,590,911</b>
<b>GRAND TOTAL COST OF RISK</b>	<b>\$9,294,383</b>	<b>\$9,492,402</b>	<b>\$14,710,589</b>	<b>\$13,266,927</b>	<b>\$12,876,531</b>

- [1] Insurable property losses falling within the deductible.  
[2] EDP coverage is self-insured; figure shows losses excess \$500/claim.  
[3] Transferred to RUMINCO FY07  
[4] Replaced by "Excess Liability – Extra MN"

## **IV. Workplan**

### **Major Goals for FY11**

#### **Professional and Medical Liability**

The excess limits policy Risk Management placed in FY10 covers General and Automobile Liabilities. We will explore options for excess limits to 'blanket' extra-Minnesota Professional and Medical Liability activities, including clinical trials we may sponsor.

#### **Workers Compensation; Return to Work**

There is broad consensus among Workers' Compensation professionals that it is optimal – both for the Employer and the Employee – to return injured Employees to their work community as soon as practicable during the recovery period following an injury. Typically, this will involve some form of temporary, light-duty work. Despite this, the University has never had a coherent, system-wide Return to Work strategy. Risk Management will convene a group this year to begin to study the challenge of establishing a program of light duty, transitional employment at the University.

#### **Cost Control**

The Office of Risk Management fully understands the fiscal climate and will continue to aggressively seek, develop and implement reasonable cost saving tools and opportunities.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** University Biennial Budget Update

review       review/action       action       discussion

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

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide an update on state biennial appropriations and internal budget planning scenarios for the University of Minnesota for the biennium ending June 30, 2013. The Board of Regents approves biennial requests for appropriations from the State of Minnesota in even numbered years in preparation for the upcoming odd numbered year legislative session.

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

The Governor has made a recommendation with regard to the University's state appropriations for the biennium ending June 30, 2013. The Governor's biennial appropriation recommendation totals \$1,207,244,000 which is a biennial reduction of \$77,058,000 from the forecast base level, but an increase of \$24,862,000 from the current fiscal year appropriation base. The Senate and the House of Representatives have not yet recommended state biennial appropriations for the University of Minnesota for the biennium ending June 30, 2013.

**Background Information:**

The Board of Regents previously approved the University's FY2012-2013 biennial request at its December 10, 2010 meeting. The biennial budget request is for \$642,151,000 for both FY2012 and FY2013: a biennial total of \$1,284,302,000 in the form of operations and maintenance and state special appropriations.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** Enterprise Financial System Update

review       review/action       action       discussion

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

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide the committee with an update on the implementation of the PeopleSoft Enterprise Financial System (EFS).

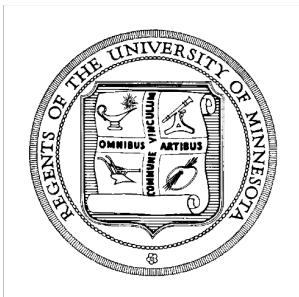
**Outline of Key Points/Policy Issues:**

It is now approximately 2-1/2 years since the University went live with EFS. Although many fixes, improvements and enhancements have been implemented since the new system went live, feedback from the user community has made it clear that significant challenges and concerns remain that erode the system's effectiveness to the university community at large. Based on this feedback and at the direction of the President teams have been organized to develop and implement specific remedies to these persistent issues. The goal remains to provide a more user-friendly, efficient and reliable system. In order to better communicate to the user community and to improve coordination efforts have been organized in three distinct categories: 1) financial reporting enhancements, 2) ongoing system technical improvements, and 3) complex systems architecture design considerations. A strategic element of the action plan common to all three categories is the need to seek input from a broad range of users to ensure that a full complement of issues is teed up at the outset of the work. Each of these broad topic areas presents challenges and opportunities to improve EFS and will require input from both the user community and central support staff.

**Background Information:**

The University purchased the PeopleSoft Enterprise Financial System software in September 2003, pursuant to Board approval. Project planning and implementation activities occurred between January 2004 and June 2008. During that timeframe, the Board has received 13 status reports, with the most recent delivered in March 2010.





**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** Consent Report – **REVISED**

review       review/action       action       discussion

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

**Purpose:**

policy       background/context       oversight       strategic positioning

General Contingency

To seek approval for allocations from General Contingency greater than \$250,000.

Purchase of Goods and Services \$1,000,000 and Over

To seek approval for purchases of goods and services of \$1,000,000 and over.

Approval of New Investment Managers

To seek approval for one new investment manager, a Venture Capital Limited Partnership.

**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 \$1,000,000 and Over

- To Mega Farms for \$1,500,000 for snow removal for the University of Minnesota Twin Cities campus for FY11 for Facilities Management Landcare.
- To Oracle America, Inc., for up to an estimated \$2,000,000 to provide scope definition and planning services for an enterprise-wide PeopleSoft upgrade for the period of March 15, 2011, through December 31, 2011, for the Office of Information Technology (OIT).

Approval of New Investment Manager

The Office of Investments and Banking (OIB) proposes engaging a new investment manager to invest target allocations in CEF. The proposed manager has been reviewed and is recommended by the Investment Advisory Committee. This manager has been recommended following a thorough due diligence process and review by OIB of the respective asset class, existing exposure in CEF and the current market conditions.

- **Private Capital: Venture Capital Portfolio**

- **Bessemer Venture Capital Partners**

- \$10 million investment
    - Addition to the existing Venture Capital Managers
    - Focus is on early stage technology companies
    - Geographic focus: 50% in US, 30% India, 20% Israel & Europe

**Background Information:**

Approvals are sought in compliance with Board of Regents Policy as follows:

- General Contingency: *Reservation and Delegation of Authority, Sec. VII, Subd. 1.*
- Purchase of Goods and Services \$1,000,000 and Over: *Reservation and Delegation of Authority, Sec. VII, Subd. 6*
- Approval of New Investment Managers: *Reservation and Delegation of Authority, Sec. VII, Subd. 3*

**President's Recommendation for Action:**

The President recommends approval of the Consent Report.

# General Contingency

## 2010-11 General Contingency:

	Recipient	Allocation	Balance	Purpose
	<b>FY2011 General Contingency</b>		<b>\$1,000,000</b>	
	Carryforward from FY2010 into FY2011	117,393	1,117,393	
1	Return unused funds	(151)	1,117,544	Unused funds from East Cliff boiler replacement project
2				
3	Exec Dir Office for Business & Community Economic Dev	55,000	\$1,062,544	Awards Incentive & Recognition Program
4				
5	Executive Director for the Board of Regents	149,563	912,981	Salary and fringe for new Deputy Director position
6				
7	Chancellor, University of Minnesota Crookston	100,000	812,981	Bridge funding for Dir of Assessment position, year 2 of 3
8				
* 9	Assoc. VP for Capital Planning and Project Management	215,000	597,981	Eastcliff maintenance and refurbishment projects
10				
11	Assoc. VP for Capital Planning and Project Management	75,000	\$522,981	Pre-Demolition work
12				
13	Assoc. VP for Capital Planning and Project Management	165,000	\$357,981	Security and phone system upgrades to Eastcliff property
14				
15	<b>New items this reporting period:</b>			
16				
17	Vice President for Research	175,000	182,981	Consultant services for F & A rate development process
18				
19	<b>Balance as of February 28, 2011</b>		<b>182,981</b>	
20				
21				
22				

\* Subject to Board approval due to cost of \$250,000 or more

Purchase of Goods and Services \$1,000,000 and over

To Mega Farms for \$1,500,000 for snow removal for the University of Minnesota Twin Cities campus for FY 11 for the Facilities Management – LandCare Department. This is for a one year contract with three one year possible renewals, from the result of a competitive bidding process.

The last four snow removal season the average cost per year was \$352,728. The current seasonal snowfall total in the Twin Cities stands at 76.5 inches. The average seasonal snowfall in the Twin Cities is 55.9 inches. The 2010-2011 season is currently in 9th place on the all time list.

The funds required to complete this contract period will be paid for by the Facilities Management LandCare Department.

Submitted By: Michael Berthelsen  
Associate Vice President  
Facilities Management  
319 15<sup>th</sup> Avenue S. E.  
Minneapolis, MN 55455  
Phone: 612-626-1091

Approval for this item requested by:

  
Kathleen A. O'Brien Vice President of University Services

Date: 3/3/11

**Purchase of Goods and Services \$1,000,000 and over**

To Oracle America, Inc. for up to an estimated \$2,000,000 to provide scope definition and planning services for an enterprise-wide PeopleSoft upgrade for the period March 15, 2011 through December 31, 2011 for the Office of Information Technology (OIT).

*This enterprise-wide PeopleSoft upgrade scope definition and planning encompasses three modules:*

- *Human Capital Management (HCM) to version 9.1*
- *Financials to version 9.1*
- *Campus Solutions to version 9.0*

*This PeopleSoft upgrade planning project will develop plans for the upgrade of the University's three PeopleSoft systems to current software versions. The project will also develop an assessment of new PeopleSoft functionality in each software system, which will lead to better reporting of financial results, better tracking of people within the system and better student administration, and reduced operational cost.*

*This contract includes the development of project plans for these three PeopleSoft upgrades. Actual implementation of these plans will be procured through a separate bidding process. The actual timing of PeopleSoft software upgrades will be subject to management's determination of university readiness and the availability of human and financial resources.*

*The vendor was selected as a result of a competitive bid process among PeopleSoft planning and implementation vendors. This is time & materials for planning the upgrade of these three PeopleSoft modules.*

*The Office of Information Technology O&M resources will fund this project.*

Submitted by: Diane Wollner  
Chief Financial Officer, OIT  
203 Johnston Hall  
Mpls. Campus  
Phone: (612) 626-1311

Approval of this item is requested by:

  
\_\_\_\_\_  
Vice President and CIO

2/23/11  
\_\_\_\_\_  
Date

## **Consent Report: Approval of New Investment Manager**

### **Recommendation Summary – Private Capital: Venture Capital**

#### *Strategic Rationale*

The Office of Investments & Banking (OIB) is seeking conditional approval for a recommendation to make a new investment commitment to a venture capital partnership: Bessemer Venture Partners (BVP).

The strategic asset allocation for private capital under the proposed policy guidelines is 20%, +/- 4% of the CEF portfolio of which 6% is allocated to venture capital. While the current NAV of the private capital portfolio is above the target range, the three year plan of rebalancing the portfolio toward more liquid investments, not only reaches the targeted allocation for venture capital, but the plan implies a change in the mix of private capital assets away from the large buyout funds and long lock-up distressed debts fund towards a higher proportion of a select group of venture capital firms and earlier stage growth capital private equity firms. Given the 2 ½ year hiatus in making new private capital commitments of any kind, many of our funds have matured to the point of returning more capital than they call, and commitments are soon to be fully reserved or extinguished. For example, we expect that distributions in 2012 will more than fund remaining capital calls in all asset classes including private real estate where liquidations and distributions remain significantly challenged and new capital is being selectively called.

Currently the diversified venture portfolio is comprised of commitments made to thirteen partnerships; three outside the US in China and Europe, three focused in the life sciences sector, and seven in US centric technology sectors. Within this portfolio, there are six or seven partnerships with which we have established an excellent working relationship, that we would see forming the foundation of the 'going forward' portfolio. The strategy employed in building this venture portfolio has been to leverage the research capabilities of the University in key sectors of innovation such as technology and life sciences to form strong, 'value added' relationships with an elite group of high profile, upper tier firms. The venture portfolio has served as a key driver to returns to the overall portfolio posting net returns of 14.7% and 13.2% over five and ten year periods, respectively. For each period these returns are more than 300 basis points above private equity and venture benchmarks, and more than 1000 basis points above public equity benchmarks, placing many of the firms in the upper quartile or upper decile of investment performance when compared to their peers. In line with the Cambridge Associates portfolio recommendations that advise us to maintain access to key managers, OIB has identified several of the existing partnerships where we feel it is necessary to make modest commitments over the next couple of years to maintain continued access and the strong relationship that has been developed. In addition to these, we have been presented an opportunity to invest for the first time with a firm we have been soliciting for several years and we believe that the long term interest of the endowment is best served by capitalizing on this opportunity and making a commitment at this time.

#### *Recommendation*

At this time OIB recommends making a \$10 million commitment (the minimum acceptable level) to Bessemer Venture Partners Institutional L.P. VIII, a fund totaling \$600 million. Bessemer is one of the oldest venture capital firms in the country with roots originating from the sale of Bessemer Steel Corporation and the formation of a family trust by Henry Phillips in 1911, who with Andrew Carnegie had started and owned the company. The investment arm of the trust began making early stage investments soon thereafter. In the early 1970's it formed a separate partnership structure that would enable different family members and eventually outside investors to invest as LPs. In the seven previous funds, the Bessemer Security Corporation has been the largest single investor – in this fund they intend to invest

## Consent Report: Approval of New Investment Manager

\$600 million in a *pari-passu* parallel fund to provide a total of \$1.2 billion of investable capital. The General Partner has committed to invest 1% (\$60 million) and the individual partners and BVP professionals have committed \$50 million under the same terms and conditions as other LPs.

BVP has been a global investor since its inception. Today BVP has offices in New York City, Boston, Menlo Park, India, and Israel. The firm's stated mission is to make venture investments in companies with the potential to transform industries and become industry dominating leaders. They target investment performance of 1000 basis points over public market returns and to always maintain a 'top quartile' venture fund status. The next fund will target 50% of its investments in the US, 30% in India, and remaining in Northern Europe and Israel. OIB staff views this geographic diversification as a very compelling attribute that compliments the venture and private equity exposure in the CEF portfolio. This composition reflects the two previous funds from a cost basis, however the value of the Indian power generation investment they hold in Fund VII has grown the NAV in India to almost 50% of that fund. BVP currently has approximately \$2.4 billion of fund assets under management in over 80 active companies. In 2010 they managed 11 exits with an average multiple of more than 3.0 times cost, and three additional companies, including LinkedIn, have filed to go public early in 2011. The firm has 49 investment professional in its five offices and has developed a deep expertise in several areas of investment focus that keep them on the leading edge of "relevance" to current industry trends. They have recently committed significant capital to the cloud computing and mobile communication sectors that may be the innovation technology drivers of the next decade. They are also recognized leaders in e-commerce/marketing, alternative electrical generation, and India consumer products and Indian infrastructure. The funds invest across the full spectrum of stage of development from seed and early stage through growth capital. In recent funds they have invested approximately 50% of the transactions in early stage deals following the active engagement with key angel investors and a very successful Entrepreneur-In-Residence program. Approximately 25% of their transactions have been at the later or 'growth capital' stage, and 25% in India across all stages including a significant bias toward infrastructure. OIB staff views the geographic diversification with a focus in India and Mid East/Europe as a very compelling attribute that compliments the current venture and private equity exposure in the CEF portfolio. The BVP average net since inception IRR of 23% over all funds demonstrates the consistent level of success they have accomplished. In the most recent Forbes listing of "Midas Venture Capitalists" which highlights the top 50 'best in the world' – there were six partners named from BVP, more than any other firm! We are fortunate to have invested successfully with several other Midas partners as well.

OIB has been actively attempting to develop a relationship with BVP since our introduction to them during their last fund raising cycle in 2007. We have introduced them to two possible investment transactions, and regularly provided them with information about the University's biofuels, syn-fuels, and alternative energy research efforts. BVP has had long standing relationships with many of the largest private school endowments and foundations and several large philanthropic foundations, they have attempted to add one or two new LPs each fund raising cycle. While we have just begun our formal due diligence, the fund plans to have a single closing on March 31, 2011, which requires meaningful activity on our part, between now and then, but also requires formal approval on an accelerated basis. Contingent upon a recommendation by the IAC, we would hope to present the investment manager to the Regents at their March 10<sup>th</sup> Board meeting for approval.

