

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Friday, December 14, 2007

9:00 - 11:30 a.m.

600 McNamara Alumni Center, Boardroom

Board Members

Patricia Simmons, Chair
Clyde Allen, Vice Chair
Anthony Baraga
Dallas Bohnsack
Maureen Cisneros
Linda Cohen
John Frobenius
Venora Hung
Steven Hunter
Dean Johnson
David Larson
David Metzen

AGENDA

1. Recognitions - R. Bruininks (p. 3)
 - A. McKnight Presidential Chair
 - B. McKnight Presidential Professorships
2. Approval of Minutes - Action - P. Simmons
3. Report of the President - R. Bruininks
4. Report of the Chair - P. Simmons
5. Receive and File Reports (pp. 4-80)
 - A. Quarterly Report of Grant & Contract Activity
 - B. Annual Financial Report
6. Consent Report - Audit Committee - Review/Action - G. Klatt (pp. 81-82)
7. Gifts - Review/Action - G. Fischer (pp. 83-91)
8. Quarterly Summary of Expenditures - Review/Action - P. Simmons (pp. 92-95)
9. Appointments: Fairview Health Services Board of Trustees - Review/Action - J. Frobenius (p. 96)
10. Amendment to 2008 State Capital Request - Review/Action - R. Bruininks (pp. 97-99)
11. Board of Regents Policy: *Mission Statement* - Review - P. Simmons (pp. 100-102)
12. Report of the Student Representatives to the Board of Regents - M. Keil (pp. 103-113)
13. Annual Report on the Status of University Research - T. Mulcahy (pp. 114-141)
14. Annual Financial Report - R. Pfutzenreuter (pp. 142-147)
15. Report of the Finance & Operations Committee - S. Hunter
16. Report of the Educational Planning & Policy Committee - D. Larson
17. Report of the Facilities Committee - D. Metzen
18. Report of the Audit Committee - L. Cohen
19. Report of the Faculty, Staff & Student Affairs Committee - J. Frobenius

20. Report of the Litigation Review Committee - A. Baraga
21. Old Business
22. New Business
23. Adjournment



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Recognitions: McKnight Presidential Chair and McKnight Presidential Professorships

review review/action action discussion

Presenters: President Robert H. Bruininks

Purpose:

policy background/context oversight strategic positioning

To recognize the following recipients of McKnight Presidential Awards at the University of Minnesota:

Professor Gunda Georg, McKnight Presidential Chair in Medicinal Chemistry
Professor Robert Hecky, McKnight Presidential Professor in Biological Limnology
Professor David Wilkins, McKnight Presidential Professor in American Indian Studies

Outline of Key Points/Policy Issues:

Background Information:

The McKnight Foundation made an extraordinary \$15 million gift to the University of Minnesota to establish new McKnight Presidential Awards. This gift recognizes the critical importance of the University's most distinguished faculty, across all disciplines, as well as the importance of strengthening our faculty for the future. Its purpose is to help the University recruit and retain our very best professors and world-class scholars who bring special distinction to the University of Minnesota.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Receive and File Reports

review review/action action discussion

Presenters: Regent Patricia Simmons

Purpose:

policy background/context oversight strategic positioning

Outline of Key Points/Policy Issues:

Background Information:

There are two reports for receipt and filing:

- A. Quarterly Report of Grant & Contract Activity
- B. Annual Financial Report

UNIVERSITY OF MINNESOTA

Meeting of the Board of Regents



**Quarterly Report of Grant/Contract
and Technology Transfer Activity**

**Fiscal Year 2008;
First Quarter Data, July - September, 2007**

Produced by: Office of the Vice President for Research

Version date: 11/21/07

University of Minnesota

Quarterly Report of Grant/Contract and Technology Transfer Activity

Award Summary

Fiscal Year 2008; First Quarter

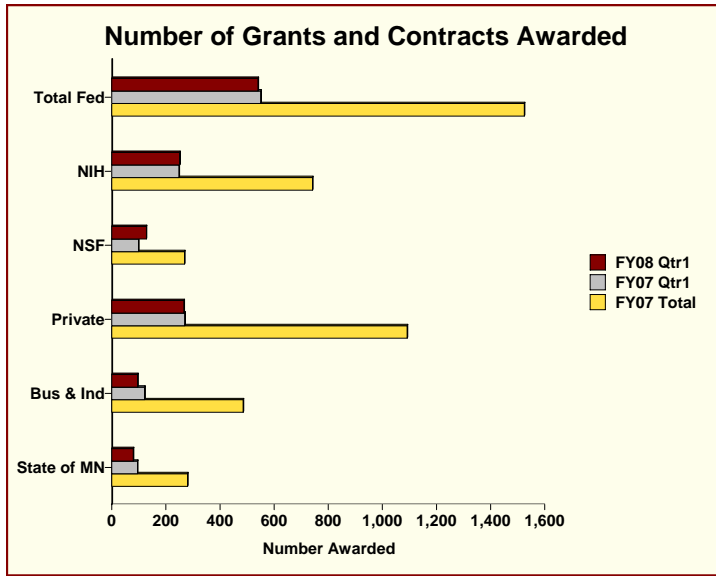


Figure 1: Number of Awards by Source.

First quarter (Qtr1) comparison for Fiscal Year 2008 versus Fiscal Year 2007 and Fiscal Year 2007 total. (For Qtr1 numerical data see attached Table 1).

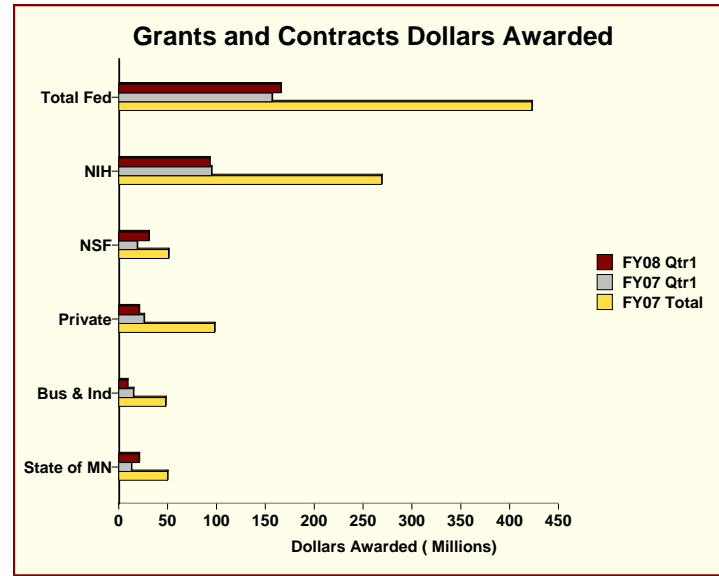


Figure 2: Award Totals by Source.

First quarter (Qtr1) comparison for Fiscal Year 2008 versus Fiscal Year 2007 and Fiscal Year 2007 total. (For Qtr1 numerical data see attached Table 2).

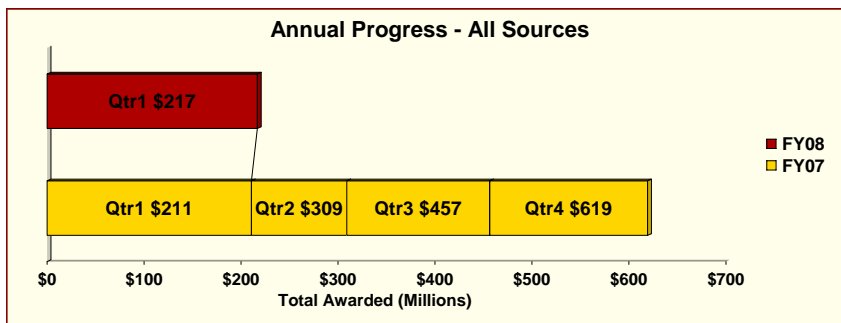


Figure 3: Annual Progress - All Sources.

FY08 Qtr1 awards from all sources increased by 2.9%.

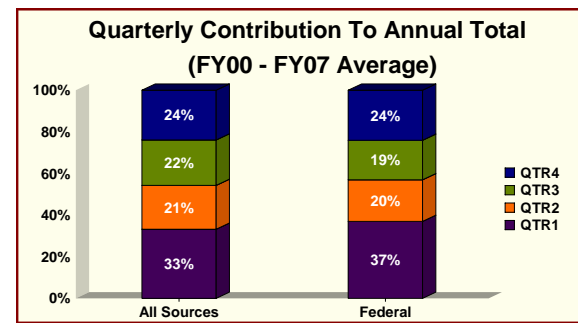


Figure 4: Quarterly contribution as a percent of year-to-end total (FY00-FY07 Average).

On average, over the past 8 years 33% of the yearly total from all sources has been awarded by the end of Qtr1.

University of Minnesota
Quarterly Report of Grant/Contract and Technology Transfer Activity
College Award Summary
Fiscal Year 2008; First Quarter

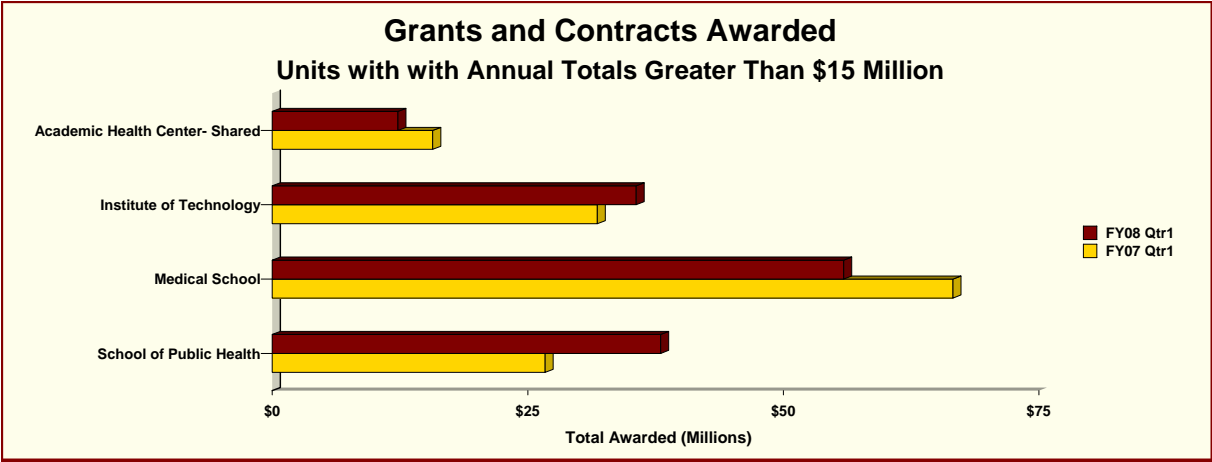


Figure 5.

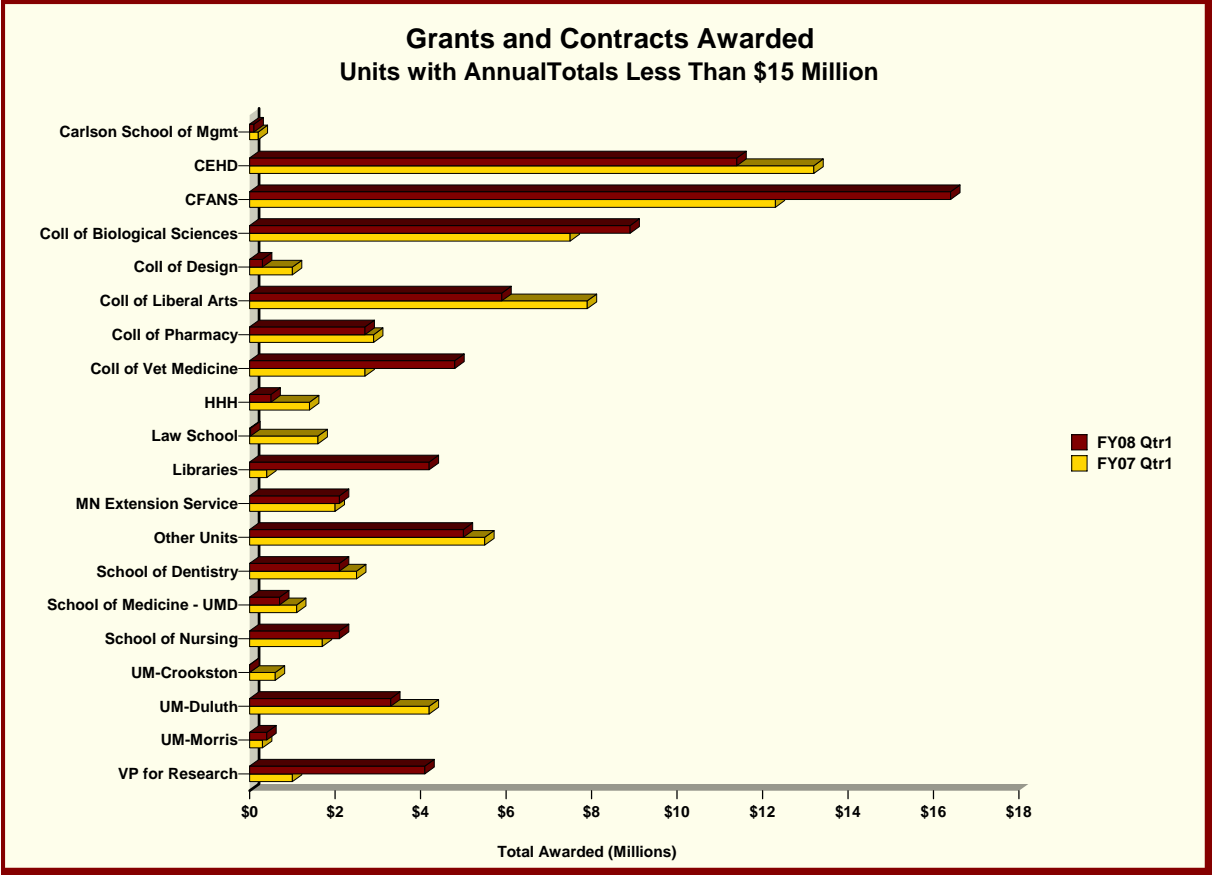


Figure 6.

