

The background of the slide features a dark red, semi-transparent overlay of the University of Minnesota seal and architectural details. The seal on the left shows the word 'UNIVERSITY' at the top and 'MINNESOTA' at the bottom, with a central figure holding a bow and arrow. The architecture on the right shows a classical column capital.

Strategic Issues Related to:
*University Plan, Performance,
and Accountability Report*

Finance and Operations Committee
September 8, 2011



UNIVERSITY OF MINNESOTA
Driven to DiscoverSM

Policy Questions:

- **Does the report provide the Committee with adequate and timely information on financial ratios to fulfill its oversight role?**
- **Does the report present the right financial measures to adequately assess the institution's financial condition?**
- **Does the report help identify what the University needs to focus on to maintain its ability to successfully manage its financial operations?**

2011 University Accountability Report:

- 1. The set of financial data and related ratios provides a means to evaluate the financial strength and direction of the institution.**
- 2. Ratios help to analyze the financial solvency and viability of the University and focus on the ability of the institution to meet current and future financial requirements.**
- 3. Moody's Investors Services uses ratios to assist in assigning a debt rating to the University – currently at Aa1, one notch below AAA, the top debt rating assigned by Moodys.**

Public Research University Comparison Group: (Twin Cities Campus)

Ohio State University

University of Illinois

Penn State University

University of Michigan

University of California

University of Texas

University of Florida

University of Washington

University of Wisconsin

In addition to the above, the following universities are considered part of the peer group for Key Financial Ratios with respect to debt analytics:

Purdue University

University of North Carolina-Chapel Hill;

Indiana University

Michigan State University

University Ratios as of June 30:

Ratio	2006	2007	2008	2009	2010	Desired Trend
Total Financial Resources to Direct Debt Measures coverage of direct obligations of the University by all of its resources	4.38	4.92	4.73	3.31	3.49	↑
Expendable Financial Resources to Direct Debt Measures coverage of debt by financial resources that are ultimately expendable	3.18	3.63	3.40	2.19	2.36	↑
Actual Debt Service to Operations Measures the debt service burden on the annual operating budget	2.8%	3.1%	2.6%	2.0%	2.6%	↓
Expendable Financial Resources to Operations Measures coverage of annual operating expenses by financial resources that are ultimately expendable	0.96	1.04	0.92	0.65	0.71	↑
Net Operating Margin (Net Income Ratio) Measures the excess margin by which annual revenues cover operating expenses	1.0%	1.2%	1.4%	(2.9%)	1.9%	↑
Return on Financial Resources Measures the net change in financial resources over the fiscal year	10.7%	14.7%	(2.5%)	(19.1%)	8.4%	↑

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Statistics focusing on the ability of the University to meet financial requirements:

Statistics	
Total Financial Resources	Measures total financial wealth of institution
Expendable Financial Resources	Measures financial resources that are expendable over the long-run
Direct Debt	The amount of the University's direct legal obligations
Actual Debt Service	The sum of principal and interest paid by the University in a fiscal year
Operations	Total operating expenses, plus interest expense less scholarships and fellowships

Results of Operations – is the University increasing its financial resources?

Net Operating Margin	Indicates the excess (or deficit) by which annual operating revenues cover annual operating expenses
Focuses on operations	Large swings in market don't have as big of an impact since computation uses an average of investment income based on cash and investments balances over a three-year period
	Cause for concern if margin is continually negative each fiscal year (expenses are greater than revenues)
Return on Financial Resources	Reflects change in total financial resources over the fiscal year
Includes all financial activity	Bigger tendency to fluctuate from year-to-year since all revenue sources are taken into account
	One-time decrease or a negative % that can be explained is not cause for concern as long as institution can recover