## Manager Profile: Bessemer Venture Partners

### Organization and Strategy

**Investment Manager:** Bessemer Venture Partners  
**Address:** Larchmont, NY  
**Contact:** Ed Colloton  
**Year Founded :** 1911  
**Assets Managed:** \$2.4 billion  
**Fund Inception** 1972  
**Invest Professionals:** 49  
**Style Focus:** Global venture capital  
**Regional Focus:** US, India, Israel  
**Sector / Industry Focus:** SaaS, mobile, energy

### University Investment

**Proposed Fund Investment:** \$10 million  
**Previous Fund Investment:** \$0

## Venture Capital

### Fund Details

**Fund Name:** Bessemer Vent Partner VIII  
**Fund Size:** \$600 million  
**Sponsor Investment:** \$60 million  
**Fund Strategy:** multi-stage venture capital  
**Targeted Return:** S&P 500 + 1000 bp  
**Investment period)** 4 years  
**Fund term** 10 years  
**Mgmt. Fee :** 2.00%  
**Incentive Fee** 25.00%  
**Preferred return** Invested capital  
**Projected closing** March 31, 2011

### Past Fund Performance As of December 31, 2010

Fund I - 1981	21.70%	2.5X
Fund II - 1984	11.20%	2.5X
Fund III - 1994	63.80%	5.5X
Fund IV - 1996	98.60%	3.5X
Fund V - 2000	0.30%	1.2X
Fund VI - 2004	9.20%	1.6X
Fund VII - 2007	7.30%	1.3X

### Comments

The previous funds have invested approximately 50% in the US, 30% in India, and 20% in Israel and Europe. Investments range from early stage, capital efficient technology companies to later stage power generation and alternative energy technologies. Approximately 25% of invested capital has been in the 'growth capital stage'. Broad technology expertise exists in cloud computing, SaaS, mobile communication, and e-commerce/marketing. They also have developed a very successful reputation in India consumer products and India infrastructure investments. BVP has generated a net 22.9% IRR across all funds with outside LPs.





**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Finance and Operations Committee**

**March 10, 2011**

**Agenda Item:** Information Items

review       review/action       action       discussion

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

**Purpose:**

policy       background/context       oversight       strategic positioning

Quarterly Purchasing Report

To provide a quarterly report of purchasing activity as required by Board of Regents Policies: *Purchasing and Board Operations and Agenda Guidelines*.

Quarterly Investment Advisory Committee Update

To provide the Board of Regents with a summary of the quarterly meeting of the Investment Advisory Committee (IAC) held on February 9, 2011.

Quarterly Asset Management Report

To report on the quarterly performance results in the area of investments and banking for the quarter ended December 31, 2010. The Office of Investments & Banking prepares this report on the financial assets it oversees for review by the Investment Advisory Committee and the Board of Regents.

Semi-Annual Management Report (December – Unaudited)

To provide the Board of Regents with semi-annual financial statements for the University of Minnesota and its component units, along with commentary on significant items.

Debt Management Advisory Committee Update

To provide a report on the semi-annual meeting of the Debt Management Advisory Committee (DMAC) held on March 9, 2011.

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

Quarterly Purchasing Report

Detailed reports with brief discussion on the following activity:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to Competitive Process
- Purchases made as Preapproved Exceptions to Competitive Process
- Regents Purchasing Policy Violations

### Quarterly Investment Advisory Committee Update

Mr. Mason presented the investment performance summary for the December 31, 2010 ending quarter. While both domestic and international equity met or exceeded the benchmarks for the quarter, the overall equity portfolio, comprising 55% of overall asset mix, trailed the strategic benchmark because CEF is currently underweight public stocks which rose 8-11% during the quarter, and overweight private equity which was marked up only 5.4% for the quarter relative to an overall benchmark that rose 8.7%. In the real asset portfolio, private real estate was marked up 1.7% for the quarter, in line with the benchmark, but this is only the second quarter in more than two years with positive results. Liquidity constraints are improving somewhat but remain an important factor in limiting flexibility to rebalance to policy asset allocation targets.

The primary discussion topic was a review of summary data from three consulting or asset management firms regarding possible changes to the strategic asset allocation targets in Board Policy, and possible additions to the Endowment Fund policy that would address portfolio liquidity targets and risk parameters. OIB staff is gathering additional information to supplement the continuation of the discussion which is scheduled for a special meeting scheduled for March 23, 2011.

Mr. Mason then reviewed the details of a new venture capital manager that OIB proposes to engage: Bessemer Venture Partners. The committee reviewed a detailed presentation, discussed relevant matters such as the impact on portfolio liquidity and passed a resolution to recommend approval of the manager for a \$10 million commitment.

### Quarterly Asset Management Report

- The invested assets of the University totaled approximately \$1.8 billion on December, 31, 2010.
- The Consolidated Endowment Fund (CEF) value as of December 31, 2010, was \$909.0 million, an increase \$27.3 million over the last quarter after distributions of \$12.1 million. The total investment return of the endowment was up 7.8% over the last 12 months compared to a benchmark return of 11.8%.
- The market value of the short term reserves (TIP) was \$643.8 million as of December 31, 2010. This was a decrease of \$14.6 million over the last quarter. The investment return on the portfolio over the last 12 months was 2.1% compared to a benchmark yield of 1.7%.
- Total outstanding debt on December 31, 2011 was \$1.0 billion. The effective interest rate on all outstanding debt obligations was 4.0%.

### Semi-Annual Management Report (December – Unaudited)

- Unaudited University Financial Statements for December 31, 2010
- Unaudited Component Units' Financial Statements for December 31, 2010

### Balance Sheet Highlights (for the University only)

- Total assets of \$5.4 billion increased \$469.6 million or 9.5% over last year.
- Total liabilities of \$1.9 billion increased \$247.4 million or 14.8% over last year.
- Total net assets of \$3.5 billion were \$222.1 million or 6.8% higher than last year.

Operation Highlights (for the University only)

- Operating expenses were in excess of operating revenues by \$432.4 million, with non-operating revenues of \$855.6 million, other revenues of \$64.4 million, for a net asset increase of \$487.6 million.

Debt Management Advisory Committee Update

The agenda for the meeting held on Wednesday, March 9, 2011, included:

- Annual Capital Financing and Debt Management Report FY2010
- Series 2011A Issuance
- Termination of Swaps & Liquidity Facilities

March 10, 2011

The Honorable John Frobenius, Chair, Finance and Operations Committee  
The Honorable Venora Hung, Vice Chair  
The Honorable Clyde Allen  
The Honorable Richard Beeson  
The Honorable Patricia Simmons

Committee Members:

Enclosed is Purchasing Services' report on purchasing activity for second quarter, fiscal year 2011. Regents policy requires that a quarterly purchasing report, including violations of Regents purchasing policy, be submitted to the Finance and Operations Committee of the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

## **Background**

The enclosed report and attachments provide statistics, graphics and some detail on four categories of purchasing activity for the quarter:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to the Competitive Purchasing Process
- Purchases made as Preapproved Exceptions to the Competitive Purchasing Process
- Regents Purchasing Policy Violations

“Quarterly Purchasing Activity” represents the total amount of goods and services purchased for the quarter and year-to-date across all funding sources, including construction projects.

“Quarterly Approved Exceptions” refers to purchases where, following proper protocol, the vendor was not selected through a Request for Bid or Request for Proposal process. All of the approved exceptions were justified in writing by the requisitioning department, with the justification reviewed and approved by the Director of Purchasing before the purchase took place. Additionally, the appropriate Vice President and the University Controller approved all exceptions of \$100,000 and over, except preapproved exceptions. Section II provides a listing of the transactions that followed this process and were approved as exceptions.

“Quarterly Pre-approved Exceptions” are also purchases where the vendor has not been selected through a competitive process. However, they are exceptions that occur routinely with consistent reasons, so that the approval of the justification has been streamlined. Refer to Section III of the report for a listing of transactions processed as pre-approved exceptions during the quarter.

“Regents Purchasing Policy Violations” refers to transactions which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

The enclosed report compares dollars spent on purchases in the second quarter of the current year to dollars spent on purchases in second quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for preapproved exceptions. We have also included the fiscal Year-To-Date summary of purchasing activity and exception reporting. With that in mind, the following observations are worth noting:

- Second quarter spending for FY11 is tracking very similarly to second quarter spending of FY10, while YTD spending is below both FY10 and FY09 spending at the same point in the year.
- The number of quarterly approved exceptions is the same as the similar period of FY10, with the total dollars down roughly 19% from the same period. Pre-approved exceptions increased both from the same period of FY10, and YTD FY10. This is primarily due to several large pre-approved exceptions from both first quarter and the second quarter.
- There were no Regents Purchasing Policy Violations in the second quarter of FY11.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Interim Director of Purchasing, or me.

Sincerely,

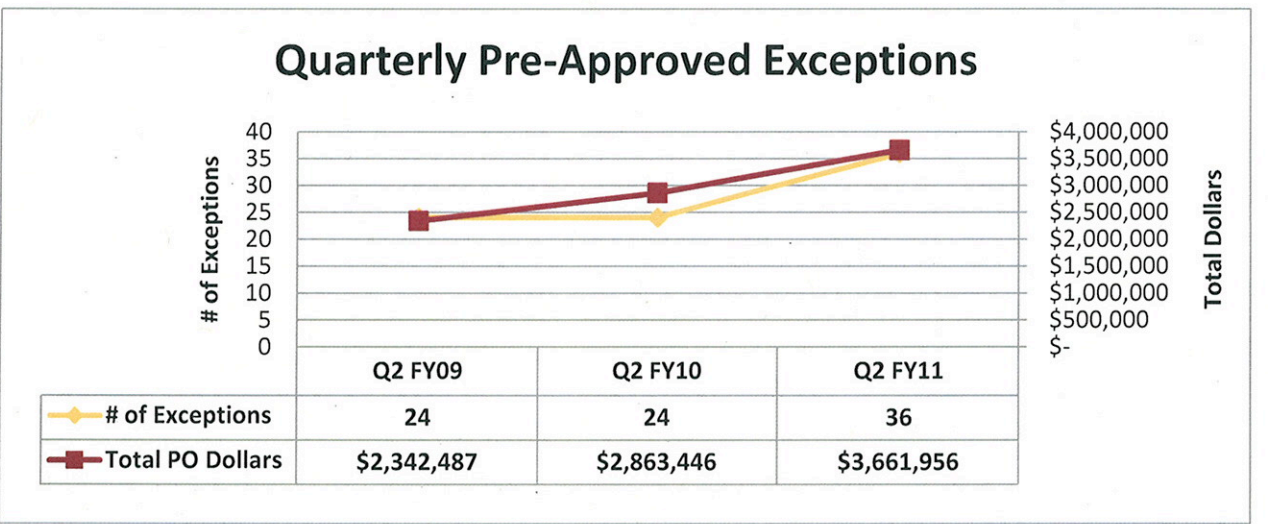
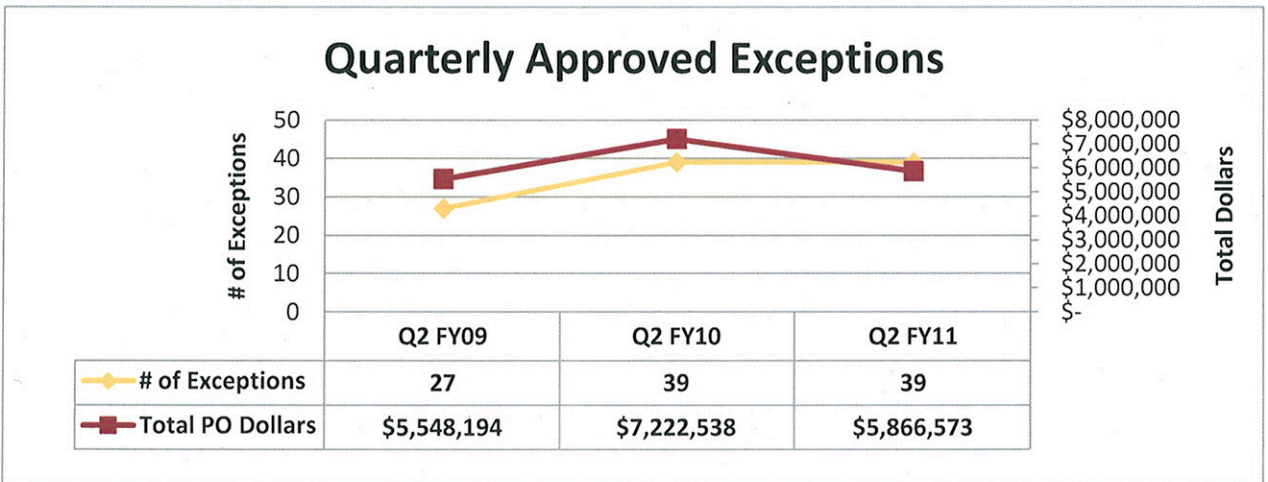
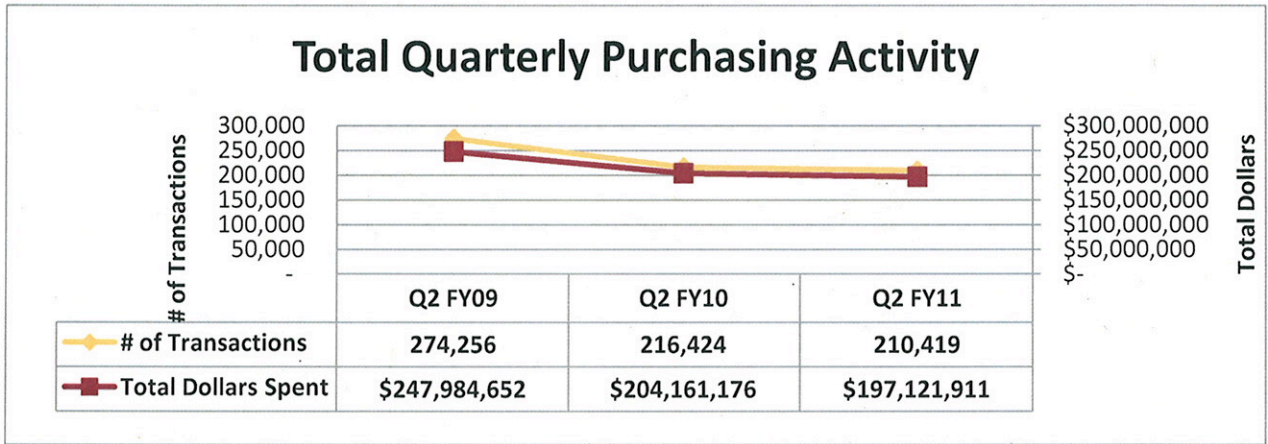