University of Minnesota
Quarterly Report of Grant/Contract and Technology Transfer Activity
Agency Award Summary
Fiscal Year 2008; First Quarter

Agency	Quarter 1	
	FY07	FY08
<i>Total Fed</i>	551	541
<i>NIH</i>	249	251
<i>NSF</i>	99	128
<i>Private</i>	270	267
<i>Bus & Ind</i>	122	96
<i>State of MN</i>	95	80
TOTAL	1038	984

Qtr1 comparisons.

Agency	Quarter 1		
	FY07	FY08	% Change
<i>Total Fed</i>	\$157	\$166	5.5%
<i>NIH</i>	\$95	\$93	-1.3%
<i>NSF</i>	\$19	\$31	65.5%
<i>Private</i>	\$26	\$21	-19.2%
<i>Bus & Ind</i>	\$15	\$9	-41.0%
<i>State of MN</i>	\$13	\$21	62.5%
TOTAL	\$211	\$217	2.9%

Qtr1 comparisons.

University of Minnesota
Quarterly Report of Grant/Contract and Technology Transfer Activity
Technology Transfer Activity Summary
Fiscal Year 2008; First Quarter

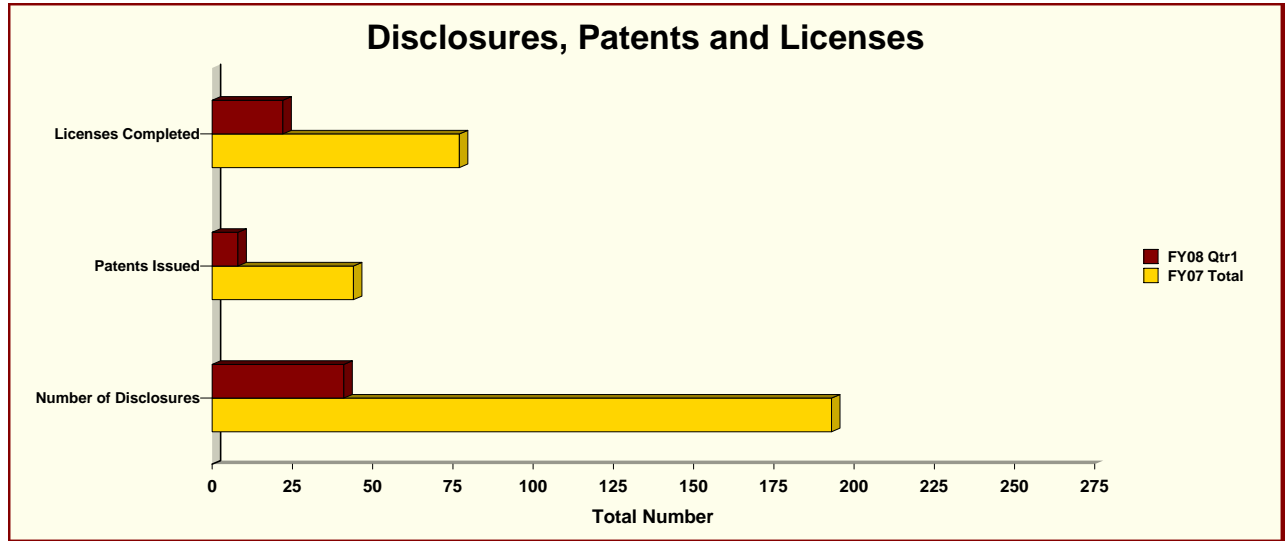


Figure 7: Number of Disclosures Submitted, Patents Issued and License Agreements Completed. Comparison of FY08 Qtr1 to FY07 Total.

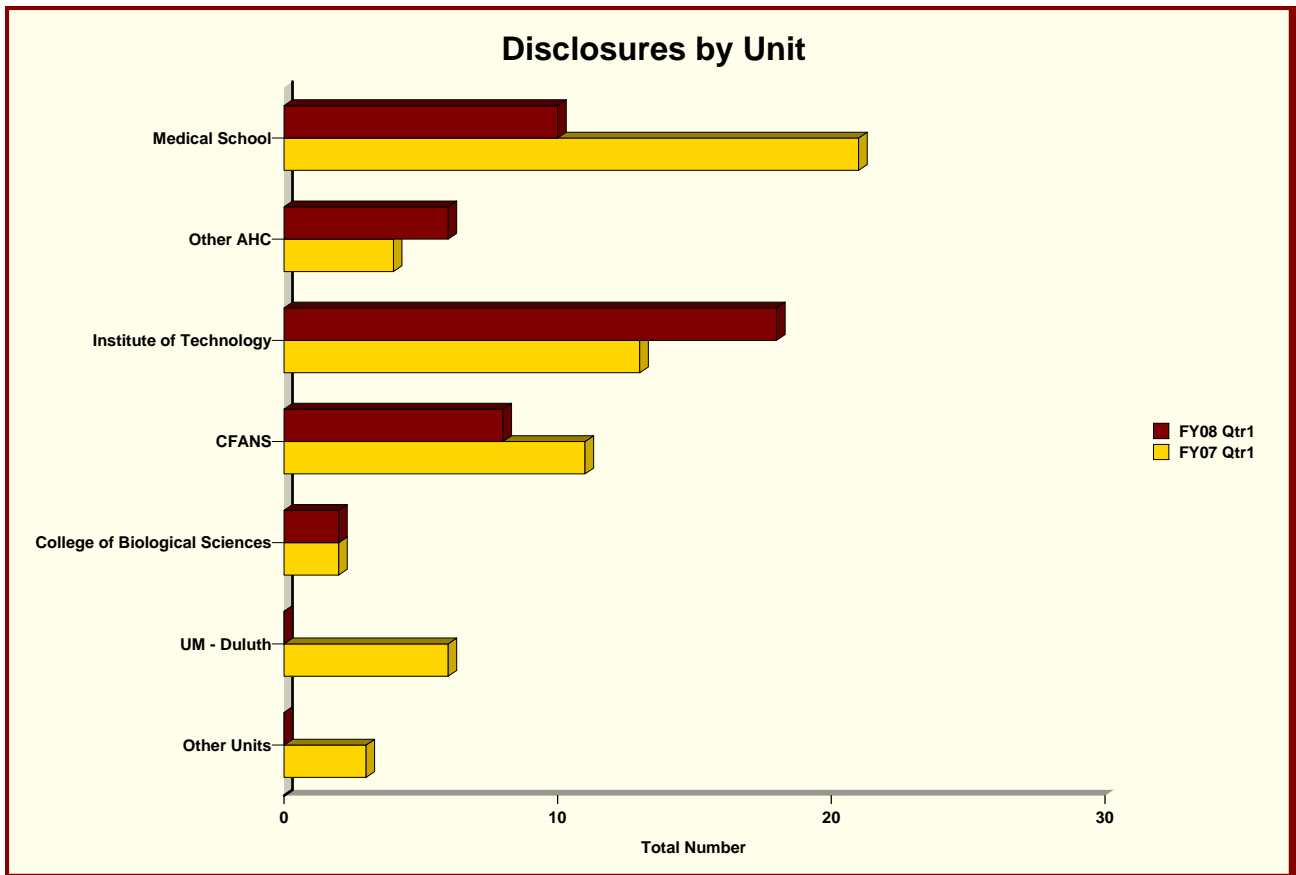


Figure 8: Number of Disclosures to the Office of Technology Commercialization. Comparison of FY08 Qtr1 to FY07 Qtr1.



imagining the U of tomorrow

2007 Annual Report

UNIVERSITY OF MINNESOTA
Driven to Discover



A future without limits

The problem with planning for the future is that, despite our best efforts, it remains largely unknown. All of the great minds who call the University of Minnesota home can't hope to predict state revenues, legislative priorities, or public opinion from year to year. Each year, 65,000 students arrive on our campuses with 65,000 different dreams for tomorrow. Problems evolve and needs shift (sometimes literally with the weather), calling to mind John Lennon's famous adage, "Life is what happens while you are busy making other plans."

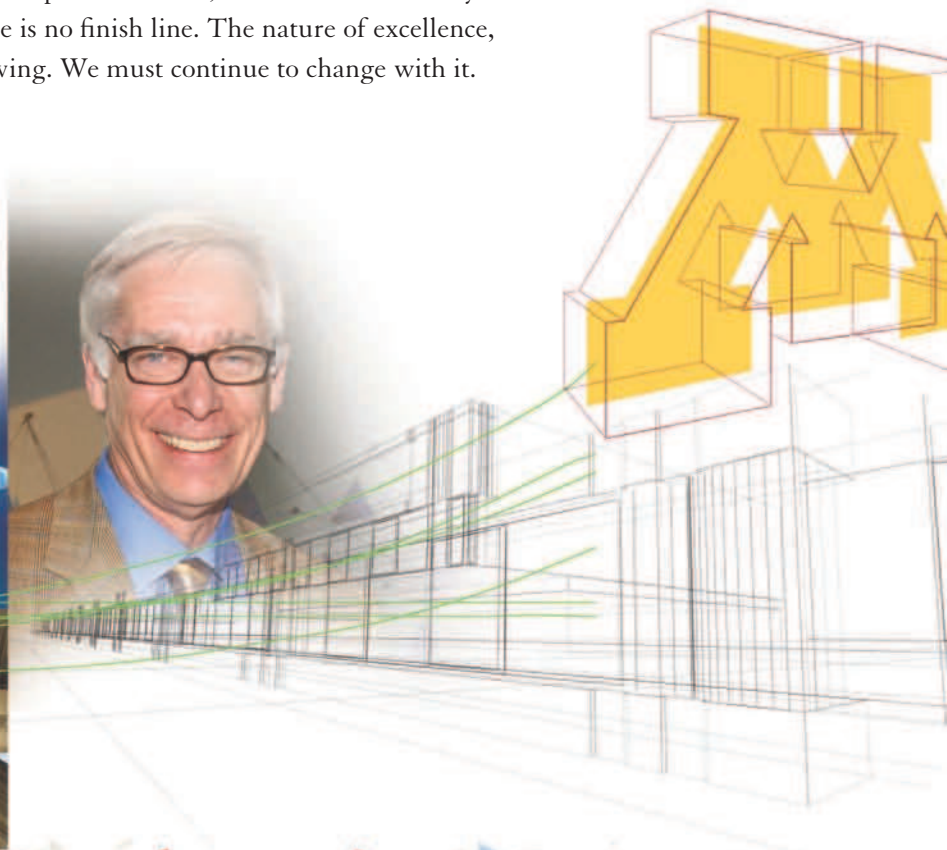
So the notion that an organization as large and complex as the University of Minnesota could agree on a single vision for the future and a strategic plan to achieve it seems far-fetched at best—and yet we've done so. Through a systemwide and inclusive strategic positioning effort built around the University's historic mission of education, research, and public engagement, we've envisioned an institution that is both rooted and responsive; that values students, faculty, and staff equally; that recognizes the critical importance of sound management and stewardship of resources; and that takes strength from the natural interplay of scholarship, teaching, and outreach within and between disciplines.

At the core of this vision is an uncompromising commitment to excellence, alignment, measurement, and continuous reform. This is how you meet an unknown future: with intimate knowledge of your own strengths, limitations, challenges, and opportunities, giving you the malleability to re-form in response to a changing world.

Our goal is straightforward, if ambitious: to be one of the top three public research universities in the world within 10 years. As this report illustrates, we're well on our way—but in truth, we face many challenges, and there is no finish line. The nature of excellence, like our vision for the future, is constantly evolving. We must continue to change with it.



Robert H. Bruininks
President
University of Minnesota



A strategy for change

Almost three years ago, the University of Minnesota crafted a strategic response to the changing landscape of higher education. It made the choice to change the way teaching, learning, research, and public outreach would take place on its campuses. It redesigned six colleges into three, creating more cross-disciplinary academic offerings and initiatives as well as better environments to enhance interdisciplinary research and scholarship. It streamlined financial planning systems, budgeting, and administrative operations. It toughened up its measures of accountability. It launched the Driven to DiscoverSM campaign to demonstrate the many ways in which University knowledge and inventions contribute to solving world problems. And it realigned its research investments with opportunities in areas in which it already excels—to pioneer more discoveries and to better position the University for national and international prominence.

This audacious plan, known as Transforming the U, is a long-term vision. The expressed goal is to become one of the top three public research universities in the world. The end result:

- a distinctive university that emphasizes its own strengths and those of the state of Minnesota to attract the best-prepared and brightest students, faculty, and staff from around the world

- an agile university, with flexible structures, systems, and processes that enable rapid response to new opportunities and changing problems
- an expanding university, with state-of-the-art research facilities and infrastructure that enable it to recruit from peer institutions and the private sector
- an engaged university, fostering strong collaborative relationships with the state, federal funding organizations, industry, and donors, all of whom view the university first and foremost as a resource—and, as such, worth protecting



Foundation for success

Exceptional students

The University is changing the way it structures the undergraduate experience for students, investing \$20.8 million for fiscal year 2007–08 in new efforts to attract and support exceptional students. These investments cover a broad range of initiatives that will enhance student recruiting and leadership opportunities, provide sophisticated technology tools for learning, and globalize the student experience.

To attract the best students and to have one of the most diverse student bodies, the University is introducing the

Continued on page 4

Transforming the learning experience

One alumnus who appreciates how the University is transforming is Mark Lescher, who has earned two bachelor's degrees from the U—psychology in 1997 and architecture in 2004.

"I love the idea of the more aggressive advising," he says. "I was able to avoid having to talk to an adviser except when I chose to. At the time, it helped me feel like an independent adult, but in retrospect, I might have gotten through the U earlier, especially if I'd had more of a 'goal' focus with respect to graduate school."

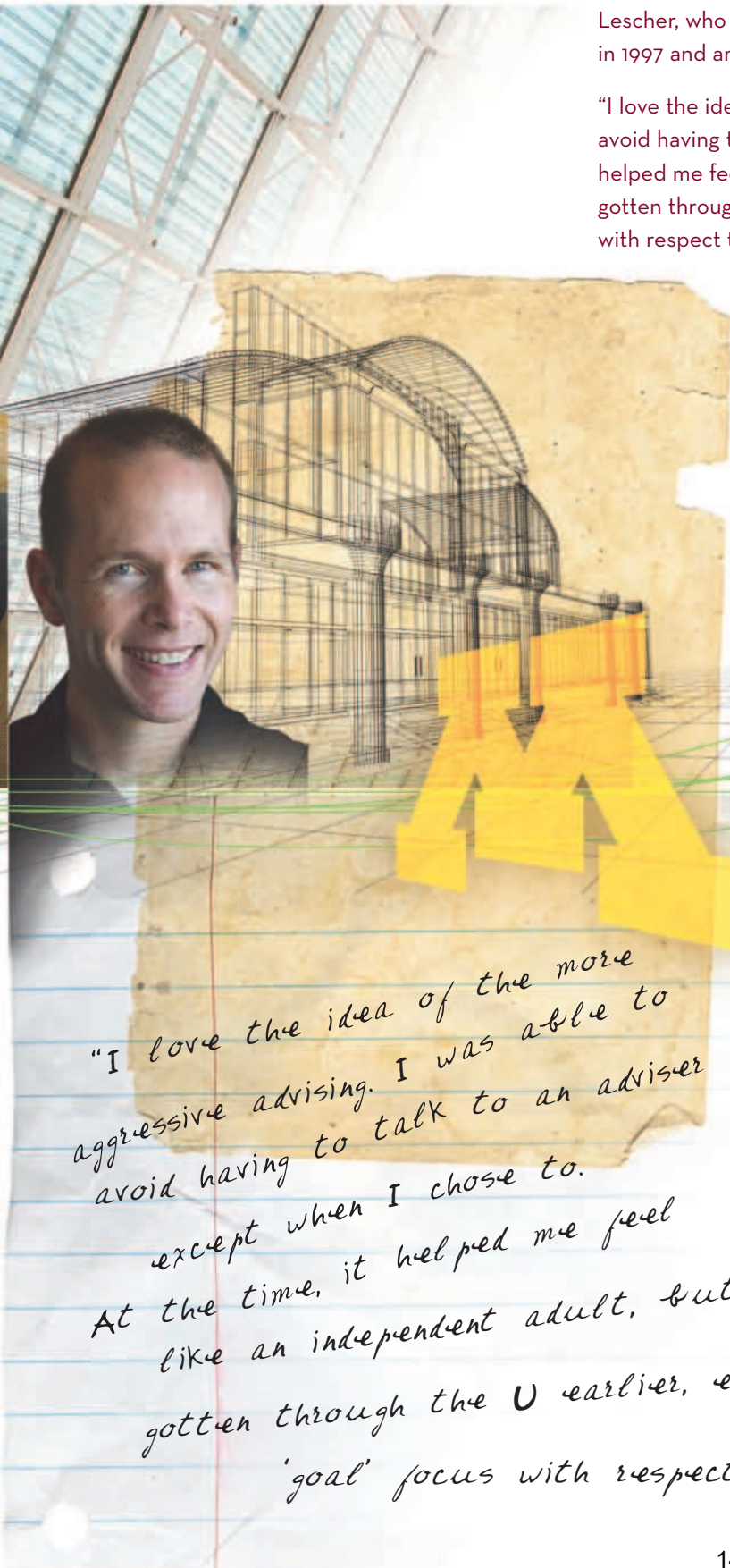
Lescher went on to complete a master's degree in the College of Design in 2007, following his bachelor's degree in architecture.

"Advisers seem more proactive than when I was here before," says Lescher. "While pursuing my second bachelor's degree and my master's degree, faculty advisers were much more invested in my academic performance and my future. They encouraged me to integrate unique opportunities into my graduate school curriculum."

Lescher is now an intern architect, in training to become a licensed architect. He has taken several writing courses on his own and clearly sees the value of the U's new Baccalaureate Writing Initiative, which—among many things—will teach students to vary their writing styles and content for different audiences.

"Writing is the most important aspect of graduate school and also an essential element in nearly every job," says Lescher. "Without sound skills that are honed during the undergraduate experience, writing can become a painstaking process in one's later years or when it matters most."

Today, University of Minnesota students will benefit further from a \$996 thousand Bush Foundation grant, awarded to the University in March, to help make good writing an integral part of every undergraduate experience.



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University Honors Program, which will unify all honors programs on the Twin Cities campus—now housed in individual colleges. One-to-one interactions with faculty will be a hallmark of the new program. The University is also increasing the number of National Merit Scholars through new sponsored merit scholarships, discipline-specific awards, and privately funded scholarships and fellowships for incoming students. And it will continue to offer financial assistance to all incoming students who are Minnesota residents and eligible for Pell grants through its Founders Free Tuition Program.

The University is partnering with school districts, other colleges and universities, community organizations, government agencies, and businesses to help prepare Minnesota elementary and secondary school students to succeed in higher education. It is also helping students to transition to the University through new programs such as Bridge to Academic Excellence and Welcome Week (starting in 2008), which provide academic support and community-building opportunities. As part of a University-wide transition to student-centered learning, the University is developing a robust new Web portal that students can use to register for classes, communicate with

faculty, learn about potential careers, catch up on the latest news, and find journal articles. The Web-based Graduation Planner will allow students to chart their progress toward graduation. In fall 2007, the new Department of Writing Studies on the Twin Cities campus began offering a comprehensive first-year writing program and led the transformation of the University's existing writing-intensive requirement into a pioneering writing-enriched curriculum.

For graduate and professional students, the University is strengthening and expanding academic support services, such as academic advising and mentoring. It is increasing graduate student fellowships. The Office of Interdisciplinary Initiatives has been established to engage graduate students in interdisciplinary inquiry and to help them develop the capacity to work effectively on collaborative teams.

Exceptional faculty and staff

Exceptional faculty and staff are essential to fostering excellence, recruiting and retaining the best and brightest students, attracting research funding, and garnering the attention of other world-class



Ensuring affordable

Students come to the University of Minnesota for many reasons. They're attracted to the University's highly ranked programs. They're drawn to unique research opportunities with top faculty or renowned scientists. And they are enticed by financial help that makes it possible to attend college. Jasmine Omorogbe is one such student.

Omorogbe is a sophomore from north Minneapolis who intends to major in communication studies on the Twin Cities campus. She says that the main reason she picked the University was "because it gave me the most money." She has two scholarships from the U—the Maroon and Gold Leadership Award and the Honors Research Scholars Program Scholarship—in addition to other merit- and need-based financial aid. In 2006, she received about \$25 thousand to help pay the bills.

"Without those scholarships, I wouldn't be able to go to school here," she says. "I think it's very valuable to continue to offer them, especially to minority students, because a lot of people cannot afford college without financial assistance."

In addition to scholarships, Omorogbe will benefit from participating in the new University Honors Program.

Continued on page 7



access

"When I first thought about coming here, I assumed the University would be all white. I was wrong. The University has a lot of growing room as far as diversity, but its scholarships are definitely contributing to more people of color being here. And the University does have good programs to encourage diversity and multiculturalism."

"My parents encouraged me to be in honors just because they know that when I'm pushed, I excel," says Omorogbe. During her freshman year, she lived in honors housing on campus, where she had the chance to meet other equally driven students and "understand that college is more than just books." In fall 2007, through the Honors Research Scholars Program, she's studying the use of hip-hop in musical education with associate professor of music Keitha Hamann.

In the three years since the University's Promise of Tomorrow Scholarship Drive was launched, the U has raised more than \$170 million and has created more than 1,200 new scholarships. More than 6,700 students systemwide currently receive scholarships and fellowships funded by private gifts. In 2008-09, at least 4,200 students will receive more than \$20 million in support from University resources through the University of Minnesota Founders Free Tuition Program.

"When I first thought about coming here, I assumed the University would be all white," says Omorogbe. "I was wrong. The University has a lot of growing room as far as diversity, but its scholarships are definitely contributing to more people of color being here. And the University does have good programs to encourage diversity and multiculturalism. I'm sure, as these programs grow and more are introduced, that campus diversity will get better."

No man is an island. This phrase coined by an English poet in 1624 rings true in the 21st century as the University strives to become one of the top three public research universities in the world.

"We're operating in a world in which important and path-breaking ideas are being produced in different corners of the world," says professor Allen Isaacman, assistant vice president for international scholarship, who also directs the U's Interdisciplinary Center for the Study of Global Change.

"The critical intellectual and policy issues of the day defy simple formulations and simple answers," says Isaacman. "We have to bring together scholars and policy makers from diverse backgrounds, theoretical perspectives, and disciplinary training to address these issues. No one discipline is capable of resolving our complex problems."

Interdisciplinarity is not new at the University of Minnesota, just as international research and education aren't, either. But today, "we are saying that being interdisciplinary—like being global and diverse—is fundamental to research and teaching in the 21st century," says Isaacman. In addition to developing new interdisciplinary research circles and deeper partnerships with institutions around the world, the University is bent on training young generations of scholars to think outside their disciplines or to at least be aware of research in other disciplines.