Michael D. Volna  
Associate Vice President-Finance & Controller

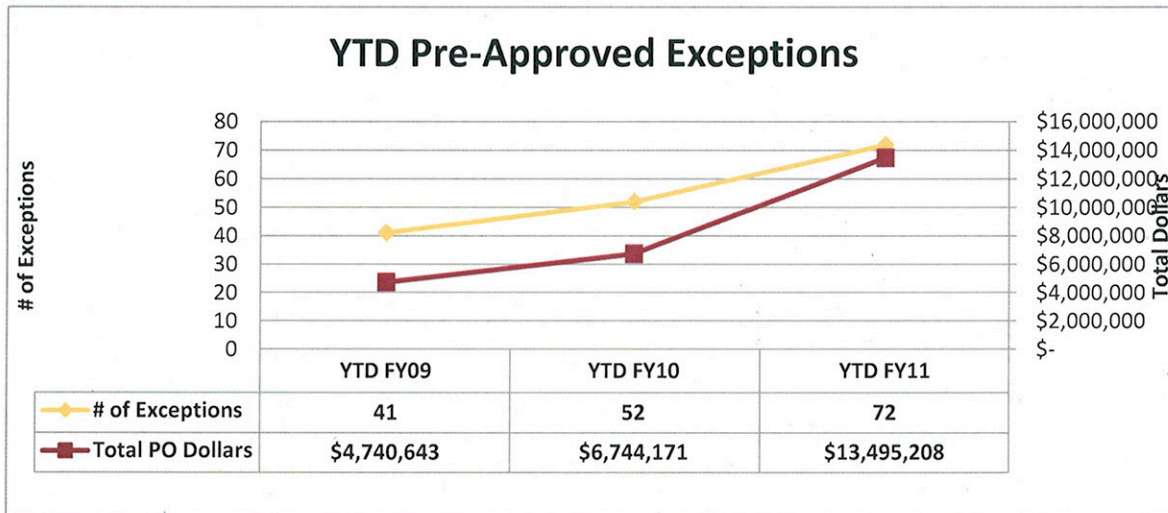
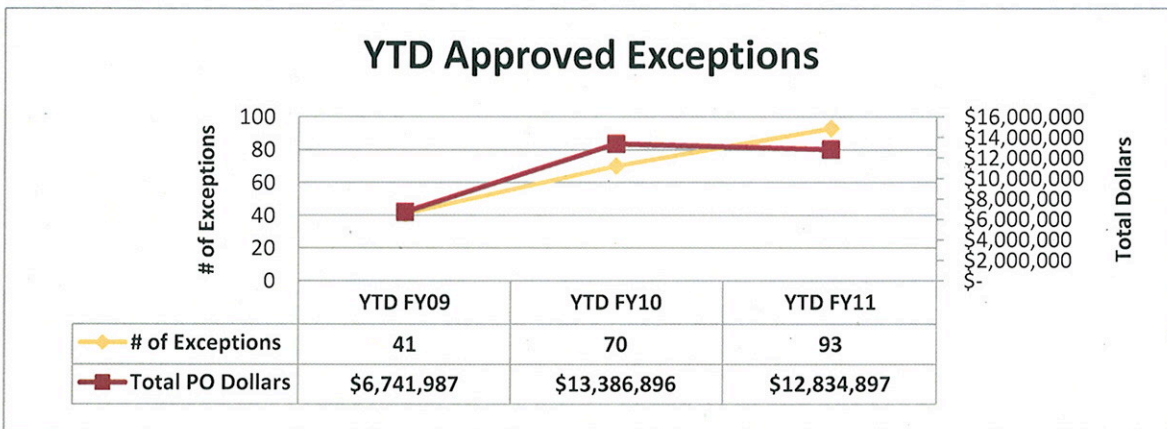
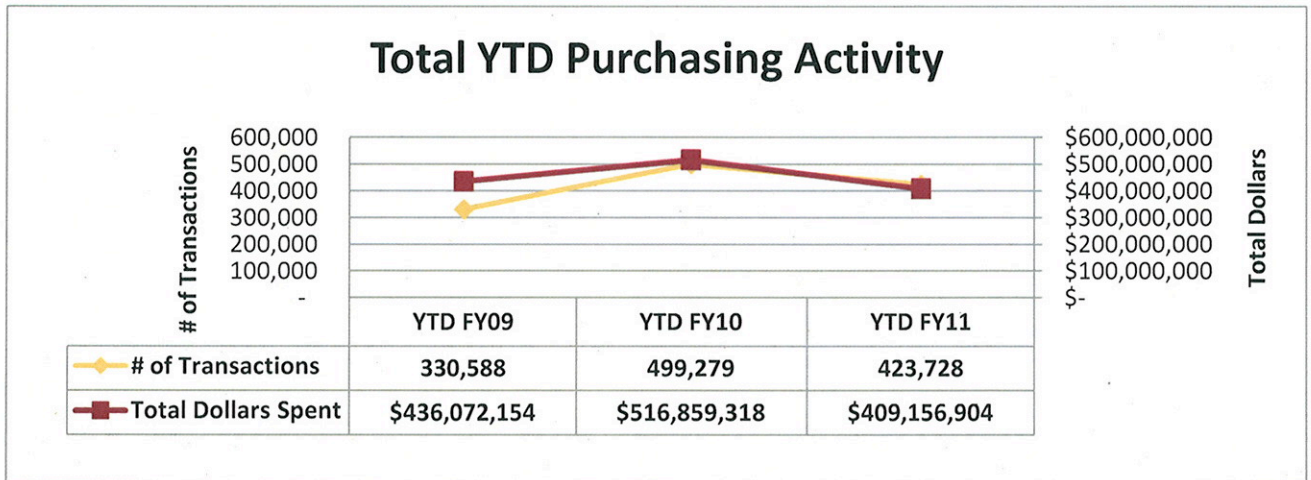
Cc: Richard Pfitzenreuter, CFO, Treasurer and Vice President for Budget & Finance  
Ann Cieslak, Executive Director and Corporate Secretary, Board of Regents  
Tim Bray, Interim Director, Purchasing Services

# University of Minnesota Quarterly Purchasing Report As of December 31, 2010

## I. Summary of Purchasing Activity for 2<sup>nd</sup> Quarter



## Summary of Purchasing Activity YTD



**II. Purchases made as Approved Exceptions to Competitive Purchasing Process  
(Goods, Services & Construction) Under \$250,000**

**22 PURCHASES  
TOTAL: \$1,885,747**

**Exception #1:** Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2	339385	Mediatech, Inc.	Cell culture and media solutions for use by the islet program for clinical trials.	\$ 105,412	Department of Surgery
2	366932	Cambridge Isotope Laboratories, Inc.	D-Glucose (1-13C, 98-99% Sterility Pyrogenicity tested) for human testing.	\$ 99,900	Medicine/Endocrinology
8	337399	Salimetrics	Sample assays and supplies.	\$ 75,000	Institute of Child Development
2	368386	AD Instruments	Data acquisition system.	\$ 65,120	Physiology and Pharmacology, Duluth Campus
2	367066	R & D Systems	Reagents and supplies for performing IL6 and Adiponectin testing.	\$ 61,351	Laboratory Medicine & Pathology
2	365532	NDD Medical Technologies	40 #2001-EW easy one spirometer & 40 #3020-2 3-liter calibration syringes.	\$ 59,050	Medicine
				<b>\$ 465,833</b>	

**Exception #2:** Equipment that requires brand compatibility with existing equipment and is available only from manufacturer of sole authorized distributor.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2	349073	Newport Corp	Two photon laser routing parts to connect to a microscope.	\$ 171,512	Institute for Translational Neuroscience
8	10-342014	ABB Inc.	Procurement of six 15,000 volt circuit breakers.	\$ 116,924	Facilities Management - Energy Management
2	359672	Illumina	Reagents for HiSeq 200 instrument.	\$ 103,960	Genomics
2	363280	XOS Digital	Video replay equipment for new Amsoil Arena.	\$ 99,912	Athletics, Duluth
8	350114	Qwest Communications - Government and Education Services	Remote enhanced 911 (E911) system hosted by the Minnesota State Patrol.	\$ 90,350	Police Department
7	360507	Amano McGann, Inc.	Replacement ticket dispensers and validators.	\$ 78,175	Parking and Transportation Services
2	358127	BD Biosciences	Upgrade to LSRFortessa H17700017.	\$ 69,999	Center for Immunology
2	363131	Nikon Metrology USA	Varian 2520 flat panel detector (including installation).	\$ 65,000	Restorative Sciences
2	347912	Applied Biosystems	7000 HT Fast Real-Time 384 PCR System with computer and two years of AB Assurance.	\$ 56,710	Genomics
2	359698	Ionoptix	Mycocyte Contractility Imager.	\$ 54,896	Integrative Biology and Physiology
2, 3	350603	Li-Cor Biosciences	Odyssey Infrared Imaging System.	\$ 49,875	Surgery
				<b>\$ 957,313</b>	



**Exception #3: Funding Source or granting agency specified a single supplier.**

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2, 7	345232	Santec U.S.A. Corporation	Custom designed imaging system for Dentistry and NIH funded R01. Cross-Polarization Swept-Source Optical Coherence System with MEMS controlled handpiece.	\$ 123,000	Development and Surgical Sciences
				<b>\$ 123,000</b>	

**Exception #4: Other**

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	340177	Advanced Informatics, LLC.	E-Value - Healthcare Education Software.	\$ 108,000	College of Pharmacy
1	345079	Engelbretson Sanitary Disposal	Solid Waste Disposal for the period of September 2010 through August 2011.	\$ 90,000	Plant Services - Morris Campus
2	347950	Bausch & Lomb, Inc.	Independent view chamber - 12 pack 5006 Optisol-GS, box of 12 vials.	\$ 90,000	Minnesota Lions Eye Bank
7	359439	Minitube	YFP-Cre Boar and Cystic Fibrosis Sow	\$ 51,601	Animal Science
				<b>\$ 339,601</b>	

**Purchases made as Approved Exceptions to Competitive Purchasing Process  
(Professional Services) Under \$250,000**

**10 PURCHASES  
TOTAL: \$842,994**

**Exception #1:** Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	348176	University of Rochester	Reimbursement of Research Services and Expenses as provided by the supplier's staff.	\$ 177,207	Institute of Child Development
				<b>\$ 177,207</b>	

**Emergency Exception #2:** A significant loss to the University.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	347488	Parker Executive Search	Search Firm to assist in the search and hire for a head football coach.	\$ 120,000	Intercollegiate Athletics
				<b>\$ 120,000</b>	

**Exception #3:** Funding Source or granting agency specified a single supplier.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2	343773	Conservation Technologies	Consulting, setup and installation as specified in the grant proposal.	\$ 137,750	Bioproducts/Biosystems Engineering
8	339655	NISL Executive Leadership Program	Curriculum Provider.	\$ 74,000	College Readiness Consortium/System Academic Administration
				<b>\$ 74,000</b>	

**Exception #4:** Other

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
6	340868	Cambridge Associates, LLC.	Investment Manager Consulting Services.	\$ 99,000	Investments and Banking
7	347098	Capella Education Company, via Capella University	On-line course development; on-line course delivery training.	\$ 86,000	MBA Programs, Carlson School of Management
7	365304	Edith G.M. Mbabazi	Consultant based in Tanzania to provide technical assistance for CDC Project 000.17487.	\$ 85,000	Lab Medicine and Pathology
8	361352	SME Minnesota Section	Consulting fees for coordination of 2011 SME Conference.	\$ 75,000	Continuing Education - Duluth Campus
8	347564	Park Nicollet Institute	Vertebrae Fracture Assessment (VFA) Pilot Grant from the CTSL Community.	\$ 70,087	Clinical and Translational Science Institute
7	350965	Ann Marie Winkowski	Serve as a research coordinator for the study, "Studies of Brain Function and Posttraumatic Stress Disorder".	\$ 56,700	Neuroscience
				<b>\$ 471,787</b>	

**Purchases made as Approved Exceptions to Competitive Purchasing Process  
(Goods, Services & Professional Services) \$250,000 and Over**

**6 PURCHASES  
TOTAL \$2,672,696**

**Exception #1:** Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	367083	Idexx Distribution Corporation	Various disease test kits.	\$ 835,482	Veterinary Diagnostic Laboratory
3	347786	Qiagen	OneStep RT-PCR Kit Custom (2000).	\$ 409,968	Minnesota Veterinary Diagnostic Laboratory
2	362086	EJH and Associates	IT Services for Food Emergency Response Network (FERN).	\$ 290,000	National Center for Food Protection and Defense
				<b>\$ 1,535,450</b>	

**Exception #2:** Equipment that requires brand compatibility with existing equipment and is available only from manufacturer of sole authorized distributor.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2	366611	Illumina	iScan system with AutoLoader and chips with reagents to process 1344 samples.	\$ 489,420	Genomics
				<b>\$ 489,420</b>	

**Exception #3:** Funding source or granting agency specified a single supplier.

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	366604	Consensus Medical Communications, Inc.	Production of the Pain Management Summit and Medscape Webcast.	\$ 357,522	Office of Continuing Medical Education
				<b>\$ 357,522</b>	

**Exception #4:** Other

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
8	347765	Illumina, Inc.	Human Methylation Analysis Bead Chip Kits.	\$ 290,304	Epidemiology and Community Health, School of Public Health
				<b>\$ 290,304</b>	

**Purchases made as Approved Exceptions to Competitive Purchasing Process  
(Construction) \$250,000 and Over**

**1 PURCHASE  
TOTAL \$465,136**

Price Reasonableness	PO #	Supplier	Description	Dollar	Department
2	PO-03362	English Boiler & Tube, Inc.	Startup and commissioning of the Morris Campus Biomass System.	\$ 465,136	Capital Planning and Project Management
				<b>\$ 465,136</b>	

Reasonableness of Single Price is ascertained by one or more of the following:

1. Cost/Price analysis.
2. Negotiation with supplier.
3. Published catalog price.
4. Price is consistent with independent estimates developed within the University or by credible third party.
5. Comparison to similar purchase(s).
6. Comparison with peer institution contract (including State of Minnesota).
7. Qualified individual's knowledge of market.
8. Other

**III. Pre-Approved Exceptions to Competitive Purchasing  
(Goods, Services and Construction)**

**18 PURCHASES  
Total: \$3,462,126**

**Exception #2: Media advertising, purchase of or access to uniquely compiled database of information.**

PO #	Supplier	Description	Dollar	Department
337324	NPD Group	NPD National Eating Trends Data.	\$ 105,000	National Center for Food Protection and Defense
			\$ 105,000	

**Exception #4: Closeout or used items which requestor of Purchasing has verified to be at least 30% below comparable new equipment (does not include refurbished or remanufactured furniture).**

PO #	Supplier	Description	Dollar	Department
357119	Firstenberg Machinery Company Inc.	Chromatography Skid.	\$ 60,000	Biotechnology Institute
			\$ 60,000	

**Exception #6: Service or supplies available only from another governmental agency or public entity.**

PO #	Supplier	Description	Dollar	Department
10-035074	Western Lake Superior Sanitary District	Capacity availability fee to connect Griggs E. Addition to WLSDD Treatment Facility.	\$ 55,460	Facilities Management - Duluth
			\$ 55,460	

**Exception #7: Service/maintenance agreements with the original manufacturer/developer for equipment and software.**

PO #	Supplier	Description	Dollar	Department
367167	Siemens Medical Solutions, USA	10.5T Research Console Service Contract.	\$ 1,500,000	Center for Magnetic Resonance Research
345281	Oracle Corporation	Oracle Database. U-Wide software maintenance for the period of 10/24/10 - 11/23/11.	\$ 497,435	Office of Information Technology
358413	Siemens Medical Solutions, USA	Service agreement addendum on 3T Magnet.	\$ 166,430	Center for Magnetic Resonance Research
344104	Accruent (FAMIS)	Annual support for Twin Cities and Coordinated Campuses for Compass/Space/FAMIS Modules.	\$ 138,218	University Services IT
367890	Infinera	Annual operating software support and subscription renewal for BOREAS.	\$ 100,100	Networking and Telecommunication Services
357309	Oracle Corporation	Annual maintenance and support for Stellent for the period of 12/1/10 through 11/30/11.	\$ 88,511	Office of Information Technology
341389	Carl Zeiss Microimaging, Inc.	Microscope service contract for the Zeiss LSM7 Live.	\$ 83,808	Biomedical Engineering