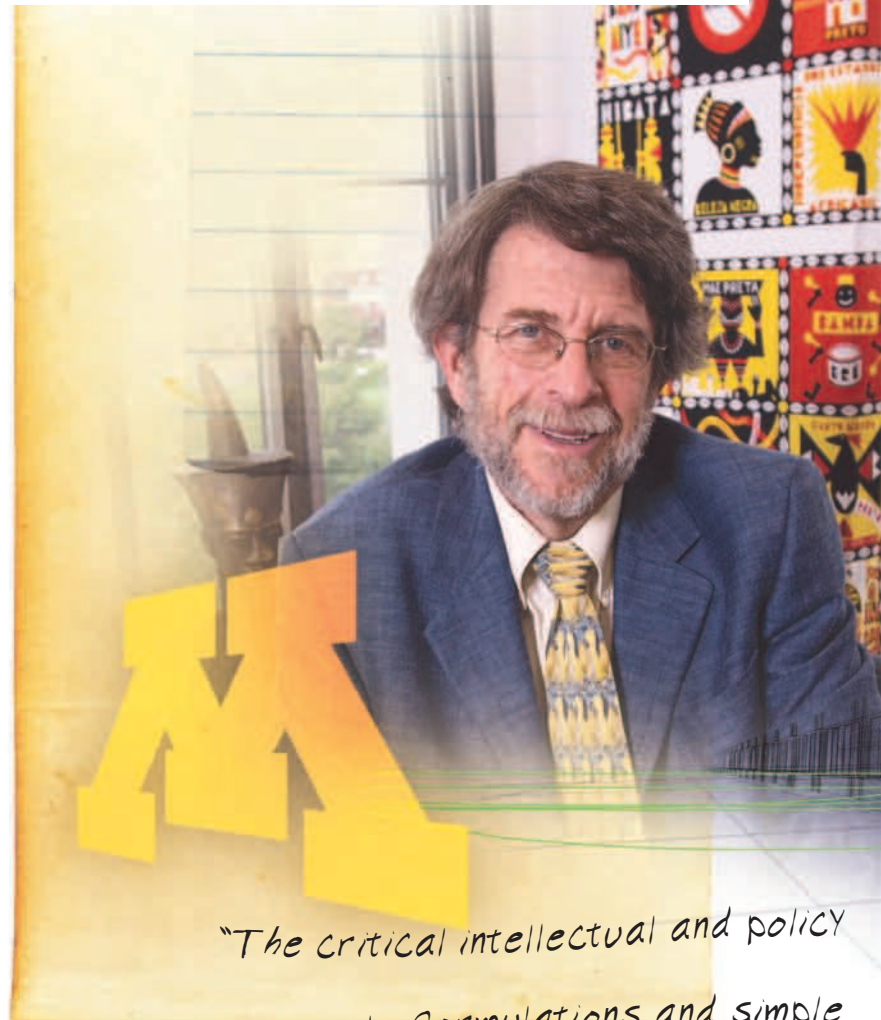
"There are many important ideas being produced across the globe," says Isaacman, a regents professor who specializes in African history. "If our faculty and our students are not aware of them and engaged in the debates and discussions, we are intellectually impoverished."

A decade from now, Isaacman says "we'll be thinking in new and more interesting ways about who would produce research, for whom, and toward what ends.

"Our partners will not only be on campus but from all over the world, and we will draw on their wisdom and insights both as scholars and teachers. A lot of the education will be distance learning, virtual, and electronic. Our campuses will also have many more international students and scholars, as well as a more diverse body of students of our own citizenry.

"The University is definitely on its way to becoming much more global, much more expansive, and much more exciting."

Becoming international and interdisciplinary



*"The critical intellectual and policy
defy simple formulations and simple
scholars and policy makers from diverse
and disciplinary training to*

scholars. Nearly 1,000 new faculty members will be hired in the next five to seven years due to retirement and other turnover. The University wants to compete for and support the best and brightest faculty available.

To entice potential faculty from around the world, the University has strengthened and improved its promotion and tenure policies, standards, and procedures. It launched the “Wish You Were Here” Web site and brochure touting the benefits of living and working in the Twin Cities. The University also identified potential matching funds for as many as 25 new chairs or professorships, which already increased from 17 in 1985 to 386 in 2005. For staff, the University strengthened the President’s Emerging Leaders Program and established the Transformational Leadership Program to marshal existing talent to lead strategic change.

In 2007–08, the University will invest \$32.5 million in its faculty and staff, advancing several objectives, including the recruitment, support, and reward of stars on the rise; the hiring of diverse faculty and staff into positions that match their skills and abilities with the University’s

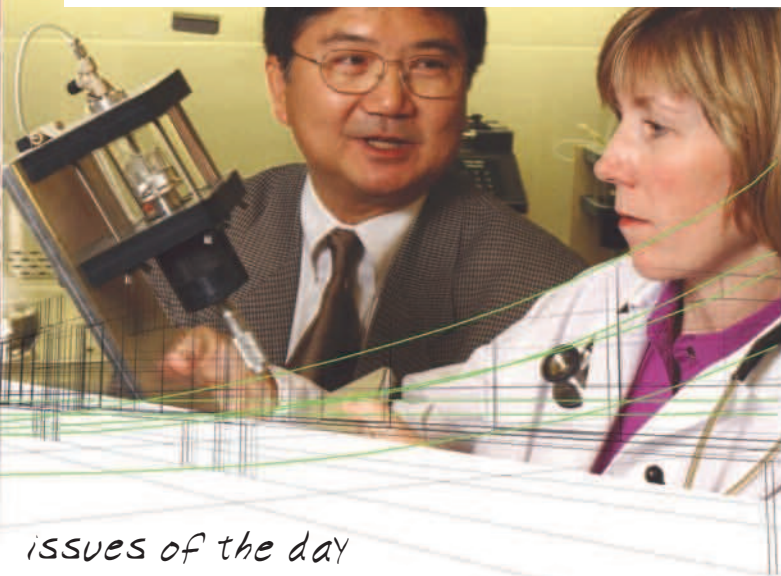
needs; and the strengthening of performance evaluation and reward systems. In addition, the University will provide new mentoring and support systems, including orientation programs for faculty, new training programs and enrichment opportunities, and new interdisciplinary institutes and centers to enhance faculty interaction. A new Office of Collaborative Research Services will provide additional administrative support for developing large interdisciplinary research proposals.

Exceptional organization

The University of Minnesota has a reputation for high quality education, research, and public service. It should also be known for exceptional stewardship of public resources and high quality management. In 2007–08, the University will invest \$20.7 million toward a new model of administrative support—one that defines the roles, responsibilities, and accountability of academic and administrative units; maximizes value; improves quality and efficiency; and responds more quickly to changing needs and dynamic external forces.

To consolidate resources and improve service, the University has embarked on a comprehensive review of its administrative policies as well as its master plan and capital-planning process. Work is also under way to replace the existing financial system.

Shared-service models, single-enterprise solutions, and new planning processes will align with strategic positioning. In the past year, notable improvements have been made in managing facilities and improving campus service to students, faculty, and staff. Technological advancements, including several initiatives in University Libraries, have earned the University a reputation as a leader in higher education. Likewise, the University is developing an international reputation for innovation in



issues of the day

answers. We have to bring together backgrounds, theoretical perspectives,

address these issues.”



sustainability and environmental improvements. To keep Minnesota at the forefront of biomedical research and innovation, the University will continue to explore funding alternatives to enable the construction of much-needed facilities. And in the coming months, the University will roll out a number of initiatives that will not only infuse equity and diversity into its teaching, learning, research, and service, but position the University as a national model on issues related to underrepresented groups and cultures.

Exceptional innovation

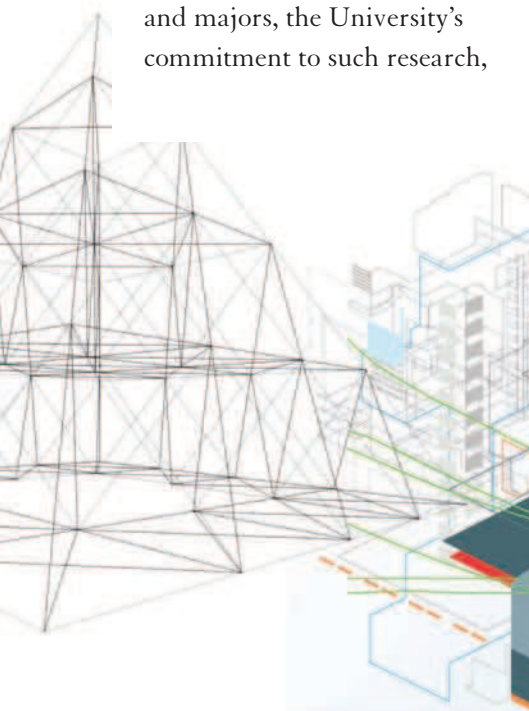
One way to maintain excellence is to invest in traditional academic strengths. The other is to cultivate new programs that cross disciplinary boundaries. The University is doing both.

With more than 350 interdisciplinary programs, centers, and majors, the University's commitment to such research,

education, and outreach is not new. Many of these activities have developed in departments and disciplines of distinction. One new initiative, the Institute on the Environment, recently received a contract from the Legislative-Citizen Commission on Minnesota Resources to develop a comprehensive conservation and preservation plan for the entire state of Minnesota. The Center for Excellence for Influenza Research and Surveillance, awarded \$22.5 million over seven years from the National Institute of Allergy and Infectious Disease, will use the University's strengths in veterinary medicine, public health, and super-computing to study avian influenza and create public strategies for controlling an influenza pandemic. The Healthy Foods, Healthy Lives Institute, another example, will help bring the University's expertise in agriculture, nutrition, medicine, public health, exercise science, and veterinary medicine under one roof. The University of Minnesota is one of only a few universities in the United States with such a diversity of programs.

In 2007–08, the University will invest \$33.6 million more in interdisciplinary endeavors. Funding will help to expand the newly formed Medical Devices Center and the Institute for

Translational Neuroscience. It will also support the University Northside Partnership—an urban renewal effort with multiple metro partners—and the Consortium on Fostering Interdisciplinary Inquiry—a group of research universities, led by the University of Minnesota, that will examine the best ways to encourage greater collaboration across the disciplines. In these and so many other endeavors, the University strives to leverage its academic, research, and community partnerships and alliances to provide leadership on a local, statewide, national, and international scale. That's putting innovation and expertise to work for the world.



Energy conservation is not a fad at the University of Minnesota. It's a way of life.

"Our energy conservation efforts are only going to grow," says Mary Santori, associate director of energy efficiency. "There is certainly an advantage economically to saving energy, but from an environmental stewardship point of view, it's the right thing to do."

Since 1994, the University has reduced its energy use—measured in BTUs, or British Thermal Units, per square foot—by more than 25 percent and, as a result, avoided costs of approximately \$2.3 million per year. In addition to installing new energy-efficient equipment, like occupancy sensors, the University is retrofitting existing equipment, using central systems (instead of having one system per building), and partnering in conservation campaigns with sustainability classes and student-interest groups. Recently, the University introduced group relamping (changing light bulbs building by building instead of bulb by bulb and standardizing the type of bulb) on the Twin Cities campus that will save more than \$1.5 million in energy and labor savings over the next five years. The

relamping initiative also creates a better student and faculty experience by offering consistent brightness and far fewer burnouts.

"We have a two-phased approach in looking at campus buildings," says Santori. "First, we make sure everything is operating as it should, then we say, 'Okay, how can we make it more efficient?'"

The University's energy conservation program is housed in Facilities Management, which oversees everything from land care to building maintenance. As the University transforms itself into one of the best in the world, Facilities Management is changing. It's becoming more customer-focused in its approach, and its structure will feature cross-functional teams that build strong relationships with the academic units they serve.

"The idea is to go from good to great," says Santori. "One of our goals is to be green and cost-effective. A great example is our use of oat hulls—currently, we use a mix of oat hulls and coal in our steam plant. We're looking for ways to increase the use of renewable resources. The University is doing a lot of research on various aspects of sustainability, and we may have opportunities to test some of the innovations. Energy conservation is now on everyone's radar screen, as it should be, so it's a great time to encourage behavior changes. Everyone can find ways they can save energy—in their cubicle, in their dorm room, when they're leaving the classroom, and at home. People need to start asking themselves, 'What can I do to save energy?'"

Adopting best—and greener—practices



"We're looking for ways to increase the use of renewable resources. The University is doing a lot of research on various aspects of sustainability, and we may have opportunities to test some of the innovations."

Moving forward

The substantial changes that have taken root at the University are only the beginning. In the years to come, the University will continue to set aggressive goals in areas that will help to transform it into a global leader and innovator. And it will continue to document evidence of quality and value, measuring all that it does and wants to accomplish against the four pillars of its strategic positioning plan: exceptional students, exceptional faculty and staff, exceptional organization, and exceptional innovation.

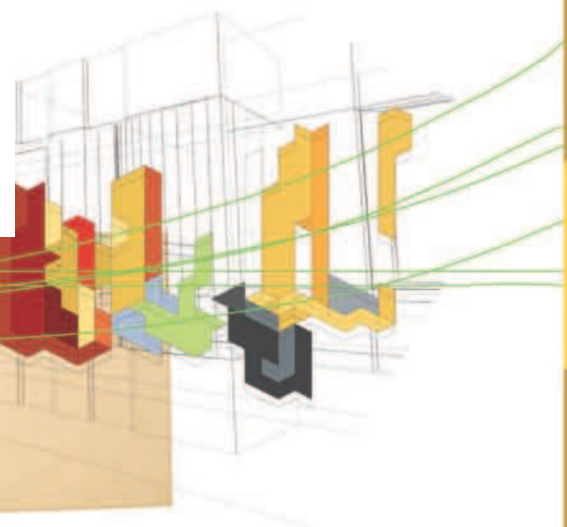
As Minnesota's only land-grant university and its only comprehensive research university system, the University of Minnesota is responsible not only for the education of the state's citizens but also for discoveries that become new ideas, new products, and new services that improve Minnesota's quality of

life. More than 7,000 University alumni have founded roughly 10,000 companies employing a half million Minnesotans throughout every county in the state, and about 1,150 University alumni own patents—eight of whom have more than 200 to their name.

In addition to more than 30 regional extension offices and research-and-outreach centers, the University of Minnesota reaches citizens of the state through four coordinate campuses. The Crookston campus is the most important and visible presence in the northwest region. Its graduates are recognized for superior technology and communication skills thanks to experiential learning opportunities that are embedded in the curriculum. The Duluth campus, which has a Sea Grant designation and special emphasis on American Indian education, provides innovative solutions to issues challenging the future of northeastern Minnesota. As a leader in environmental and sustainability issues, the Morris

campus offers innovative solutions to the economic, demographic, and energy challenges of the west central region. The Rochester campus focuses on the needs of southeastern Minnesota, offering programs in health sciences, technology, and related fields through partnerships with local companies such as the Mayo Clinic and IBM.

Transforming the University is about building a culture that is continuously committed to quality and improvement. It's about continuing to serve the people of Minnesota more effectively and efficiently. It's about securing the University's future. It's about imagining a University of Minnesota that is constantly evolving and striving for excellence.



Financial Report

- 12 Management's Discussion and Analysis (Unaudited)
- 24 Independent Auditors' Report
- 25 **Consolidated Financial Statements**
as of and for the years ended June 30, 2007 and 2006
 - 25 Consolidated Statements of Net Assets
(Excluding Component Units)
 - 26 Component Units—Statements of Financial Position
 - 28 Consolidated Statements of Revenues, Expenses, and
Changes in Net Assets (Excluding Component Units)
 - 29 Component Units—Statements of Activities
 - 36 Consolidated Statements of Cash Flows (Excluding
Component Units)



Introduction

This discussion and analysis of the University of Minnesota's (University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2007, 2006, and 2005. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

The University of Minnesota is both the state's land-grant university, with a strong tradition of education and public service, and a major research institution, with faculty of national and international reputation. Its statutory mission is to offer undergraduate, graduate, and professional instruction through the doctoral degree, and to be the primary state-supported academic institution for research and extension services.

The University of Minnesota, founded in 1851, has five campuses (Twin Cities, Duluth, Morris, Crookston, Rochester), research and outreach centers, and extension service offices throughout the state.

The Twin Cities campus is the fourth largest campus in the country in terms of enrollment (approximately 50,400 students) and among the top six public research institutions in the country. The University is the state's major research institution with expenditures of approximately \$511.1 million, \$478.8 million, and \$464.9 million in fiscal years 2007, 2006, and 2005, respectively, for research under various programs funded by governmental and private sources.

The Duluth campus is a comprehensive regional university that offers instruction through the master's degree and has unique research strengths in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities.

The Morris campus is ranked as one of the top public liberal arts colleges in the nation and is a leader in environmental issues.

The Crookston campus provides career-oriented education at the baccalaureate level, primarily in polytechnical disciplines.

The Rochester campus is focused on meeting the educational needs of students in the southeastern Minnesota area at the upper division undergraduate and postbaccalaureate levels.

Mission

The University of Minnesota's mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service.

- **Research and Discovery**—To generate and preserve knowledge, understanding, and creativity by conducting high quality research, scholarship, and artistic activity that benefit students, scholars, and communities across the state, the nation, and the world.
- **Teaching and Learning**—To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and prepare graduate, professional, and undergraduate students, as well as non-degree-seeking students interested in continuing education and lifelong learning, for active roles in a multiracial and multicultural world.
- **Outreach and Public Service**—To extend, apply, and exchange knowledge between the University and society by applying scholarly expertise to community problems, by helping organizations and individuals respond to their changing environments, and by making the knowledge and resources created and preserved at the University accessible to the citizens of the state, the nation, and the world.

Operations

The University of Minnesota conducts its mission activities at its campuses and other facilities throughout the state. Each year, the University of Minnesota

- provides instruction for more than 65,800 students;
- graduates approximately 13,300 students, 42 percent with graduate or first professional degrees on the Twin Cities campus;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal agencies, and numerous private companies and foundations;
- reaches out to more than 1 million Minnesotans through various outreach and public service activities.



Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The consolidated financial statements required under these reporting standards include the Consolidated Statements of Net Assets; the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets; and the Consolidated Statements of Cash Flows. All are reported on a consolidated basis for the University as a whole. Also required are the financial results of the University's legally separate component units.

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the consolidated financial position of the University at the end of the fiscal year, under a classified balance sheet format that reflects current and noncurrent assets and liabilities, and report net assets under the following three separate classifications:

- **Unrestricted**—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the institution and include resources that may be designated for specific purposes as determined by management, financial, or Board of Regents policies.
- **Restricted, which is divided into two categories—expendable and nonexpendable**—Expendable assets are available for expenditure by the institution, but only in accordance with restrictions placed on their use by donors and other external entities. Nonexpendable assets are also externally restricted, but are required to be retained in perpetuity, including the University's true endowments and institutional contributions to refundable loan programs.
- **Invested in capital assets, net of related debt**—This category includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

Figure 1
The University's consolidated assets, liabilities, and net assets as of June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007		From 2005 to 2006	
	Amount	Percent	Amount	Percent	Amount	Percent	
Assets							
Current assets	\$ 546,207	\$ 564,780	\$ 543,582	\$ (18,573)	(3.3%)	\$ 21,198	3.9%
Other noncurrent assets	1,905,337	1,451,029	1,360,331	454,308	31.3%	90,698	6.7%
Capital assets, net	2,060,646	1,906,363	1,911,321	154,283	8.1%	(4,958)	(0.3%)
Total assets	4,512,190	3,922,172	3,815,234	590,018	15.0%	106,938	2.8%
Liabilities							
Current liabilities	519,270	437,705	423,290	81,565	18.6%	14,415	3.4%
Noncurrent liabilities	89,615	90,142	98,889	(527)	(0.6%)	(8,747)	(8.8%)
Long-term debt	796,200	632,947	666,951	163,253	25.8%	(34,004)	(5.1%)
Total liabilities	1,405,085	1,160,794	1,189,130	244,291	21.0%	(28,336)	(2.4%)
Net assets							
Unrestricted	338,124	370,136	364,387	(32,012)	(8.6%)	5,749	1.6%
Restricted—expendable	1,116,515	899,892	807,257	216,623	24.1%	92,635	11.5%
Restricted—nonexpendable	222,847	216,454	206,647	6,393	3.0%	9,807	4.7%
Invested in capital assets, net of related debt	1,429,619	1,274,896	1,247,813	154,723	12.1%	27,083	2.2%
Total net assets	3,107,105	2,761,378	2,626,104	345,727	12.5%	135,274	5.2%
Total net assets and liabilities	\$4,512,190	\$3,922,172	\$3,815,234	\$590,018	15.0%	\$106,938	2.8%

Management's Discussion and Analysis
(Unaudited)

Current assets consist primarily of cash and cash equivalents, securities lending collateral, and net receivables. The change in current assets over the two fiscal years was due primarily to a combination of changes in receivable balances and cash and cash equivalents balances. The most significant impact to the increase in the receivable balance from 2006 to 2007 (shown in Figure 2) was the result of an increase in capital appropriations due to a number of new building projects. An increase in state appropriations for

operations and maintenance also added to the increase in receivable balances as of June 30, 2007.

Noncurrent assets (excluding capital) consisted mainly of long-term endowment and other investments, which included increases from net unrealized and realized gains on the endowment and other investments of \$182.9 million and \$83.2 million; reinvested endowment earnings; and a decrease of \$32.7 million and \$30.5 million for fiscal years 2007 and 2006, respectively, related to the annual

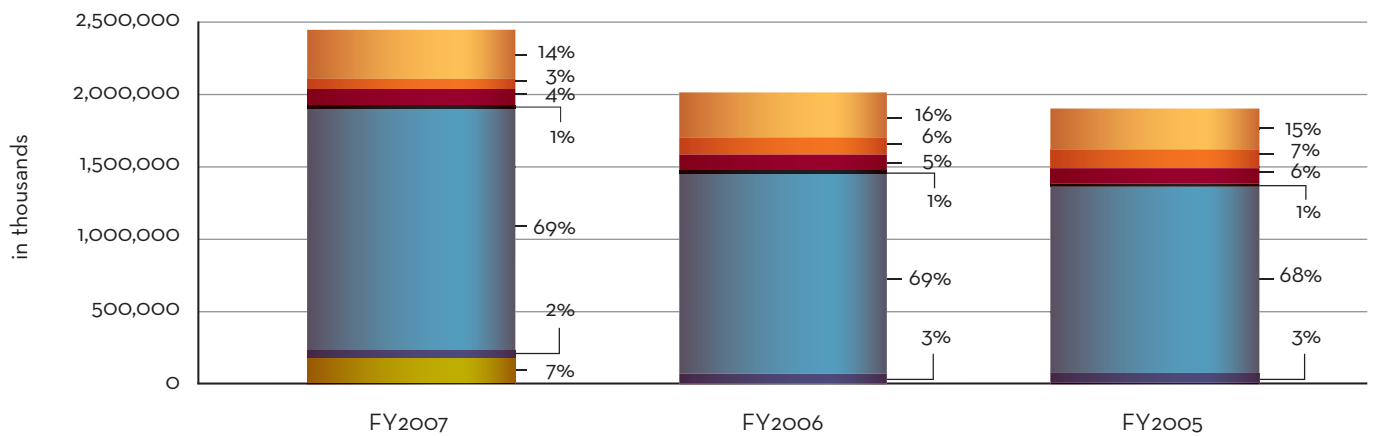


Figure 2
The University's current and noncurrent assets (excluding capital) as of June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007		From 2005 to 2006	
				Amount	Percent	Amount	Percent
Current assets							
Receivables, net	\$ 341,788	\$ 312,498	\$ 283,887	\$ 29,290	9.4%	\$ 28,611	10.1%
Cash and cash equivalents	70,089	119,783	130,648	(49,694)	(41.5%)	(10,865)	(8.3%)
Securities lending collateral and investments	112,522	110,483	106,528	2,039	1.8%	3,955	3.7%
Other assets	21,808	22,016	22,519	(208)	(0.9%)	(503)	(2.2%)
Total current assets	546,207	564,780	543,582	(18,573)	(3.3%)	21,198	3.9%
Noncurrent assets							
Investments	1,680,013	1,390,404	1,294,165	289,609	20.8%	96,239	7.4%
Receivables, net	58,091	56,646	58,948	1,445	2.6%	(2,302)	(3.9%)
Cash and cash equivalents and other assets	167,233	3,970*	7,218*	163,254	4102.9%	(3,239)	(44.9%)
Total noncurrent assets	1,905,337	1,451,029	1,360,331	454,308	31.3%	90,698	6.7%
Total assets (excluding capital)	\$2,451,544	\$2,015,809	\$1,903,913	\$435,735	21.6%	\$111,896	5.9%

* Total is less than 1 percent—not included on the graph.



distribution to departments. The Board of Regents policy allows for up to 30 percent of the Temporary Investment Pool (TIP) and up to 50 percent of the Group Income Pool (GIP) to be invested in the Consolidated Endowment Fund (CEF). As of June 30, 2007, TIP's investment in CEF had a market value of \$107.1 million. In June 2007, GIP made an initial investment of \$20.0 million in CEF. Noncurrent receivables consist of student loan receivables scheduled for collection beyond the current year reported. Cash and cash equivalents and other noncurrent assets

consist of prepaid expenses and deferred charges in addition to unspent bond proceeds. Bond proceeds of \$148.0 million, which includes a premium, are earmarked for the TCF Stadium project.

The University's non-debt-related liabilities (shown in Figure 3) were 43 and 45 percent of total liabilities, or \$608.9 million and \$527.8 million, as of June 30, 2007 and 2006, respectively. Non-debt-related liabilities consist of accounts payable, securities lending collateral, accrued liabilities, and unearned income.