**Exception #7: Continued**

PO #	Supplier	Description	Dollar	Department
351169	North American Systems International (NASI)	Pillar Disk Array hardware and software support for the period of 11/16/10 through 06/30/12.	\$ 70,579	Office of Information Technology
367679	JEOL USA	Service contract for JEOL electron microprobe.	\$ 63,766	Geology and Geophysics
			<b>\$ 2,708,848</b>	

**Exception #8: Emergency equipment repairs and parts or emergency facility repairs and parts under \$100,000.**

PO #	Supplier	Description	Dollar	Department
362613	United Marine Marketing Group	Replacement of the rowing dock due to the ice floe that destroyed the current dock.	\$ 54,790	Intercollegiate Athletics
			<b>\$ 54,790</b>	

**Exception #9: Unique specification research animals purchased under guidelines of the Institutional Animal Care and Use Committee (IACUC).**

PO #	Supplier	Description	Dollar	Department
338761	Minitube of America	Transgenic pigs (CF-RNAi), delivery and per diems.	\$ 60,700	Animal Science
340316	Minitube of America	Transgenic pigs (YFP-CRE), delivery and per diems.	\$ 56,800	Animal Science
			<b>\$ 56,800</b>	

**Exception #11: Software license renewals and software upgrades purchased from original developer. This includes adding licenses to an existing license agreement.**

PO #	Supplier	Description	Dollar	Department
365657	IBM	Annual software license fees for the SPSS Statistics Premium Campus Value license.	\$ 130,442	Networking and Telecommunication Services
353110	Skire, Inc.	Annual service fee for Unifier for the period of 11/18/10 through 11/17/11.	\$ 111,500	Capital Planning and Project Management
			<b>\$ 241,942</b>	

**Exception #12: Original artwork.**

PO #	Supplier	Description	Dollar	Department
364233	Darwin Reedy Gallery	"Green and White Balls on Blue" oil on canvas original artwork.	\$ 179,287	Tweed Museum of Art
			<b>\$ 179,287</b>	

**Pre-Approved Exceptions to Competitive Purchasing  
(Professional Services)**

**18 PURCHASES  
TOTAL: \$1,999,830**

**Exception #18: Subcontractors previously arranged by Sponsored Projects Administration (SPA).**

PO #	Supplier	Description	Dollar	Department
367811	Howard R. Green & Associates	Multiple transportation practitioners to assist with training development and delivery.	\$ 38,535	Center for Transportation Studies
367849	Zan & Associates	Multiple transportation practitioners to assist with training development and delivery.	\$ 31,460	Center for Transportation Studies
			<b>\$ 69,995</b>	

**Exception #19: Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.**

PO #	Supplier	Description	Dollar	Department
344086	Minnesota State Fair	Staffing hours purchased from the Minnesota State Fair for support and management of the 4-H program and activities during the State Fair.	\$ 163,871	Minnesota Extension Center for Youth Development, 4-H
348733	City of Rochester	Rochester Downtown Master Plan; Reimbursable expenses.	\$ 99,825	Rochester Campus
			<b>\$ 263,695</b>	

**Exception #21: Entertainers, lecturers, speakers, and honoraria.**

PO #	Supplier	Description	Dollar	Department
340015	AEG Live LLC	Talent promoter for the "America's Got Talent" show.	\$ 350,000	Northrop
343460	AEG Live LLC	Performance by Furthur.	\$ 250,000	Northrop
343350	GAM Enterprises, Inc.	Performance by Lady Antebellum.	\$ 200,000	Northrop
334300	CMRT Corp	Gala Event Entertainment.	\$ 90,000	Medicine - Cardiology
350806	Slamhammer Sound Co.	Sound, Stage, and Lighting Services for events such as the Spring Jam Block Party, the Homecoming Concert, and other major performances.	\$ 72,000	Student Unions and Activities
			<b>\$ 962,000</b>	

**Exception #24: Study Abroad Program Administrators. (Does not include group airfares.)**

PO #	Supplier	Description	Dollar	Department
350008	Seminars International, Inc.	Study Abroad to Italy for the Global Enrichment Group.	\$ 110,000	Carlson School of Management
359518	Seminars International, Inc.	Study Abroad to Shanghai and Beijing, China.	\$ 106,350	Carlson School of Management

**Exception #24: Continued**

PO #	Supplier	Description	Dollar	Department
359047	Austral Group	Study Abroad to Brazil.	\$ 95,984	Carlson School of Management
354143	Fundacao Getulio Vargas-Escola De	Study Abroad to Brazil.	\$ 82,368	Carlson School of Management
359554	Seminars International, Inc.	Study Abroad to Denmark for an Ethics Seminar.	\$ 79,237	Carlson School of Management
339933	Accent Travel Group	Study Abroad to India for the Global Enrichment Group.	\$ 65,381	Carlson School of Management
360827	Holbrook Travel, Inc.	Study Abroad to Galapagos Islands.	\$ 64,820	Biology Program
			<b>\$ 604,140</b>	

**Exception #25: Regents policy allows the Office of General Counsel to contract for legal services without competitive bidding.**

PO #	Supplier	Description	Dollar	Department
339646	Fredrikson & Byron PA	Legal Services for the Senate Judicial Committee.	\$ 50,000	Senior Vice President & Provost Academic Affairs
339730	Felhaber Larson Fenlon & Vogt PA	Legal Services for the Senate Judicial Committee.	\$ 50,000	Senior Vice President & Provost Academic Affairs
			<b>\$ 100,000</b>	

**IV. Regents Policy Violations**

**0 PURCHASES**

**TOTAL: \$0**

PO #	Supplier	Description	Dollar	Department
			\$ -	



# Quarterly Report

December 31, 2010

UNIVERSITY OF MINNESOTA

Office of Investments & Banking

# Table Of Contents

- Overview – All Funds
- Highlights and Commentary
  - CEF
  - TIP
  - GIP
  - RUMINCO
  - Long-term Debt

# Overview – All Funds

	Dec-10	Jun-10	Jun-09
OIB Managed Funds (\$ millions)			
Consolidated Endowment Fund (CEF) * **	\$ 909.0	\$ 861.5	\$ 827.2
Long-Term Reserves (GIP) ***	43.7	41.9	32.3
Short-Term Reserves (TIP) *** (market value)	643.8	697.6	595.7
RUMINCO Ltd.	33.3	31.2	28.3
Invested Assets Related to Indebtedness	<u>150.1</u>	<u>45.5</u>	<u>58.4</u>
Total	1,811.8	1,677.7	1,541.9

51

Other

U of M Foundation Fund

\$ 1,238.4

\$ 1,133.4

\$ 1,057.9

MN Medical Foundation Fund

212.3

189.4

181.9

Basic Faculty Retirement Plan

\$ 2,905.9

\$ 2,629.9

\$ 2,168.8

\* Includes the market value of the Permanent University Funds

\$ 372.9

\$ 354.9

\$ 346.2

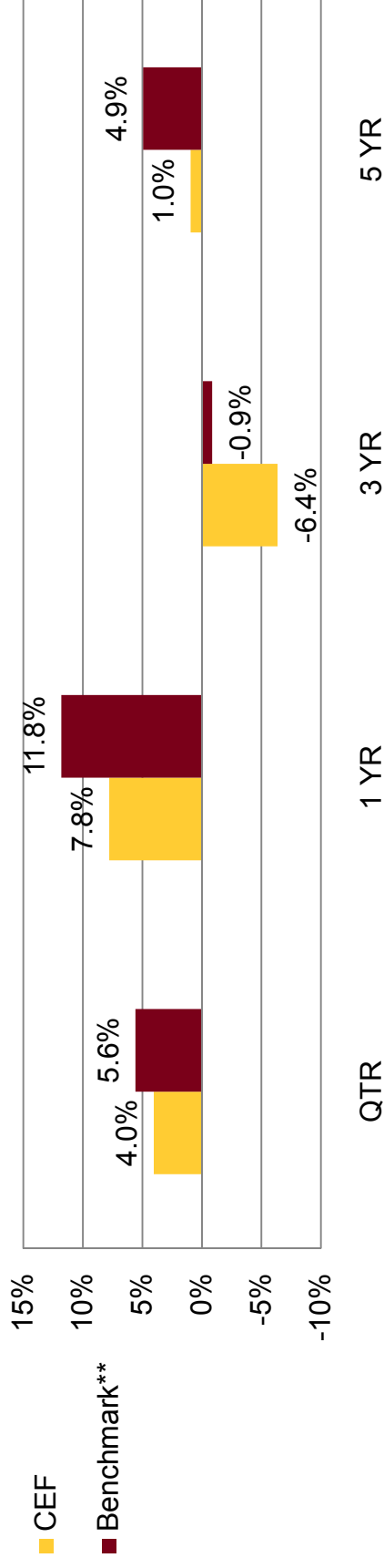
\*\* Includes \$101.9 million TIP and \$9.5 million GIP investments (market value)

\*\*\* Balances exclude investment in CEF

# CEF Analysis

Total Fund Performance\* (%)

Market Value: \$909M



**\$27.2 million increase over the last three months**

- Three month performance driven by:
  - Strong global public equity performance
  - Hedge funds outperformed benchmarks
  - Real assets underperformed by 300bps
  - Private capital performance was positive but lagged public equity performance

\* Net of Manager Fees

\*\* Benchmark: CEF Custom Index – 20% Russell 3000, 20% MSCI AC World ex US (NET), 20% State Street PE 1 QTR Lag, 20% NCREIF Property One QTR Lag and 20% Barclays Capital Aggregate

\*\*\* Total CEF Market Value includes \$101.9M in TIP and \$9M in GIP investments (market value)

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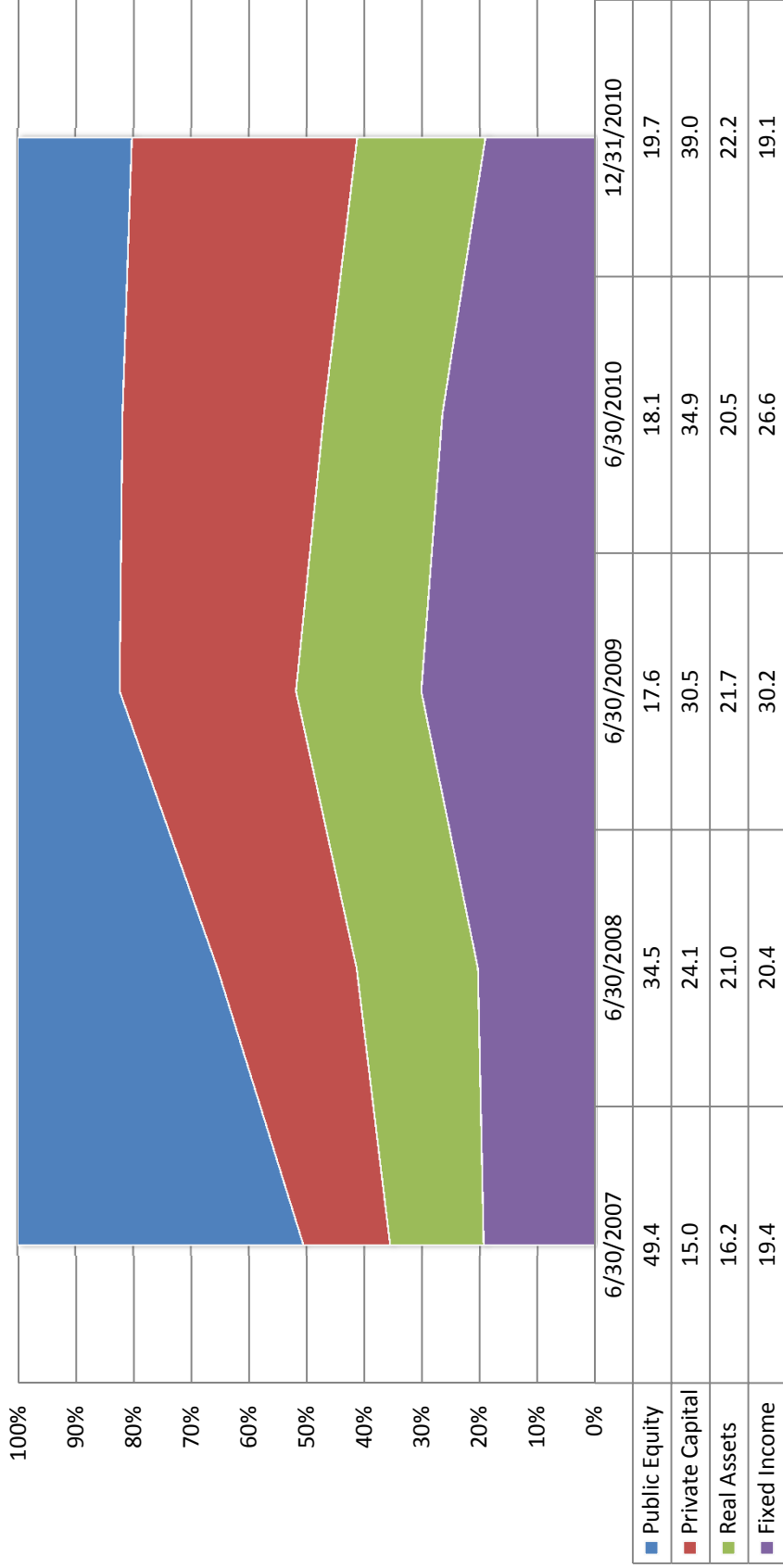
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# CEF Analysis

Asset Allocation (%)

Market Value: \$909M

CEF Percent Allocation Over Time



**December 31, 2010**  
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# CEF Analysis

Total Return by Sector\* (%)

Market Value: \$909M



\* Net of Manager Fees

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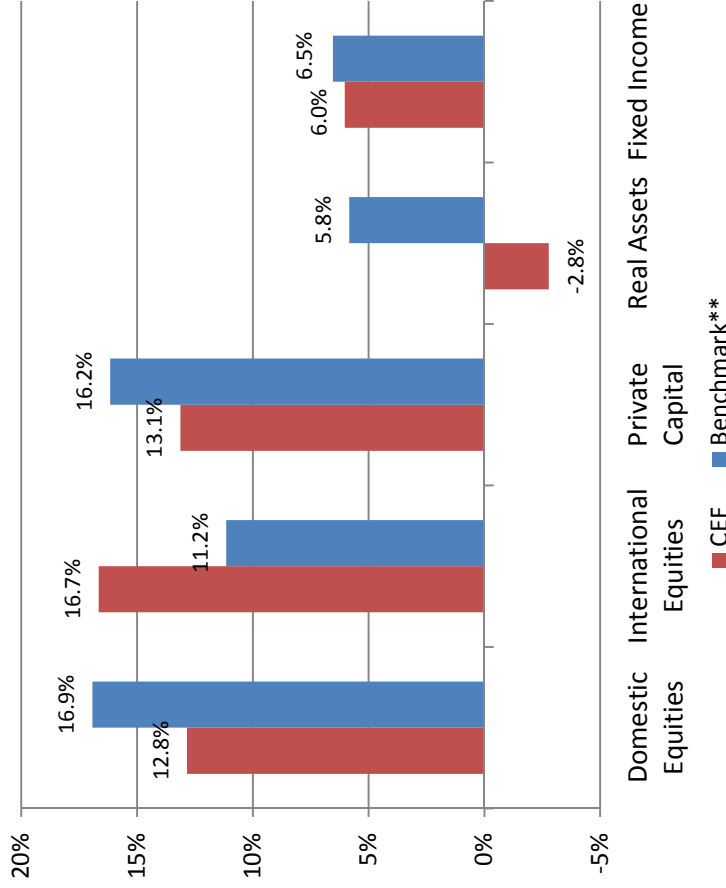
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# CEF Analysis