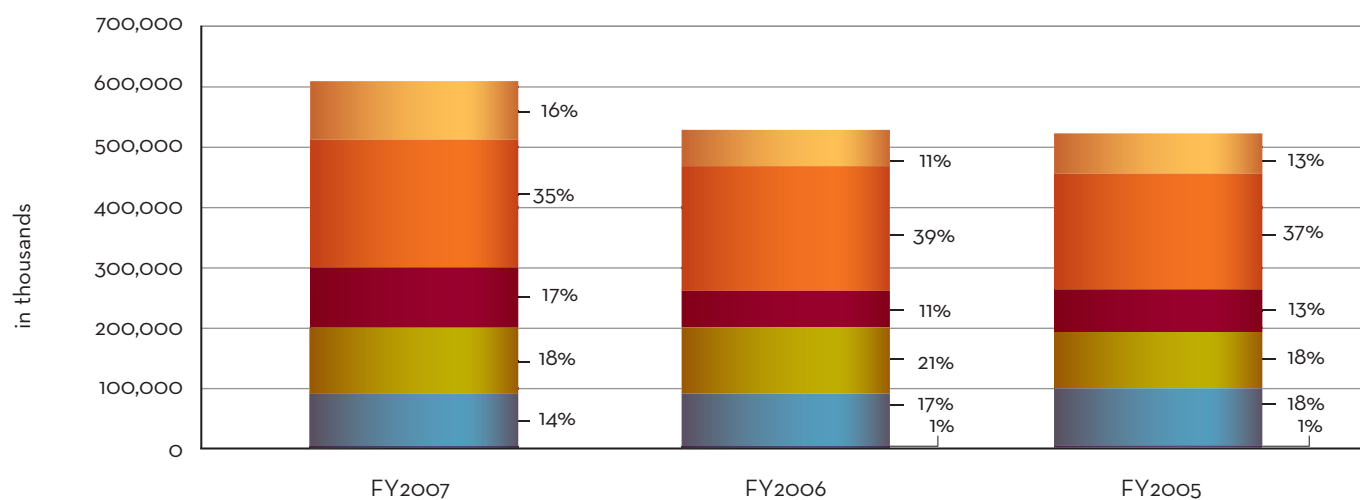


Figure 3
The University's non-debt-related current and noncurrent liabilities as of June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007 Amount	Percent	From 2005 to 2006 Amount	Percent
Current liabilities							
Accounts payable	\$ 97,129	\$ 60,132	\$ 66,774	\$36,997	61.5%	\$ (6,642)	(9.9%)
Accrued liabilities and other	212,036	207,040	192,244	4,996	2.4%	14,796	7.7%
Securities lending collateral	100,300	60,803	70,879	39,497	65.0%	(10,076)	(14.2%)
Unearned income	109,805	109,730	93,393	75	0.1%	16,337	17.5%
Total current liabilities	519,270	437,705	423,290	81,565	18.6%	14,415	3.4%
Noncurrent liabilities							
Accrued liabilities and other	87,829	87,152	94,695	677	0.8%	(7,543)	(8.0%)
Unearned income	1,786*	2,990	4,194	(1,204)	(40.3%)	(1,204)	(28.7%)
Total noncurrent liabilities	89,615	90,142	98,889	(527)	(0.6%)	(8,747)	(8.8%)
Total non-debt-related liabilities	\$608,885	\$527,847	\$522,179	\$81,038	15.4%	\$ 5,668	1.1%

* Total is less than 1 percent—not included on the graph.

The increase in accounts payable was due to higher spending for a number of construction projects taking place in the fiscal year ending June 30, 2007.

Current unearned income consisted of revenue related to summer session tuition and fees deferred to the following fiscal year, funds received in advance of expenditures on sponsored accounts, and deferred revenue related to contracts with outside corporations. Current accrued liabilities and other consisted primarily of compensation and benefit accruals and the University's self-insurance reserves. The increase was primarily due to higher payroll accruals that resulted from a salary increase between years.

The University had loaned securities as of June 30, 2007, 2006, and 2005. They were supported by collateral of approximately \$100.3 million, \$60.8 million, and \$70.9 million, which is included as securities lending collateral in the consolidated statements of net assets as of June 30, 2007, 2006, and 2005, respectively. Of this collateral amount, approximately \$92.9 million, \$58.2 million, and \$68.8 million was cash and approximately \$7.4 million, \$2.6 million, and \$2.1 million was acceptable noncash collateral as of June 30, 2007, 2006, and 2005, respectively.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses, and Changes in Net Assets present the institution's operating, nonoperating, and capital- and endowment-related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations, under GASB Statement No. 34, are considered nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received.

One of the University's strengths is a diversified revenue base, including student tuition and fees, grants and contracts, sales by auxiliary and educational units, and state appropriations.

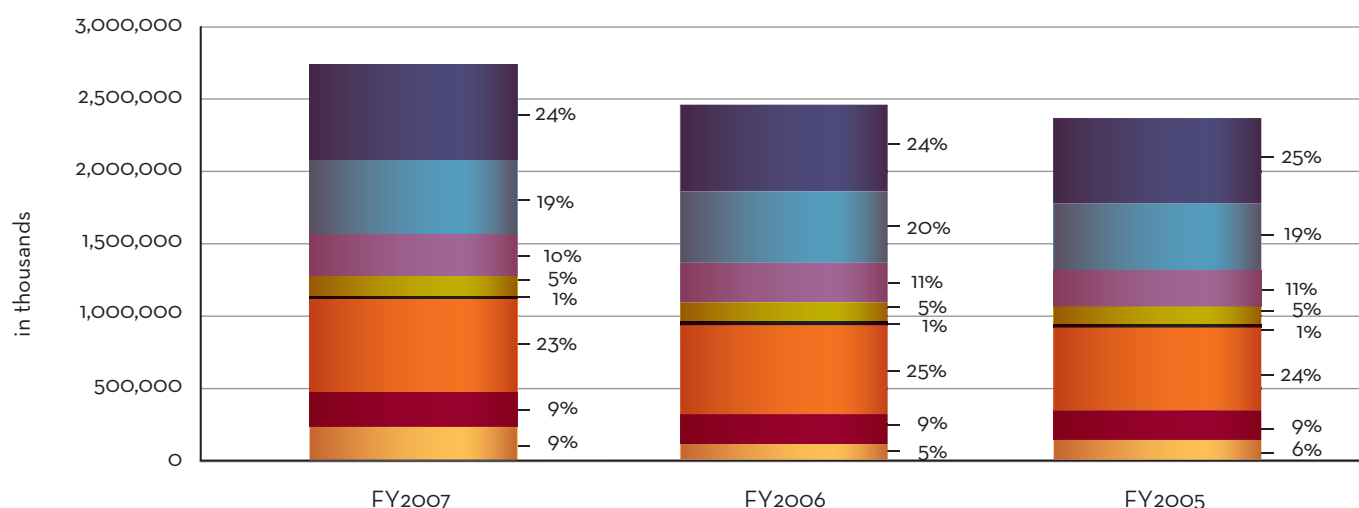


Figure 4
The University's operating and nonoperating revenue (noncapital) for the years ended June 30, 2007, 2006, and 2005 (in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007 Amount	Percent	From 2005 to 2006 Amount	Percent
Operating revenues							
Grants and contracts	\$ 666,267	\$ 601,106	\$ 592,537	\$ 65,161	10.8%	\$ 8,569	1.4%
Student tuition and fees, net	514,146	494,999	462,282	19,147	3.9%	32,717	7.1%
Auxiliary enterprises, net	288,162	273,578	250,583	14,584	5.3%	22,995	9.2%
Educational activities	138,622	135,183	126,363	3,439	2.5%	8,820	7.0%
Federal appropriations and other operating revenue	19,685	23,306	19,902	(3,621)	(15.5%)	3,404	17.1%
Total operating revenues	1,626,882	1,528,172	1,451,667	98,710	6.5%	76,505	5.3%
Nonoperating revenues							
State appropriations	645,619	616,445	573,392	29,174	4.7%	43,053	7.5%
Grants, gifts, and other nonoperating, net	240,315	207,560	206,099	32,755	15.8%	1,461	0.7%
Net investment gain	239,730	120,827	148,847	118,903	98.4%	(28,020)	(18.8%)
Total nonoperating revenues	1,125,664	944,832	928,338	180,832	19.1%	16,494	1.8%
Total revenues (noncapital)	\$2,752,546	\$2,473,004	\$2,380,005	\$279,542	11.3%	\$92,999	3.9%

Grants and contracts increased by \$65.2 million or 10.8 percent in fiscal year 2007. Federal grants and contracts increased \$15.8 million to \$390.0 million in fiscal year 2007 from \$374.2 million in fiscal year 2006. The increase in federal grants was due primarily to the receipt of the Insight Award from the National Institutes of Health. State and other governmental grants increased by \$21.5 million due primarily to the Minnesota Partnership

for Biotechnology and Medical Genomics (U-Mayo partnership). The University received an additional \$27.9 million in nongovernmental grants in fiscal year 2007 for a total of \$201.6 million. Fiscal year 2006 was \$173.7 million. Exchange grants are recorded as operating revenues, while nonexchange grants are recorded under nonoperating revenues.

Management's Discussion and Analysis (Unaudited)

The increase in student tuition and fees revenue was due to tuition and required fee increases that averaged approximately 6.5 percent; relatively stable enrollment; and scholarship allowances for the years ended June 30, 2007, 2006, and 2005, of \$115.6 million, \$98.6 million, and \$96.3 million, respectively.

Revenues from sales and services of educational activities include the Learning Abroad Center, royalty receipts from sales of products using University patents or technology, ticket sales to Northrop performances, and research work for outside businesses.

State appropriations, in addition to other sources of unrestricted revenue (tuition and educational and auxiliary activities) and nonoperating grants, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of \$119.8 million, \$97.2 million, and \$94.2 million, and grants and gifts for capital purposes of \$9.3 million, \$12.4 million, and \$14.7 million in fiscal years 2007, 2006, and 2005, respectively.

Capital appropriations are generally awarded biennially by the State of Minnesota. The University records state capital appropriation revenue only when approved capital expenditures have been incurred.

Across almost all functional categories (shown in Figure 5), salaries and compensation-related expenditures continued to represent the most significant expense to the University at \$1.6 billion or 65.1 percent, \$1.5 billion or 65.3 percent, and \$1.4 billion or 65.6 percent of operating expenses in fiscal years 2007, 2006, and 2005 respectively. The University's medical (health) and dental coverage for faculty and staff is a self-insured program, established to gain more control over the management of health care benefits, contain the rising cost of health care, and tailor benefits to meet the expressed needs of employees. Details on the University's self-insurance programs can be found in Note 9 of the consolidated financial statements. In general, operating expenses increased due to salary and fringe increases given in July 2006 along with increased repair and maintenance of University-owned property and equipment. In fiscal year 2007, University departments began recording actual utility-use charges. Prior to fiscal year 2007, utility charges were recorded centrally as part of operation and maintenance of plant. The decrease in utility charges shown in operation and maintenance of plant was offset by higher maintenance and repair charges for fiscal year 2007.

Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows present information about changes in the University's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities; noncapital financing such as nonexchange grants and contributions; capital financing, including bond proceeds from debt issued to purchase or construct buildings and other capital assets; and investing activities.

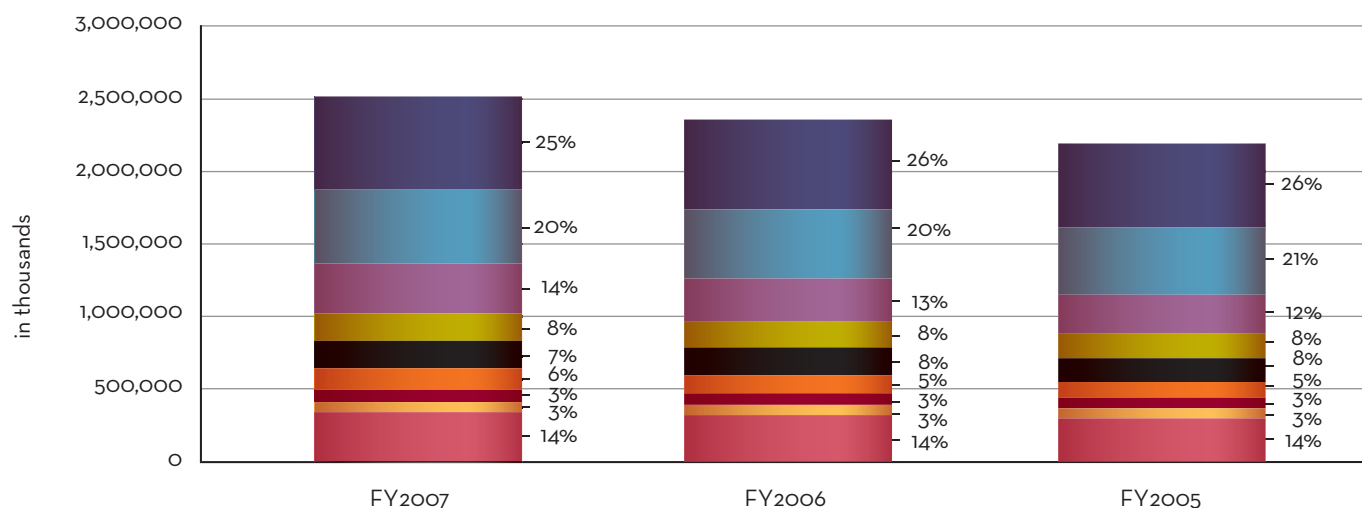


Figure 5
The University's total expenses by functional category for the years ended June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007		From 2005 to 2006	
				Amount	Percent	Amount	Percent
Education and general							
Instruction	\$ 644,462	\$ 621,336	\$ 581,139	\$ 23,126	3.7%	\$ 40,197	6.9%
Research	511,109	478,760	464,893	32,349	6.8%	13,867	3.0%
Academic support	344,452	294,364	265,480	50,088	17.0%	28,884	10.9%
Public service	190,555	181,986	173,674	8,569	4.7%	8,312	4.8%
Operation and maintenance of plant	189,291	191,910	164,623	(2,619)	(1.4%)	27,287	16.6%
Institutional support	149,341	125,458	107,796	23,883	19.0%	17,662	16.4%
Student services	84,882	79,934	74,000	4,948	6.2%	5,934	8.0%
Scholarships and fellowships	69,848	70,971	69,857	(1,123)	(1.6%)	1,114	1.6%
Total education and general	2,183,940	2,044,719	1,901,462	139,221	6.8%	143,257	7.5%
Other operating expenses							
Depreciation	137,943	136,120	127,091	1,823	1.3%	9,029	7.1%
Auxiliary enterprises	203,448	185,224	170,530	18,224	9.8%	14,694	8.6%
Other operating expenses, net	22	(277)	646	299	(107.9%)	(923)	(142.9%)
Total other operating expenses	341,413	321,067	298,267	20,346	6.3%	22,800	7.6%
Total operating expenses (noncapital)	\$2,525,353	\$2,365,786	\$2,199,729	\$159,567	6.7%	\$166,057	7.5%

Figure 6
The University's cash flows for the years ended June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007		From 2005 to 2006	
				Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	\$(758,236)	\$(677,316)	\$(600,810)	\$(80,920)	11.9%	\$(76,506)	12.7%
Noncapital financing activities	888,986	811,403	795,853	77,583	9.6%	15,550	2.0%
Capital and related financing activities	(4,034)	(154,578)	(124,362)	150,544	(97.4%)	(30,216)	24.3%
Investing activities	(12,603)	8,580	(63,873)	(21,183)	(246.9%)	72,453	(113.4%)
Net increase (decrease) in cash	114,113	(11,911)	6,808	126,024	(1058.0%)	(18,719)	(275.0%)
Cash and cash equivalents, beginning of year	119,783	131,694	124,886	(11,911)	(9.0%)	6,808	5.5%
Cash and cash equivalents, end of year	\$ 233,896	\$ 119,783	\$ 131,694	\$114,113	95.3%	\$(11,911)	(9.0%)

The University's cash and cash equivalents increased \$114.1 million due to the inflow of funds provided by noncapital financing activities, partially offset by the use of funds for operating activities, capital acquisitions and related financing activities, and investing activities. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling \$644.8 million and \$615.2 million, grants totaling \$123.0 million and \$95.7 million, and gifts totaling \$117.1 million and \$94.6 million in fiscal years 2007 and 2006, respectively. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year funded the University's equipment needs and ongoing renovation and construction initiatives.

Investment Activities

The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are meant to be achieved over three- to five-year periods.

During fiscal years 2007 and 2006, the value of the University's endowment funds increased significantly. Long-term endowment and other investments included increases from net unrealized and realized gains on the endowment and other investments of \$182.9 million and \$83.2 million; reinvested endowment earnings; and a decrease of \$32.7 million and \$30.5 million for fiscal years 2007 and 2006, respectively, related to the annual distribution of the five-year, moving-average market value of the endowment to departments.

To provide a relatively stable level of support for endowed programs, a specified percentage of a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.8 percent in fiscal year 2007 and 4.9 percent in fiscal year 2006.



Figure 7
The University's capital asset categories (before depreciation) for the years ended June 30, 2007, 2006, and 2005
(in thousands)

	2007	2006	2005	Increase (Decrease)			
				From 2006 to 2007		From 2005 to 2006	
				Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	\$2,791,018	\$2,730,865	\$2,653,091	\$ 60,153	2.2%	\$77,774	2.9%
Equipment	579,564	558,947	561,241	20,617	3.7%	(2,294)	(0.4%)
Library and other collections	151,175	145,431	140,918	5,744	3.9%	4,513	3.2%
Construction in progress	161,271	33,576	54,266	127,695	380.3%	(20,690)	(38.1%)
Land	64,028	57,955	46,166	6,073	10.5%	11,789	25.5%
Capitalized software	16,188			16,188	N/A		
Total capital assets (gross)	\$3,763,244	\$3,526,774	\$3,455,682	\$236,470	6.7%	\$71,092	2.1%

Capital and Debt Activities

Gross capital assets (shown in Figure 7) spending on capital projects increased over the past three fiscal years. The major building projects completed in fiscal year 2007 included the Vincent Stabile Building in Rochester and, on the Twin Cities campus, phase one of the 717 Delaware Street S.E. renovation, the Mayo Memorial Auditorium renovation, and the Ben Pomeroy Student–Alumni Learning Center. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Capital additions totaled \$296.2 million in fiscal year 2007. Total additions were up from the prior years' total additions of \$144.2 million and \$179.5 million for fiscal years 2006 and 2005, respectively. Fiscal year 2007 spending on the Twin Cities campus included Hanson Hall and a skyway to the Carlson School of Management, the Kolthoff Hall ventilation upgrade, TCF Gopher Stadium, renovation of the Mineral Resources Research Center building, the Equine Clinical Research Center, and phase two of the 717 Delaware Street S.E. renovation. Additional spending in fiscal year 2007 included the construction of the Labovitz School of Business and Economics building and renovation of the Life Science Building on the Duluth campus.

Bonds and other debt payable totaled \$796.2 million, \$632.9 million, and \$667.0 million as of June 30, 2007, 2006, and 2005, respectively, and included proceeds from bonded debt, commercial paper, and capital leases of \$210.8 million and \$162.0 million issued in fiscal years 2007 and 2006, respectively (see Note 5).

On December 14, 2006, the University of Minnesota issued Special Purpose Revenue Bonds in the principal amount of \$137.3 million. The net proceeds received will be used to finance a portion of the cost of a football stadium on the Twin Cities campus. The Series 2006 Bonds are special limited obligations of the University. State funding of up to \$10.3 million per year for no more than 25 years is to be provided to reimburse the University for the annual debt service on these bonds. No other revenues or assets of the University, nor the full faith and credit of the University, is pledged for the principal or interest on the Series 2006 Bonds.

Four of the University's bond issuances have demand provisions that require the University to repurchase the bonds upon notice from bondholders. At the date of this report, none of the bondholders had exercised the put option. The University maintains standby bond purchase agreements to provide liquidity support of the Series 1999A and 2001C general obligation bonds. The agreements expire in June 2009 and December 2008, respectively. No amounts had been drawn through June 30, 2007, under these agreements. Additional details on

capital and long-term debt activities can be found in Notes 4 and 5 of the consolidated financial statements.

Factors Affecting Future Economic Conditions

The financial position of the University of Minnesota is strong. As evidenced in the annual consolidated financial statements—due to increased operating revenues, strong investment performance, and a continued focus on cost containment—total net assets of the University increased by approximately \$345.7 million or 12.5 percent compared to the prior fiscal year.

In July 2004, the Board of Regents set the goal of raising the University's profile as a world-class research and land-grant university system. Today, the University of Minnesota remains on its journey to become one of the best and most productive research universities in the world. The University is making enormous strides in its effort to transform itself.

The economic health of the University is closely tied to that of the State of Minnesota in that the University relies on the state as a major source of funding for both its educational program-related needs and capital appropriations. For the foreseeable future, from the standpoint of financial support, the University's success and, ultimately, its ability to reach its strategic goals and strengthen its academic profile will depend on continued strong state support—both to keep pace with the growing competitive research environment and to continue to play a vital role in the economic growth and well-being of its citizens.

The University traditionally returns to the state legislature in odd-numbered years for operating budget support and in even-numbered years for capital budget appropriations. The University of Minnesota general fund operating appropriations were increased by the 2007 state legislature a total of \$151.6 million for the fiscal biennium ending June 30, 2009.

The budget plan for the fiscal year ending June 30, 2008, and the preliminary budget plan for the fiscal year ending June 30, 2009, are aligned with and integrated into the University's strategic planning framework. They articulate investments in the initiatives that will build on the progress made to date and continue to advance the University's progress toward its goals. These investments emphasize innovation across all aspects of the University's mission of teaching, research, and public engagement, and they provide evidence of the University's ongoing commitment to transformation through controlling costs, improving the management of resources, and remaining accountable for results.

A key goal of strategic positioning is to "recruit, educate, challenge, and graduate outstanding students." To advance this goal, the University has recently implemented four significant reforms to improve student outcomes and restrain the cost of attendance.

- Implementing tuition banding at Crookston, Duluth, and Morris—the same 13-credit tuition band as for undergraduate students on the Twin Cities campus—to improve retention and graduation rates. This tuition policy reform provides free credits over 13 and actually lowers a student's overall cost of education.
- Resetting undergraduate tuition for students on the Duluth and Morris campuses below the amount for undergraduate students on the Twin Cities campus, reflecting the actual differential costs of academic programs.



- Implementing a new tuition structure for new nonresident, nonreciprocity undergraduate students matriculating in 2008–09 on the Duluth and Twin Cities campuses. Tuition for these students will be at the resident rate plus \$1,000 per semester on the Duluth campus and at the resident rate plus \$2,000 per semester on the Twin Cities campus. This makes the University's tuition more competitive while maintaining a high level of access for Minnesota residents. It also provides some differentiation of tuition levels between the Twin Cities and coordinate campuses to better reflect the differential costs of instruction by campus.
- Increasing equity in tuition for Minnesota and reciprocity-state students in the second year of the biennium by withdrawing from the reciprocity agreement with Wisconsin and establishing a new tuition rate for undergraduate and graduate students from Wisconsin that is the same as the resident tuition rate for undergraduate and graduate students on each University of Minnesota campus.

Consistent with past policy, the University will also continue to ensure access and affordability for lower income students through the provision of funds for the Founders Free Tuition Program. The total grant support for the lowest income student (i.e., Pell + State + University) will increase to more than \$12,000.

In addition, the University continues to focus on strategies to increase affordability for low- and moderate-income students by establishing, for the 2007–08 and 2008–09 academic years, a new scholarship for resident undergraduate students from families with an adjusted gross income of \$150,000 or less as indicated on the Free Application for Federal Student Aid (FAFSA) form. This new scholarship will reduce the projected tuition rate increase by 2.5 percent for qualifying students for each of the next two years.

The majority of new academic buildings or renovations to existing academic buildings are sought from the state through budget appropriations, which the University requests in even-numbered years. Most projects authorized by the State of Minnesota carry a one-third financial obligation from the University. In addition, the University uses its own debt authority to construct facilities and to meet its one-third share of costs related to state-authorized projects.

The University of Minnesota will submit a new capital budget request to the 2008 state legislature strategically focused on capital projects critical for supporting academic excellence; supporting students and their learning environments; addressing pressing infrastructure needs; and preservation and renewal of historic structures. The request, which will total \$308.3 million, has been built around the need to address the University's future in terms of what it provides to students and the citizens of Minnesota and the University's unique responsibility within Minnesota's system of higher education. Examples of projects included in the request are proposals to invest \$100.0 million in asset preservation and renewal; \$72.5 million for a new science teaching and student services building, and \$39.0 million to renovate Folwell Hall—a historic signature building that serves students and the state by educating global citizens with effective communication skills across disciplines and cultures—on the Twin Cities campus; \$15.0 million for a new civil engineering building at the Duluth campus; and \$7.5 million to renovate an old building and create a new gateway center at the Morris campus.

This new century requires new ideas—created through discovery and innovation—and a college education that is more than just a major. Without transformative change and strong public support, the University and the State of Minnesota face the prospect of losing our competitive position. To continue to be a world-class university, the University of Minnesota must continue its strong tradition of maximizing the use of all its assets—human and fiscal.