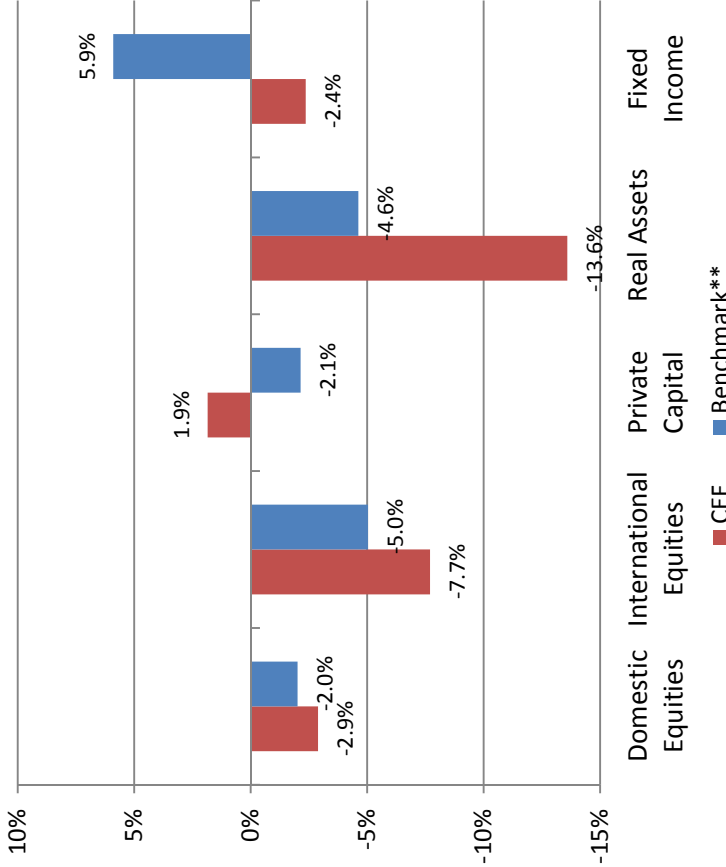
Sector vs. Benchmark Returns\* (%)

Market Value: \$909M

## 1 Year



## 3 Year



\* Net of Manager Fees

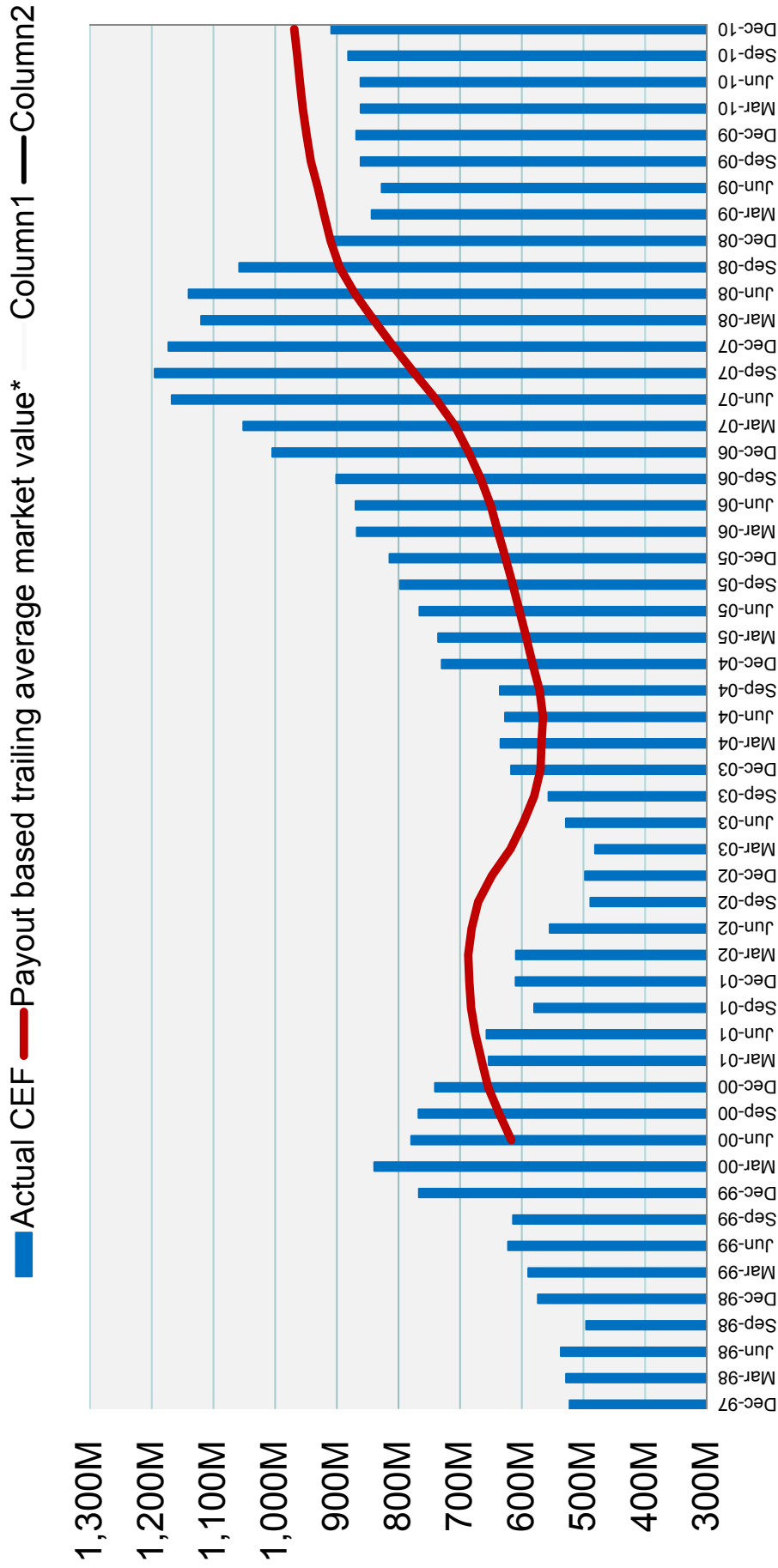
\*\* Benchmark: Domestic Equity = Russell 3000; Int'l Equity = MSCI AC World ex US (NET); Private Capital = State Street PE 1 QTR Lag; Real Assets = NCREIF Property One QTR Lag; Fixed Income = Barclays Capital Aggregate

**December 31, 2010**  
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# CEF Analysis

Actual CEF vs. Payout Based Trailing Average Market Value



\* Payout was based on a three-year trailing average before June 04, and was gradually moved to a 5-year trailing average.

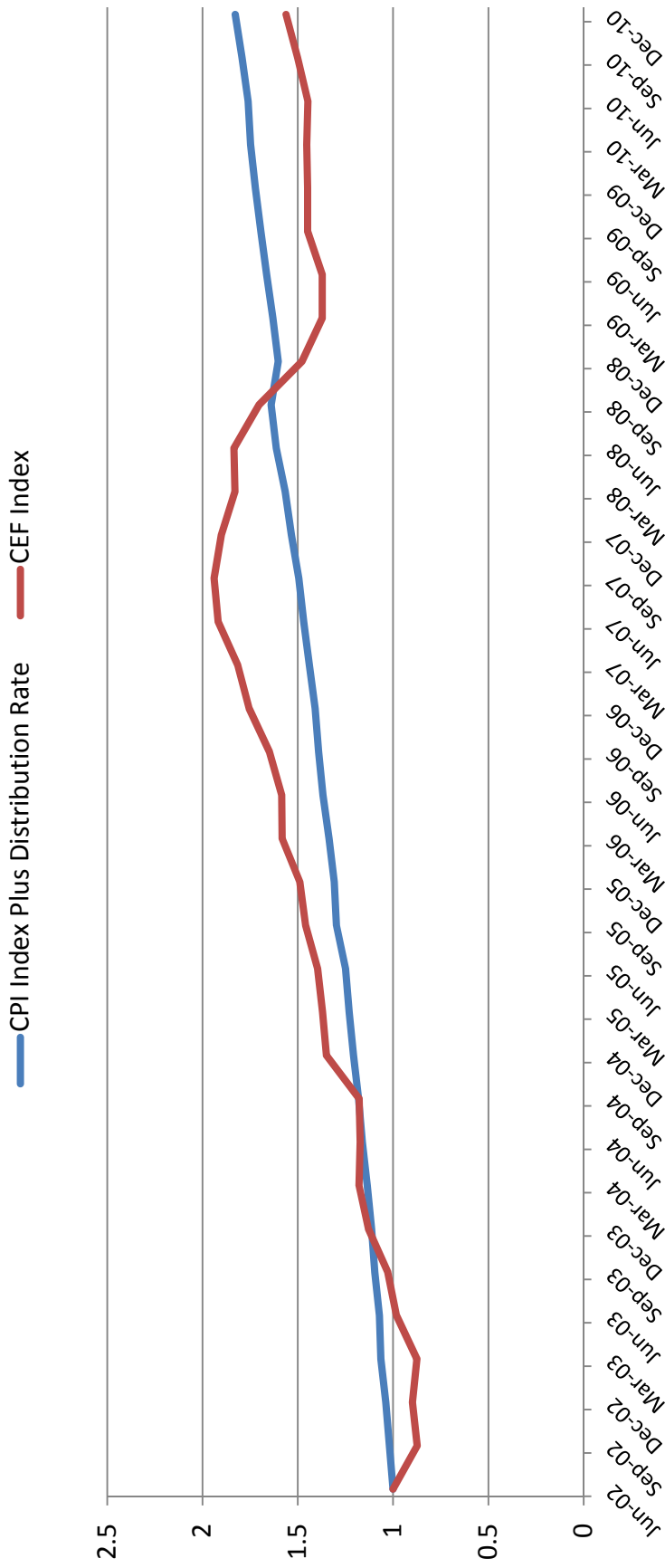
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# CEF Analysis

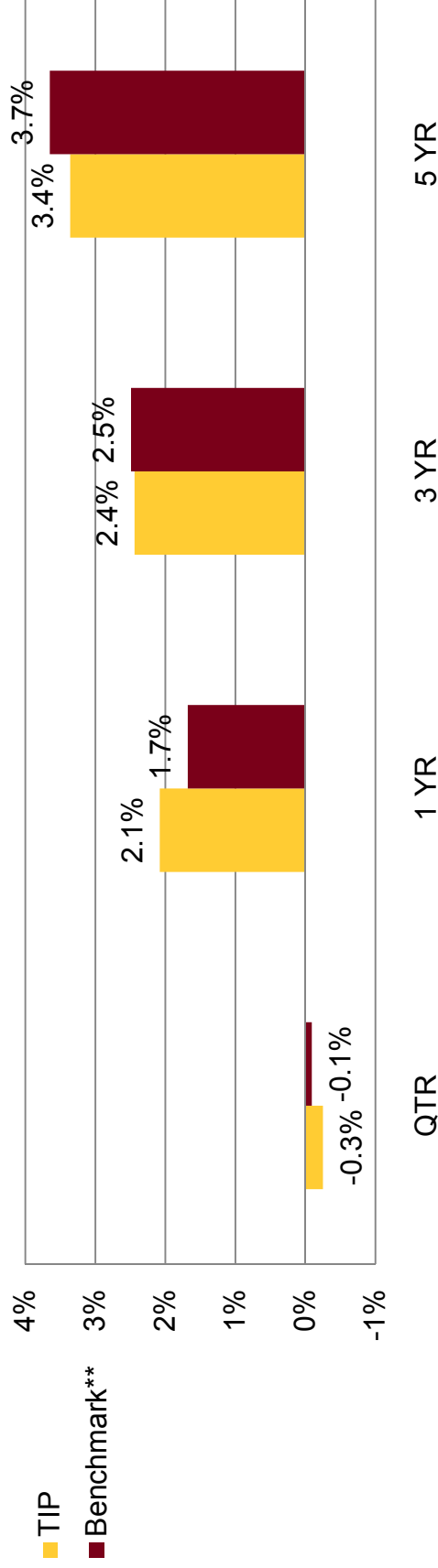
Value of \$1 dollar invested since June 30, 2002



# TIP Analysis

Total Fund Performance\*

Market Value: \$644M



## \$14.6 million decrease over the previous quarter

- Quarterly performance primarily driven by:
  - TIP was down 25bps, which was 16bps lower than the benchmark
  - Underperformance primarily due to slightly higher duration exposure than the benchmark

\* Net of Manager Fees

\*\* Benchmark: 70% ML Treasuries 1-3 Yr / 30% 91 Day T-Bill

\*\*\* Total TIP Market value excludes the \$101.9M investment in CEF

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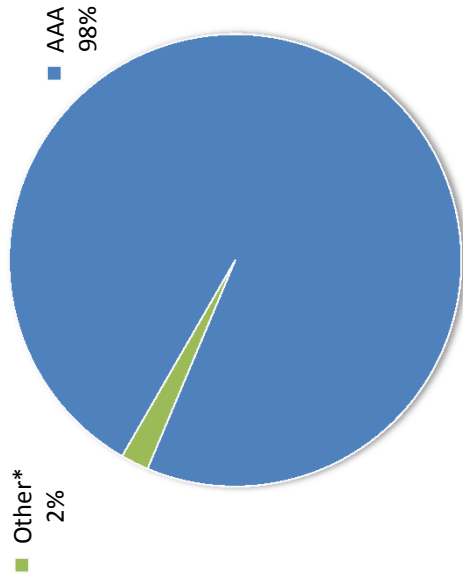
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# TIP Analysis

Asset Allocation

Market Value: \$644M

## Credit Quality



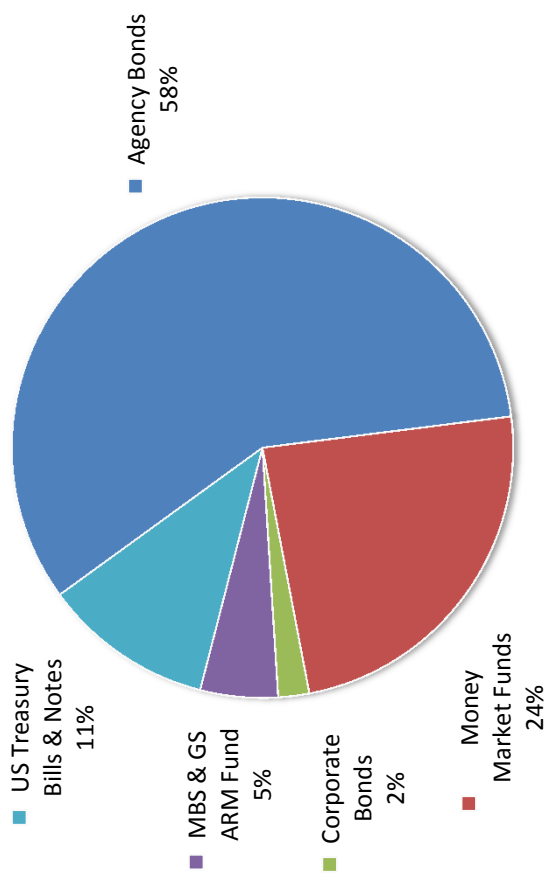
### Portfolio Statistics:

Average Duration = 1.67

Average Credit Rating = AAA

Current Yield = 1.17%

## Sector Exposure

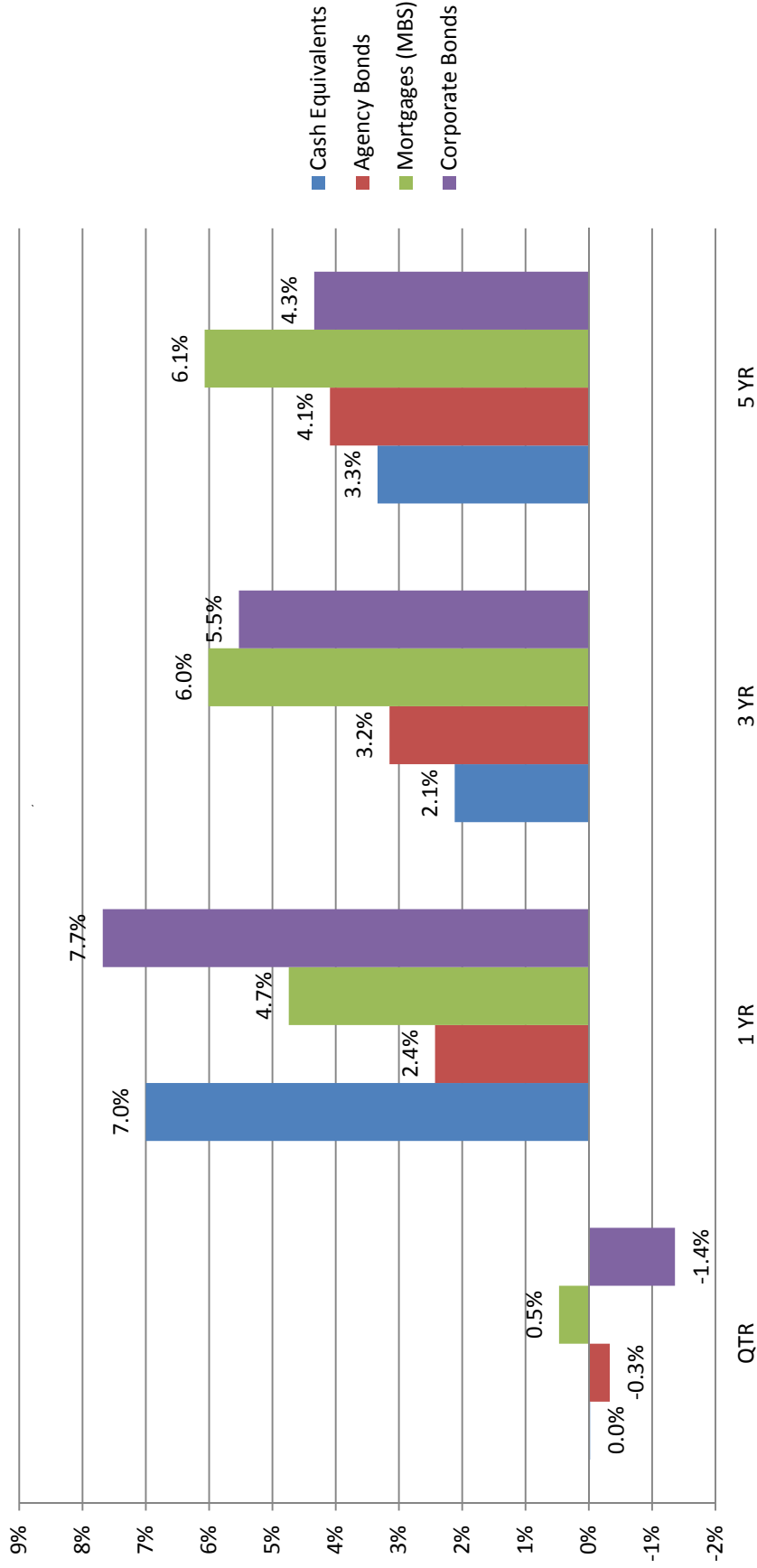


\* Other includes BBB/BB Split Rated bonds

# TIP Returns

Total Return by Sector\*

Market Value: \$644M



\* Net of Manager Fees

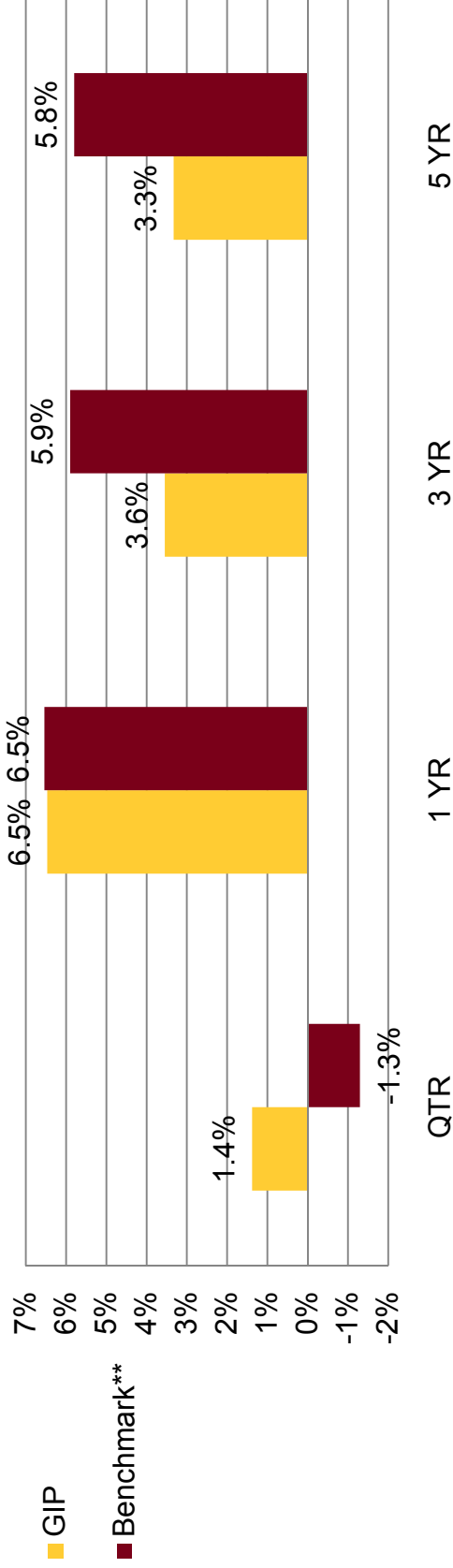
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# GIP Analysis

Total Fund Performance\*

Market Value: \$53M



**\$1.2 million increase over the previous quarter**

- Quarterly performance primarily driven by:
  - Strong performance in emerging markets fixed income
  - Strong performance in CEF and Absolute Return
  - Underperformance in other core fixed income

\* Net of Manager Fees

\*\* Benchmark: 100% Barclays Capital Aggregate

\*\*\* Total GIP market value includes the \$9.5M investment in CEF

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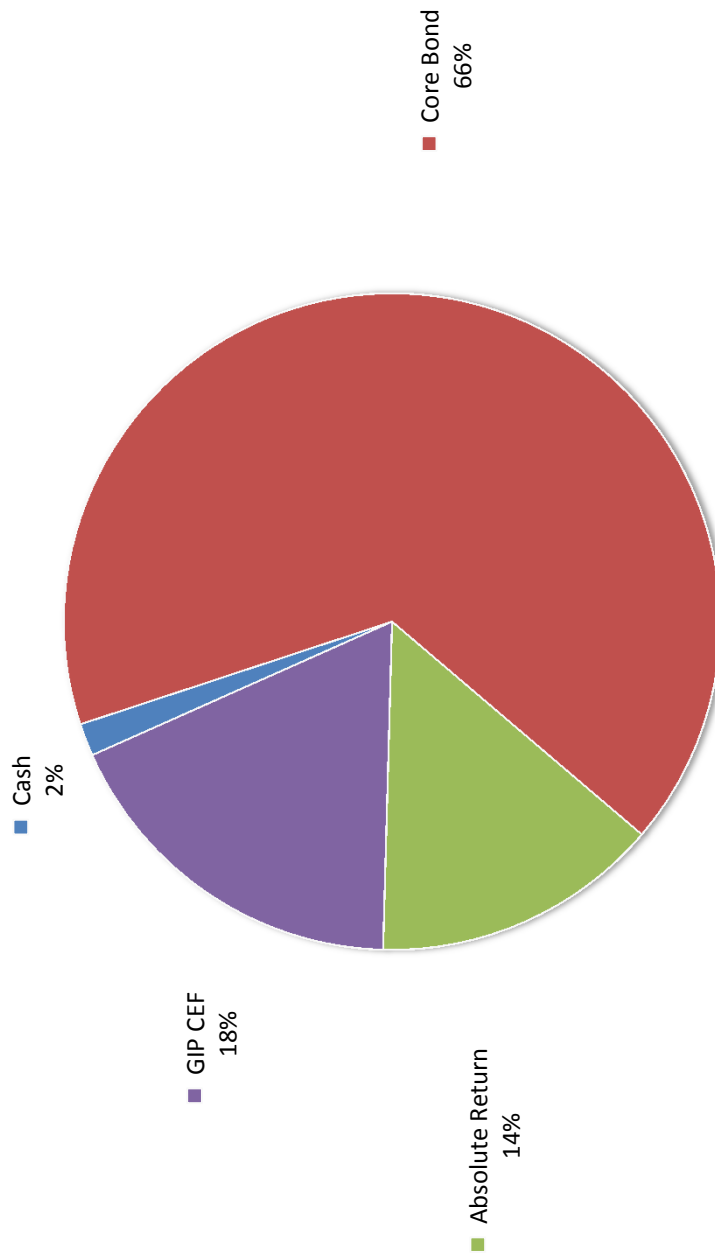
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# GIP Analysis

Asset Allocation

Market Value: \$53M

## Portfolio Composition

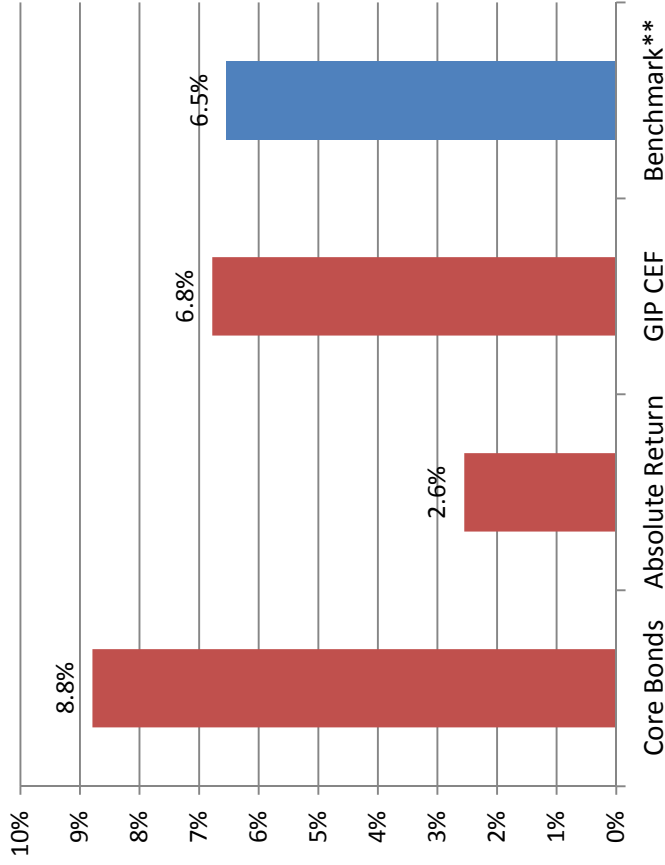


# GIP Analysis

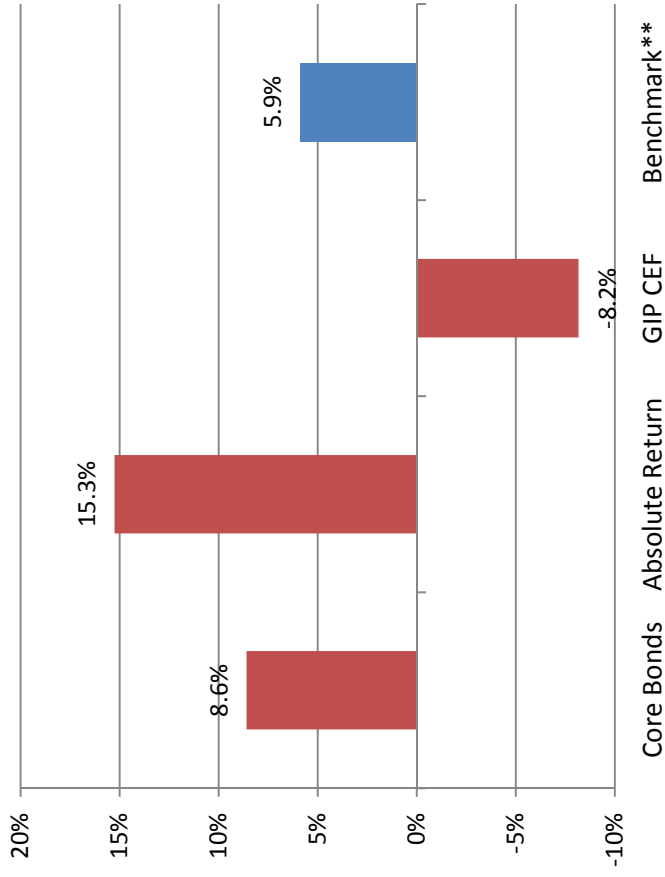
Sector vs. Benchmark Returns\* (%)

Market Value: \$53M

## 1 Year



## 3 Year



\* Net of Manager Fees  
 \*\* Benchmark: 100% Barclays Capital Aggregate

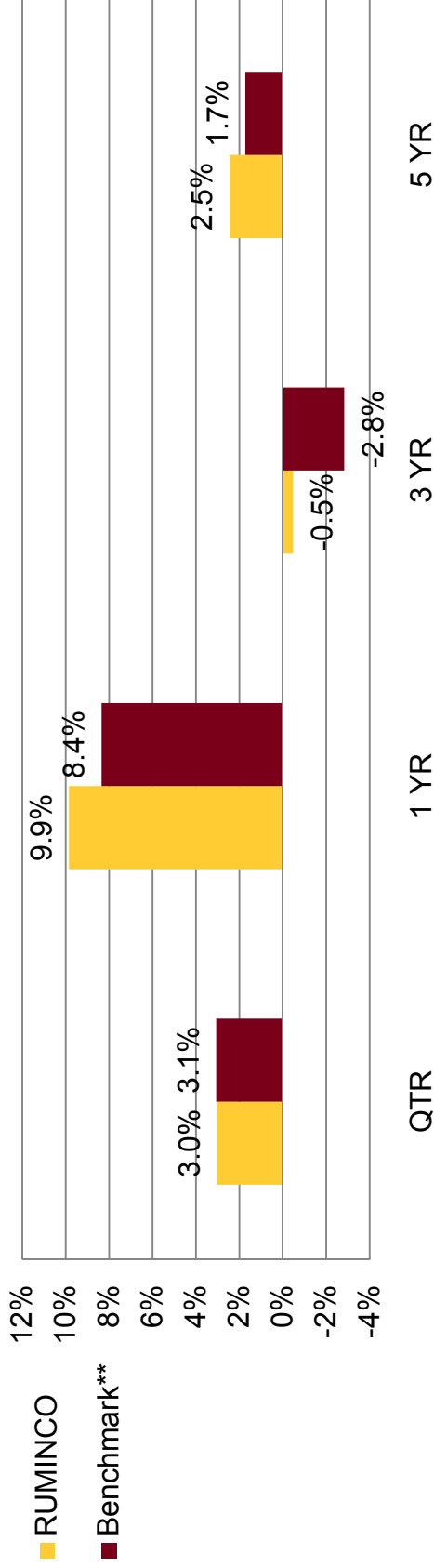
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# RUMINCO Analysis

Total Fund Performance\*

Market Value: \$333M



**\$0.2 million increase over the previous quarter**

- Quarterly performance primarily driven by
  - Strong global equity performance
  - Partially offset by weak core fixed income performance

\* Net of Manager Fees

\*\* Benchmark: 40% AC World NET, 30% BC AGG, 30% ML Gov 1-3 Yrs

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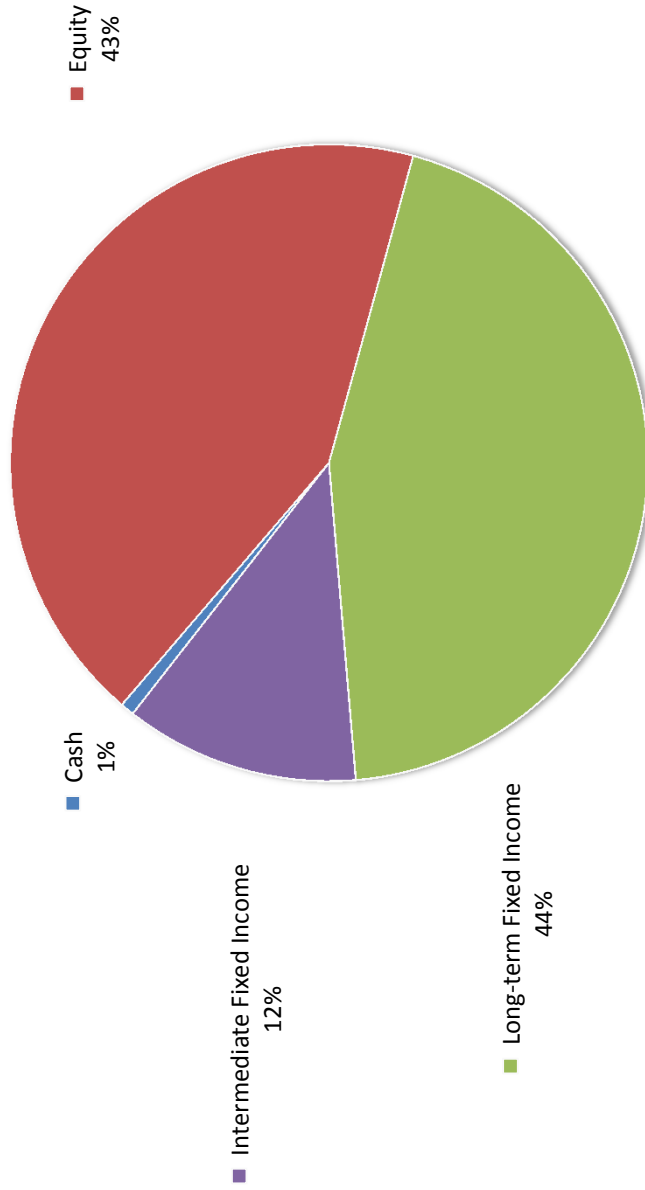


# RUMINCO Analysis

Asset Allocation

Market Value: \$333M

## Portfolio Composition



\* Benchmark: 40% AC World NET, 30% BC AGG, 30% ML Gov 1-3 Yrs

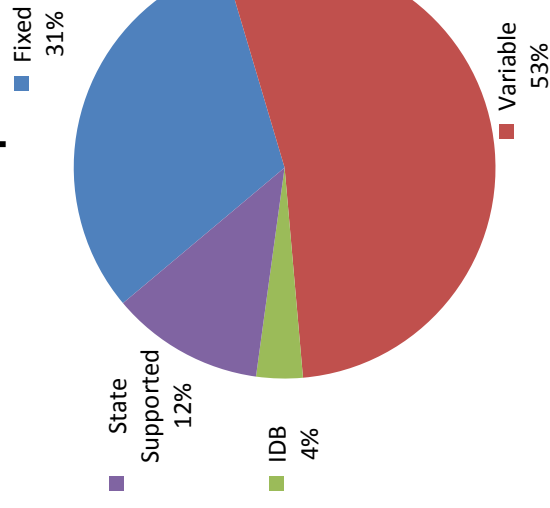
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# Long Term Debt Analysis

Long Term Debt	Nominal Amount	Weighted Avg Rate
University Issued Fixed Rate Debt (Aux, GO, & Taxable)	330.4	4.87
University Issued Variable Rate Debt		
VRDB	293.1	0.34
CP	<u>264.6</u>	<u>0.30</u>
Total University Issued & Supported Debt	\$ 888.1	3.80%
State Issued Infrastructure Development Bonds (IDBs)	<u>37.3</u>	<u>5.06</u>
Total University Supported Debt	\$ 925.4	3.85%
University Issued, State Supported Debt (Revenue Bonds)	<u>122.8</u>	<u>3.82</u>
Total University Debt*	\$ 1,048.2	3.85%
*Weighted avg rate includes impact of net swap rates below		
Swaps		
Integrated	292.7	3.53
Non-Integrated	<u>145.0</u>	<u>4.82</u>
	\$ 437.7	3.96%

## Debt Composition with Swaps



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS  
FINANCE and OPERATIONS COMMITTEE**

**Semi-Annual Management Report**

**December 31, 2010**

*(Dollars in thousands)*

**CONSOLIDATED STATEMENT OF NET ASSETS HIGHLIGHTS**  
**(SCHEDULE I)**

Total assets at December 31, 2010, totaled \$5,406.2 million, an increase of 9.5% or \$469.6 million over December 31, 2009 total assets of \$4,936.6 million. Current assets at December 31, 2010, totaled \$1,248.3 million, an increase of 23.1% or \$234.2 million over the prior fiscal year, and consist primarily of cash and cash equivalents and net receivables. Noncurrent assets at December 31, 2010, totaled \$4,157.9 million, an increase of 6.0% or \$235.4 million over the prior fiscal year, and consist primarily of investments and capital assets, net of accumulated depreciation.

Total current cash and cash equivalents increased by \$159.2 million at December 31, 2010 over the prior fiscal year due to primarily more of the Temporary Investment Pool (TIP) being held in cash and cash equivalents. Total receivables, net of allowances, totaled \$1,010.7 million at December 31, 2010, an increase of 11.5% or \$104.2 million over the prior fiscal year. Total receivables increased due to timing differences in receiving payments for student tuition and state appropriations. As a result of the University closure in December 2010, payments applied to student accounts were delayed. In addition, the State of Minnesota delayed state appropriation payments due in September and October to the end of the fiscal year.

Restricted cash and cash equivalents increased by \$96.7 million at December 31, 2010 over the prior fiscal year substantially due to General Obligation Bond Series 2010A, 2010B, and 2010D being issued in the past year. The increase related to the new bond issuances was offset with spending related to Commercial Paper Series 2009C and 2009D and General Obligation Bond Series 2009C and 2009D.

Noncurrent endowment and other investments were \$1,397.0 million and \$1,321.9 million at December 31, 2010 and 2009, respectively. The \$75.1 million increase in endowments and other investments is primarily the result of a shift in holding some TIP investments from current to noncurrent investments and an increase in the Consolidated Investment Pool market value.

Capital assets, net of accumulated depreciation, totaled \$2,557.6 million and \$2,495.5 million at December 31, 2010 and 2009, respectively. The \$62.1 million or 2.5% increase over the prior fiscal year included large projects such as the Folwell Hall renovation, the Weisman Art Museum addition and the NOVA Far Detector building.

Current liabilities totaled \$1,067.3 million at December 31, 2010, and \$1,120.6 million at December 31, 2009. Current liabilities consisted of accounts payable and accrued liabilities and other, which includes significant liabilities for payroll expense incurred, but not yet paid as of December 31st and accrued employees' vacation balances. Overall, accrued liabilities and other increased primarily due to the timing of the Prepaid Medical Assistance Program and the Medical Education and Research (PMAP / MERC) payments. The payments were issued prior to December 31st in fiscal year 2010, with them considered payable as of December 31st of this fiscal year. Current liabilities also included revenue related to spring session tuition deferred to the third quarter of the fiscal year and the current portion of bonds payable. Unearned income increased \$31.2 million primarily due to the spring tuition deferral.

The current portion of bonds payable decreased \$128.2 million, or 26.1%. The standby purchase agreement for the General Obligation Bond Series 2001C was extended on February 24, 2010, allowing for a portion of future principal payments to be classified as noncurrent debt in fiscal year 2011.

Noncurrent liabilities totaled \$848.0 million and \$547.2 million at December 31, 2010 and 2009, respectively, and consisted primarily of principal amounts due on University bonds, long-term vacation, and other compensation-related liabilities. The increase in noncurrent liabilities of \$300.8 million or 55.0% is due mainly to the increase in long-term debt for the General Obligation Bonds Series 2010A, 2010B, 2010C, and 2010D and the extension of the 2001C standby purchase agreement.

Total net assets increased \$222.1 million or 6.8% to \$3,490.9 million at December 31, 2010. Total net assets at December 31, 2010 included: unrestricted net assets of \$1,056.8 million, an increase of \$223.8 million or 26.9%; restricted expendable net assets of \$710.8 million, an increase of \$111.0 million or 18.5%; restricted nonexpendable net assets of \$251.6 million, an increase of \$0.6 million or 0.2%; and invested in capital assets, net of related debt of \$1,471.7 million, a decrease of \$113.3 million or 7.1 % over December 31, 2009, respectively.

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS  
FINANCE and OPERATIONS COMMITTEE**

**Semi-Annual Management Report  
December 31, 2010  
(Dollars in thousands)**

**CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET  
ASSETS HIGHLIGHTS  
(SCHEDULE II)**

For the six months ended December 31, 2010, student tuition and fees totaled \$319.5 million, net of \$119.2 million of scholarship allowances. This revenue represents an increase of \$14.2 million over the same amounts for the six months ended December 31, 2009. The increase in student tuition and fees revenue was due to an increase in regular session tuition rates with an offsetting decrease due to the change in scholarship allowance calculation methodology implemented at fiscal year-end 2010.

Grants and contracts from the federal government totaled \$231.9 million during the first six months of fiscal year 2011, an increase of \$9.1 million over the same period of fiscal year 2010, primarily due to sponsored federal grants involving stimulus funds. State and other governmental and nongovernmental grants revenue remained relatively comparable between fiscal years with a slight decrease in the first six months of fiscal year 2011 compared to fiscal year 2010.

Sales and Services of Educational Activities decreased \$39.0 million in the first six months of fiscal year 2011 compared to the same time period in fiscal year 2010. One major contributor to this decrease is the timing of royalty payments received in fiscal year 2011 compared to fiscal year 2010. Auxiliary Enterprises revenue increased \$8.6 million, or 4.5% over the prior fiscal year. Overall, revenue remained relatively comparable between fiscal years with noted increases in Boynton Health Services student fees and Facilities Management steam operations' external sales.

Operating expenses decreased 3.5% to \$1,386.9 million for the six-month period ended December 31, 2010, from \$1,437.6 million for the same period ended December 31, 2009.

Institutional Support expenses were down \$23.8 million primarily due to timing and other variables related to the central fringe pool and a reduction in total royalty distributions. Overall, operating expenses were in excess of operating revenues by \$432.4 million and \$471.0 million for the six months ended December 31, 2010 and 2009, respectively.

State operating appropriations totaled \$631.8 million and \$644.1 million at December 31, 2010 and 2009, respectively. Investment income of \$38.0 million for the first six months of fiscal year 2011 was an increase of \$66.2 million over the same period in the prior fiscal year. The net increase in fair market value of investments of \$39.7 million for the

first six months of fiscal year 2011 reflected a decrease of \$41.3 million from the amounts recorded during the first six months of fiscal year 2010.

Other significant sources of revenue to the University included grants and gifts in support of operating expenses and gifts and appropriations for capital purposes. Gifts increased \$14.1 million, which is substantially due to increased gifts flowing from the University of Minnesota Foundation and the Minnesota Medical Foundation. Capital grants and gifts increased \$10.7 million over the prior fiscal year, which is primarily related to an increase in federally funded grant projects that have a capital related component.

Capital appropriations, which occur biennially, decreased to \$45.5 million for the six months ended December 31, 2010. This is down from \$59.2 million for the six months ended December 31, 2009.

Overall, net nonoperating revenues increased to \$855.6 million for the six-month period ended December 31, 2010 from \$832.5 million for the six-month period ended December 31, 2009, a \$23.1 million or 2.8% increase. Total net assets for the first six months of fiscal year 2011 increased \$487.6 million. This increase compares to a \$437.0 million increase recognized during the first six months of fiscal year 2010.

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS  
FINANCE and OPERATIONS COMMITTEE**

**Semi-Annual Management Report  
December 31, 2010  
*(Dollars in thousands)***

**CONSOLIDATED STATEMENT OF CASH FLOWS HIGHLIGHTS  
(SCHEDULE III)**

The University's cash and cash equivalents increased \$93.2 million during the first six months of fiscal year 2011 due to the inflow of funds provided by noncapital financing activities and investing activities, capital and related financing activities, and investing activities exceeding outflow of funds for operating activities. The most significant sources of cash provided by noncapital financing activities for the first six months of fiscal 2011 included state appropriations totaling \$181.9 million, grants of \$124.7 million, and gifts of \$57.9 million. Capital and related financing activities included a significant cash inflow of \$165.9 million related to the issuance of General Obligation Bond Series 2010A and 2010B and investing activities included a significant cash inflow of \$42.4 million related to investment income. Cash flows from investing activities also reflect transactions attributed to the investments in the Temporary Investment Pool (TIP) and its corresponding volume of trading activity.

**University of Minnesota**  
**Consolidated Statements of Net Assets**  
**December 31, 2010 and 2009**  
**Unaudited**  
**(in thousands)**

**ASSETS**

	FY2011	FY2010
Current assets		
Cash and cash equivalents	\$ 240,091	\$ 80,847
Short-term investments	14,812	46,860
Receivables, net	947,551	839,969
Inventories	22,330	23,276
Current portion of student loan receivables	8,036	11,801
Current portion of prepaid expenses and deferred charges	15,330	11,216
Other assets	184	184
Total current assets	<u>1,248,334</u>	<u>1,014,153</u>
Noncurrent assets		
Restricted cash and cash equivalents	143,714	46,970
Investments	1,396,950	1,321,935
Receivables, net	492	384
Student loan receivables	54,612	54,334
Prepaid expenses and deferred charges	4,418	3,378
Other assets	24	24
Capital assets, net	2,557,642	2,495,465
Total noncurrent assets	<u>4,157,852</u>	<u>3,922,490</u>
Total assets	<u>5,406,186</u>	<u>4,936,643</u>

**LIABILITIES**

Current liabilities		
Accounts payable	84,856	77,914
Accrued liabilities and other	250,158	213,478
Unearned Income	368,519	337,292
Long term debt - current portion	363,723	491,942
Total current liabilities	<u>1,067,256</u>	<u>1,120,626</u>
Noncurrent liabilities		
Accrued liabilities and other	125,055	106,966
Unearned income	470	674
Long term debt	722,480	439,581
Total noncurrent liabilities	<u>848,005</u>	<u>547,221</u>
Total liabilities	<u>1,915,261</u>	<u>1,667,847</u>

**NET ASSETS**

Unrestricted	1,056,832	833,032
Restricted		
Expendable	710,776	599,730
Nonexpendable	251,601	251,030
Invested in capital assets, net of related debt	1,471,716	1,585,004
Total net assets	<u>\$ 3,490,925</u>	<u>\$ 3,268,796</u>



**University of Minnesota**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Six Months Ended December 31, 2010 and 2009**  
**Unaudited**  
**(in thousands)**

Schedule II

<b>REVENUES</b>	<b>FY2011</b>	<b>FY2010</b>
Operating Revenues		
Student tuition and fees (net of scholarship allowances of \$119,206 in FY2011 and \$93,645 in FY2010)	\$ 319,503	\$ 305,281
Federal grants and contracts	231,900	222,827
State and other government grants	32,804	33,776
Nongovernmental grants and contracts	113,982	117,957
Student loan interest income	938	902
Sales and services of educational activities (net of scholarship allowances of \$19 in FY2011 and \$0 in FY2010)	56,412	95,437
Auxiliary enterprises (net of scholarship allowances of \$6,587 in FY2011 and \$5,912 in FY2010)	198,992	190,361
Other operating revenues	29	57
<b>Total Operating Revenues</b>	<b>954,560</b>	<b>966,598</b>
 <b>EXPENSES</b>		
Operating Expenses		
Educational and General		
Instruction	311,048	318,151
Research	297,993	295,869
Public service	103,677	102,357
Academic support	189,993	187,051
Student services	52,721	50,803
Institutional support	66,559	90,351
Operation and maintenance of plant	124,109	119,877
Scholarships and fellowships	36,151	50,420
Depreciation	72,443	88,699
Auxiliary enterprises	131,964	133,696
Other operating expenses	258	340
<b>Total Operating Expenses</b>	<b>1,386,916</b>	<b>1,437,614</b>
<b>Operating Income (Loss)</b>	<b>(432,356)</b>	<b>(471,016)</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal appropriations	20,327	23,249
State appropriations	631,828	644,135
Grants	83,060	82,285
Gifts	59,770	45,709
Investment income (losses)	37,974	(28,222)
Net increase (decrease) in the fair market value of investments	39,678	80,976
Interest on capital asset-related debt	(17,144)	(15,356)
Other nonoperating revenues (expenses)	60	(272)
Net Nonoperating Revenues (Expenses)	855,553	832,504
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>423,197</b>	<b>361,488</b>
Capital appropriations	45,506	59,198
Capital grants and gifts	18,872	8,230
Additions to permanent endowments	1	8,059
Total Other Revenues(Expenses)	64,379	75,487
 Increase in Net Assets	<b>487,576</b>	<b>436,975</b>
 <b>NET ASSETS</b>		
Net assets - beginning of year	3,003,349	2,831,821
Net assets - end of year	<b>\$ 3,490,925</b>	<b>\$ 3,268,796</b>

University of Minnesota  
Consolidated Statement of Cash Flows (Excluding Component Units)  
For the Six Months Ended December 31, 2010 and 2009  
Unaudited  
(in thousands)

	FY2011	FY2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 341,645	\$ 326,483
Grants and contracts (federal, state, nongovernmental, other)	396,204	375,224
Auxiliary enterprises	218,624	225,621
Sales and services of educational activities	17,300	73,172
Other operating revenues	29	89
Payments to employees for services	(745,589)	(745,354)
Payments for fringe benefits	(217,796)	(230,613)
Payments to suppliers for goods and services	(400,641)	(427,441)
Payments for scholarships and fellowships	(31,592)	(45,689)
Loans issued to students	(2,135)	(3,548)
Collection of loans to students	5,582	5,333
Net cash used by operating activities	(418,369)	(446,723)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal appropriations	29,582	24,523
State appropriations	181,876	267,606
Grants for other than capital purposes	124,662	105,524
Gifts for other than capital purposes	57,893	38,373
Private gifts for endowment purposes	9	8,059
Other nonoperating revenues, net	(1,289)	(1,420)
Direct lending receipts	159,271	141,705
Direct lending disbursements	(158,010)	(141,039)
Agency transactions	(1,168)	(8,590)
Net cash provided by noncapital financing activities	392,826	434,741
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	41,481	69,359
Capital grants and gifts	15,352	7,192
Proceeds from capital debt	165,947	25,000
Proceeds from sale of capital assets	1,320	2,046
Purchases of capital assets	(104,516)	(148,725)
Principal paid on capital debt	(36,417)	(46,493)
Interest paid on capital debt	(15,879)	(16,880)
Net cash provided (used) by capital and related financing activities	67,288	(108,501)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income, net	42,400	12,840
Proceeds from sales and maturities of investments	344,061	1,414,862
Purchase of investments	(334,981)	(1,505,722)
Net cash used by investing activities	51,480	(78,020)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	93,225	(198,503)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	290,580	326,320
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	\$ 383,805	\$ 127,817
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (432,356)	\$ (471,016)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation expense	72,443	88,699
Changes in assets and liabilities		
Receivables, net	(278,144)	(233,174)
Inventories	122	(132)
Prepaid and other items	(9,715)	(8,543)
Accounts payable	(40,087)	(18,273)
Accrued liabilities	(40,833)	(73,465)
Unearned income	310,201	269,181
Net cash used by operating activities	\$ (418,369)	\$ (446,723)
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Unrealized gains on investments	\$ 30,248	\$ 26,621
Capital assets on account	17,538	24,269
Contribution of capital assets	3,521	500
Capital assets acquired with capital lease	675	-
Amortization of bond discount / premium	366	-

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2010 and 2009 (in thousands)

	University of Minnesota Foundation		Minnesota Medical Foundation		Minnesota Landscape Arboretum Foundation		Minnesota 4-H Foundation		University of Minnesota Physicians		University of Minnesota Alumni Association		University Gateway Corporation	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>Assets</b>														
Cash and cash equivalents	\$412	\$197	\$443	\$332	\$1,034	\$694	\$1,169	\$439	\$27,835	\$21,462	\$838	\$777	\$1,199	\$9,404
Investments, substantially at fair market value	1,486,581	1,341,346	304,207	263,755			6,857	7,033	18,175	16,458	21,845	21,076	30,691	31,534
Investments held for unitrusts, annuity trusts, and gift annuities			10,454	10,381										
Investments designated for endowment					23,850	22,915								
Investments loaned to broker			4,032	9,781										
Investments collateral			2,375	7,896										
Pledges receivable, net	61,636	62,168	106,120	106,156	1,072	759	637	274						
Accounts and other receivables	2,326	2,593	1,542	2,265	3									
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	53,309	45,881	28,558	27,603	198	251	20	22	69,411	55,373	19	40	141	68
Gift annuities	30,881	28,321												
Interest in the net assets of related parties													20,631	18,874
Due from affiliated parties	954	985	784	359			5	9	14,998	18,668	276	271	19,103	10,492
Property and equipment, net			94	628			3	4	3,274	4,906	321	171	984	1,027
Other assets														
Total assets	1,636,099	1,481,491	458,609	429,156	26,157	24,619	8,691	7,781	133,693	116,867	23,388	22,414	72,749	71,399
<b>Liabilities</b>														
Accounts payable and accrued liabilities														
Deferred revenue	7,565	11,692	3,326	3,477	3,459	3,673	63	55	54,411	55,307	421	270	3,787	2,631
Gift annuities payable	17,657	17,096	244	263	571	465					4,189	3,991		
Split-interest agreement liabilities														
Unitrusts, pooled income, and annuity trusts payable	9,881	9,741	6,489	6,738										
Investments held for custody of other	204,950	165,256	1,486	1,568			1,424	1,263						
Payable under investment loan agreement			4,120	10,000										
Notes and bonds payable									13,556				53,189	53,786
Total liabilities	240,053	203,785	15,665	22,046	4,030	4,138	1,487	1,318	67,967	55,307	4,610	4,261	56,976	56,417
<b>Net Assets</b>														
Unrestricted	36,090	36,417	15,203	14,056	861	1,146	292	177	65,726	61,560	18,075	17,482	15,772	14,978
Temporarily restricted	793,686	711,299	230,045	209,995	5,711	3,971	5,159	4,588			522	492	1	4
Permanently restricted	566,270	529,990	197,696	183,059	15,555	15,364	1,753	1,698			181	179		
Total net assets	1,396,046	1,277,706	442,944	407,110	22,127	20,481	7,204	6,463	65,726	61,560	18,778	18,153	15,773	14,982
Total liabilities and net assets	\$1,636,099	\$1,481,491	\$458,609	\$429,156	\$26,157	\$24,619	\$8,691	\$7,781	\$133,693	\$116,867	\$23,388	\$22,414	\$72,749	\$71,399

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	University of Minnesota Foundation			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2011	2010
<b>Revenues</b>					
Contributions	\$138	\$36,640	\$18,710	\$55,488	\$41,584
Investment income, net	662	1,404	1	2,067	2,685
Net realized and unrealized losses on investments	1,168	108,349		109,517	64,334
Change in value of trusts		3,904	1,606	5,510	4,232
Support services revenue	1,661			1,661	1,708
Other revenue	169	678	7	854	3,400
Net assets released from restriction	47,105	(48,284)	1,179	-	(10)
Total revenues	50,903	102,691	21,503	175,097	117,933
<b>Expenses</b>					
Program services					
Distributions for educational purposes	39,280			39,280	34,592
Support services					
Management and general	3,068			3,068	3,644
Fund-raising	6,514			6,514	7,184
Total expenses	48,862	-	-	48,862	45,420
Increase in net assets	2,041	102,691	21,503	126,235	72,513
Net assets at beginning of year	34,049	690,995	544,767	1,269,811	1,205,193
Net assets at December 31	\$36,090	\$793,686	\$566,270	\$1,396,046	\$1,277,706

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	Minnesota Medical Foundation			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2011	2010
<b>Revenues</b>					
Contributions	\$1,382	\$39,410	\$4,442	\$45,234	\$18,138
Investment income, net	910	8,305	24,162	33,377	30,301
Change in value of split-interest agreements		91	1,750	1,841	2,197
Service charges	3,166	(2,196)	(934)	36	39
Receipts from affiliated parties	5,087	(20)		5,067	5,029
Change in donor restrictions		(378)	378	-	-
Transfers		(17)	17	-	-
Spending allocation	6	3,372	(3,378)	-	-
Net assets released from restriction	27,288	(27,288)		-	-
Total revenues	37,839	21,279	26,437	85,555	55,704
<b>Expenses</b>					
Program services					
Research and education grants	20,016			20,016	11,723
Building and equipment grants	5,676			5,676	-
Communications	249			249	279
Student aid and scholarships	961			961	987
Honor and award grants	182			182	152
Alumni and sponsored events	530			530	436
Support services					
Management and general	1,992			1,992	1,934
Fund-raising	3,722			3,722	3,874
Total expenses	33,328	-	-	33,328	19,385
Increase in net assets	4,511	21,279	26,437	52,227	36,319
Net assets at beginning of year	10,692	208,766	171,259	390,717	370,791
Net assets at December 31	\$15,203	\$230,045	\$197,696	\$442,944	\$407,110

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	Minnesota Landscape Arboretum Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2011	Total 2010
<b>Revenues</b>					
Contributions	\$933	\$456	\$129	\$1,518	\$1,262
Membership dues and fees	525			525	465
Investment income, net	(6)	(94)		(100)	(38)
Net realized and unrealized gains (losses) on investmen	139	2,153		2,292	1,468
Change in value of annuity trust			13	13	16
Other revenue	61	585	1	647	195
Net assets released from restriction	1,674	(1,674)		-	-
Total revenues	3,326	1,426	143	4,895	3,368
<b>Expenses</b>					
Program services	3,349			3,349	2,368
Support services					
Management and general	7			7	10
Total expenses	3,356	-	-	3,356	2,378
Increase (decrease) in net assets	(30)	1,426	143	1,539	990
Net assets at beginning of year	891	4,285	15,412	20,588	19,491
Net assets at December 31	\$861	\$5,711	\$15,555	\$22,127	\$20,481

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	Minnesota 4-H Foundation			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2011	2010
<b>Revenues</b>					
Contributions	\$72	\$121	\$52	\$245	\$95
Investment income, net		472	1	473	280
Other revenue	46	1,309		1,355	99
Transfers	22	(22)		-	-
Net assets released from restriction	858	(858)		-	-
Total revenues	998	1,022	53	2,073	474
<b>Expenses</b>					
Program services	788			788	346
Support services					
Management and general	47			47	59
Fund-raising	110			110	123
Total expenses	945	-	-	945	528
Increase (decrease) in net assets	53	1,022	53	1,128	(54)
Net assets at beginning of year	239	4,137	1,700	6,076	6,517
Net assets at December 31	\$292	\$5,159	\$1,753	\$7,204	\$6,463

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

University of Minnesota Physicians		
	Total (Unrestricted)	
	2011	2010
<b>Revenues</b>		
Net patient service revenue	\$86,154	\$96,820
Investment income, net	565	137
Other revenue	92,196	81,910
Total revenues	178,915	178,867
<b>Expenses</b>		
Program services		
Health care services	159,529	159,172
Support services		
Management and general	15,375	15,458
Total expenses	174,904	174,630
Increase in net assets	4,011	4,237
Net assets at beginning of year	61,715	57,323
Net assets at December 31	\$65,726	\$61,560



UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	University of Minnesota Alumni Association			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2011	2010
<b>Revenues</b>					
Contributions	\$73			\$73	\$43
Membership dues and fees	405			405	450
Investment income, net	(94)	(\$3)		(97)	(34)
Change in value of investments	1,633	53		1,686	1,399
Other revenue	891			891	943
Net assets released from restriction	-			-	-
Total revenues	2,908	50	-	2,958	2,801
<b>Expenses</b>					
Program services	1,689			1,689	1,773
Support services					
Management and general	278			278	237
Fund-raising	20			20	39
Total expenses	1,987	-	-	1,987	2,049
Increase in net assets	921	50	-	971	752
Net assets at beginning of year	17,154	472	181	17,807	17,401
Net assets at December 31	\$18,075	\$522	\$181	\$18,778	\$18,153

UNIVERSITY OF MINNESOTA  
 COMPONENT UNITS - STATEMENTS OF ACTIVITIES  
 FOR SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009 (in thousands)

	University Gateway Corporation			
	Unrestricted	Temporarily restricted	2011	Total 2010
<b>Revenues</b>				
Investment income, net	\$1		\$1	\$0
Direct financing lease revenue	1,456		1,456	1,614
Other revenue	1,343		1,343	1,414
Net assets released from restriction	983		983.00	907
Total revenues	3,783	-	3,783	3,935
<b>Expenses</b>				
Program services	2,716		2,716	2,531
Support services				
Management and general	160		160	43
Payment to affiliated parties	421		421	414
Total expenses	3,297	-	3,297	2,988
Increase in net assets	486	-	486	947
Net assets at beginning of year	15,286	1	15,287	14,035
Net assets at December 31	\$15,772	\$1	\$15,773	\$14,982

**University of Minnesota**  
**Operating Expenses by Natural Classification**  
**For the Six months Ended December 31, 2010**  
(Dollars in thousands)

**Schedule IV**

Function	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 284,601	\$ 26,447			\$ 311,048
Research	210,084	87,909			297,993
Public Service	73,744	29,933			103,677
Academic Support	149,399	40,594			189,993
Student Services	42,277	10,444			52,721
Institutional Support	48,676	17,883			66,559
Operations and Maintenance of Plant	52,700	71,409			124,109
Scholarships and Fellowships	3,523	1,275	31,353		36,151
Depreciation				72,443	72,443
Auxiliary Enterprises	46,549	85,415			131,964
Other Operating Expense		258			258
	<u>\$ 911,553</u>	<u>\$ 371,567</u>	<u>\$ 31,353</u>	<u>\$ 72,443</u>	<u>\$ 1,386,916</u>