University of Minnesota
Independent Auditors' Report

To the Board of Regents of the University of Minnesota

We have audited the accompanying consolidated statements of net assets of the University of Minnesota (the University), as of and for the years ended June 30, 2007 and 2006, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those statements and the prior year comparative information were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based solely on the reports of such other auditors. Prior year summarized comparative information has been derived from the discretely presented component units' June 30, 2006 financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the University, as of June 30, 2007 and 2006, and the respective consolidated changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



LarsonAllen LLP
Minneapolis, Minnesota
October 16, 2007

Consolidated Statements of Net Assets (Excluding Component Units)

June 30, 2007 and 2006 (in thousands)



		2007	2006
Assets			
Current assets	Cash and cash equivalents	\$ 70,089	\$ 119,783
	Securities lending collateral	100,300	60,803
	Short-term investments	12,222	49,680
	Receivables, net	328,811	299,002
	Inventories, net	18,777	18,792
	Current portion of student loan receivables, net	12,977	13,496
	Current portion of prepaid expenses and deferred charges	2,831	3,026
	Other assets	200	198
	Total current assets	546,207	564,780
Noncurrent assets	Restricted cash and cash equivalents	163,807	–
	Investments	1,680,013	1,390,404
	Receivables, net	916	1,149
	Student loan receivables, net	57,175	55,497
	Prepaid expenses and deferred charges	3,388	3,936
	Other assets	38	43
	Capital assets, net	2,060,646	1,906,363
	Total noncurrent assets	3,965,983	3,357,392
Total assets		4,512,190	3,922,172
Liabilities			
Current liabilities	Accounts payable	97,129	60,132
	Accrued liabilities and other	212,036	207,040
	Securities lending collateral	100,300	60,803
	Unearned income	109,805	109,730
	Long-term debt—current portion	328,835	289,171
	Total current liabilities	848,105	726,876
Noncurrent liabilities	Accrued liabilities and other	87,829	87,152
	Unearned income	1,786	2,990
	Long-term debt	467,365	343,776
	Total noncurrent liabilities	556,980	433,918
Total liabilities		1,405,085	1,160,794
Net Assets			
	Unrestricted	338,124	370,136
	Restricted		
	Expendable	1,116,515	899,892
	Nonexpendable	222,847	216,454
	Invested in capital assets, net of related debt	1,429,619	1,274,896
Total net assets		\$3,107,105	\$2,761,378

See notes to consolidated financial statements.

Component Units – Statements of Financial Position

June 30, 2007 and 2006 (in thousands)

	University of Minnesota Foundation		Minnesota Medical Foundation	
	2007	2006	2007	2006
Assets				
Cash and cash equivalents	\$ 8,852	\$ 8,898	\$ 293	\$ 2,012
Investments, substantially at fair market value	1,401,658	1,146,730	251,582	230,504
Investments held for unitrusts, annuity trusts, and gift annuities			14,476	13,854
Investments designated for endowments				
Investments loaned to broker	42,534	62,918	49,518	36,364
Investments collateral	43,606	64,053	50,934	37,055
Pledges receivable, net	64,414	52,377	31,153	24,650
Accounts and other receivables	2,707	2,254	2,032	2,089
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	65,696	57,843	33,456	28,268
Gift annuities	35,091	28,654		
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net	846	686	395	426
Other assets			320	486
Total assets	1,665,404	1,424,413	434,159	375,708
Liabilities				
Accounts payable and accrued liabilities	4,021	4,761	4,042	2,604
Deferred revenue				
Gift annuities payable	16,140	14,417		
Split-interest agreement liabilities			7,717	8,050
Unitrusts, pooled income, and annuity trusts payable	13,128	11,881		
Investments held for custody of others	70,463	58,065	2,417	2,492
Payable under investment loan agreement	43,606	64,053	50,934	37,055
Notes and bonds payable				
Total liabilities	147,358	153,177	65,110	50,201
Net Assets				
Unrestricted	84,453	48,367	9,572	8,941
Temporarily restricted	960,070	791,866	148,495	142,358
Permanently restricted	473,523	431,003	210,982	174,208
Total net assets	1,518,046	1,271,236	369,049	325,507
Total liabilities and net assets	\$1,665,404	\$1,424,413	\$434,159	\$375,708

See notes to consolidated financial statements.



Minnesota Landscape Arboretum Foundation		Minnesota 4-H Foundation		University of Minnesota Physicians		University of Minnesota Alumni Association		University Gateway Corporation	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
\$ 178	\$ 275	\$ 315	\$ 360	\$ 17,837	\$21,350	\$ 446	\$ 377	\$22,832	\$23,739
2,070	1,996	8,155	7,008	19,470	20,583	28,501	25,356	333	614
27,174	23,977								
1,412	1,663	277	689						
360	163	10	6	48,835	36,687	154	198	201	186
394	437	42	37						
								22,966	19,129
						67	57		
566	566	19	15	13,353	11,914	318	413	33,776	40,855
		3	3	2,864	2,428	223	226	747	752
32,154	29,077	8,821	8,118	102,359	92,962	29,709	26,627	80,855	85,275
105	46	166	156	51,256	45,462	488	585	1,995	8,286
385	380					3,400	3,505		
		1,584	1,030						
				1,489	2,921			66,107	67,103
490	426	1,750	1,186	52,745	48,383	3,888	4,090	68,102	75,389
4,377	4,204	299	185	49,614	44,579	24,760	21,661	12,421	9,839
13,860	11,834	3,929	4,071			232	180	332	47
13,427	12,613	2,843	2,676			829	696		
31,664	28,651	7,071	6,932	49,614	44,579	25,821	22,537	12,753	9,886
\$32,154	\$29,077	\$8,821	\$8,118	\$102,359	\$92,962	\$29,709	\$26,627	\$80,855	\$85,275

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets (Excluding Component Units)



Years ended June 30, 2007 and 2006 (in thousands)

		2007	2006
Revenues			
Operating revenues	Student tuition and fees, net of scholarship allowances of \$115,557 in 2007; \$98,587 in 2006	\$ 514,146	\$ 494,999
	Federal appropriations	16,848	15,907
	Federal grants and contracts	389,982	374,191
	State and other government grants	74,685	53,221
	Nongovernmental grants and contracts	201,600	173,694
	Student loan interest income	1,482	1,531
	Sales and services of educational activities	138,622	135,183
	Auxiliary enterprises, net of scholarship allowances of \$12,715 in 2007; \$10,464 in 2006. Revenues of \$2,988 in 2007; \$3,287 in 2006 were pledged as security for various auxiliary revenue bonds	288,162	273,578
	Other operating revenues	1,355	5,868
Total operating revenues		1,626,882	1,528,172
Expenses			
Operating expenses	Educational and general		
	Instruction	644,462	621,336
	Research	511,109	478,760
	Public service	190,555	181,986
	Academic support	344,452	294,364
	Student services	84,882	79,934
	Institutional support	149,341	125,458
	Operation and maintenance of plant	189,291	191,910
	Scholarships and fellowships	69,848	70,971
	Depreciation	137,943	136,120
	Auxiliary enterprises	203,448	185,224
	Other operating expenses, net	22	(277)
Total operating expenses		2,525,353	2,365,786
Operating Loss		(898,471)	(837,614)
Nonoperating Revenues (Expenses)			
	State appropriations	645,619	616,445
	Grants	121,826	114,325
	Gifts	119,843	97,221
	Investment income	56,842	37,641
	Net increase in the fair market value of investments	182,888	83,186
	Interest on capital asset-related debt	(29,960)	(28,106)
	Other nonoperating expenses, net	(1,354)	(3,986)
Net nonoperating revenues		1,095,704	916,726
Income Before Other Revenues		197,233	79,112
	Capital appropriations	133,313	35,957
	Capital grants and gifts	9,314	12,446
	Additions to permanent endowments	5,867	7,759
Total other revenues		148,494	56,162
Increase in Net Assets		345,727	135,274
Net assets at beginning of year		2,761,378	2,626,104
Net assets at end of year		\$3,107,105	\$2,761,378

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



University of Minnesota Foundation

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenues					
Contributions	\$26,650	\$ 73,441	\$ 34,667	\$ 134,758	\$ 90,230
Investment income, net	6,947	8,272	788	16,007	12,071
Net realized and unrealized gains (losses) on investments	13,842	167,680	(6)	181,516	152,157
Change in value of trusts	(78)	4,126	7,071	11,119	4,851
Support services revenue	2,725			2,725	2,750
Other revenue	834			834	628
Net assets released from restriction	85,315	(85,315)		–	–
Total revenues	136,235	168,204	42,520	346,959	262,687
Expenses					
Program services					
Distributions for educational purposes	80,456			80,456	74,571
Support services					
Management and general	7,670			7,670	6,731
Fund-raising	12,023			12,023	11,109
Total expenses	100,149	–	–	100,149	92,411
Increase in net assets	36,086	168,204	42,520	246,810	170,276
Net assets at beginning of year	48,367	791,866	431,003	1,271,236	1,100,960
Net assets at end of year	\$84,453	\$960,070	\$473,523	\$1,518,046	\$1,271,236

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



Minnesota Medical Foundation

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenues					
Contributions	\$ 451	\$ 37,267	\$ 13,578	\$ 51,296	\$ 46,099
Investment income, net	1,070	19,632	20,127	40,829	21,161
Change in value of split-interest agreements		1,389	5,177	6,566	(4,726)
Service charges	8,364	(5,737)	(2,502)	125	129
Receipts from affiliated parties	250	(5)	125	370	2,474
Net assets released from restriction	46,140	(46,409)	269	–	–
Total revenues	56,275	6,137	36,774	99,186	65,137
Expenses					
Program services					
Research and education grants	42,006			42,006	28,364
Communications	401			401	460
Student aid and scholarships	2,020			2,020	1,753
Honor and award grants	727			727	1,175
Alumni and sponsored events	878			878	1,345
Support services					
Management and general	3,351			3,351	3,304
Fund-raising	6,261			6,261	6,156
Total expenses	55,644	–	–	55,644	42,557
Increase in net assets	631	6,137	36,774	43,542	22,580
Net assets at beginning of year	8,941	142,358	174,208	325,507	302,927
Net assets at end of year	\$ 9,572	\$148,495	\$210,982	\$369,049	\$325,507

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



Minnesota Landscape Arboretum Foundation

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenues					
Contributions	\$1,539	\$ 1,634	\$ 812	\$ 3,985	\$ 4,222
Membership dues and fees	787			787	749
Investment income, net	7	134		141	100
Net realized and unrealized gains on investments	121	4,441		4,562	3,080
Change in value of annuity trust			24	24	217
Other revenue	301			301	379
Net assets released from restriction	4,205	(4,183)	(22)	–	–
Total revenues	6,960	2,026	814	9,800	8,747
Expenses					
Program services	5,750			5,750	4,869
Support services					
Management and general	283			283	149
Fund-raising	754			754	677
Total expenses	6,787	–	–	6,787	5,695
Increase in net assets	173	2,026	814	3,013	3,052
Net assets at beginning of year	4,204	11,834	12,613	28,651	25,599
Net assets at end of year	\$4,377	\$13,860	\$13,427	\$31,664	\$28,651

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



Minnesota 4-H Foundation

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenues					
Contributions	\$ 138	\$ 76	\$ 27	\$ 241	\$ 285
Investment income, net	75	744	142	961	712
Change in value of annuity trust		5	2	7	5
Other revenue	185	337		522	467
Net assets released from restriction	1,308	(1,308)		–	–
Total revenues	1,706	(146)	171	1,731	1,469
Expenses					
Program services	1,264			1,264	1,039
Support services					
Management and general	108			108	109
Fund-raising	220			220	219
Total expenses	1,592	–	–	1,592	1,367
Increase (decrease) in net assets	114	(146)	171	139	102
Net assets at beginning of year	185	4,071	2,676	6,932	6,830
Reclassification of net assets		4	(4)	–	–
Net assets at end of year	\$ 299	\$3,929	\$2,843	\$7,071	\$6,932

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



University of Minnesota Physicians

	Total (Unrestricted)	
	2007	2006
Revenues		
Net patient service revenue	\$162,995	\$153,209
Investment income, net	1,807	958
Other revenue	88,858	78,701
Total revenues	253,660	232,868
Expenses		
Program services		
Health care services	220,490	201,485
Support services		
Management and general	28,135	24,560
Total expenses	248,625	226,045
Increase in net assets	5,035	6,823
Net assets at beginning of year	44,579	37,756
Net assets at end of year	\$ 49,614	\$ 44,579

[See notes to consolidated financial statements.](#)



Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)

University of Minnesota Alumni Association

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenues					
Contributions	\$ 184	\$ 61		\$ 245	\$ 138
Membership dues and fees	861			861	864
Investment income, net	127	4		131	93
Change in value of investments	4,004	27	\$133	4,164	3,384
Other revenue	2,837			2,837	2,999
Net assets released from restriction	40	(40)		–	–
Total revenues	8,053	52	133	8,238	7,478
Expenses					
Program services	4,419			4,419	3,952
Support services					
Management and general	511			511	556
Fund-raising	24			24	19
Total expenses	4,954	–	–	4,954	4,527
Increase in net assets	3,099	52	133	3,284	2,951
Net assets at beginning of year	21,661	180	696	22,537	19,586
Net assets at end of year	\$24,760	\$232	\$829	\$25,821	\$22,537

See notes to consolidated financial statements.

Component Units – Statements of Activities

Year ended June 30, 2007 (with summarized information for the year ended June 30, 2006)
(in thousands)



University Gateway Corporation

	Unrestricted	Temporarily Restricted	Total	
			2007	2006
Revenues				
Investment income, net	\$ 1,018		\$ 1,018	\$ 191
Change in derivative financial instruments	(278)		(278)	611
Receipts from affiliated parties		\$ 294	294	272
Other revenue	5,990	3,543	9,533	8,119
Net assets released from restriction	3,552	(3,552)	–	–
Total revenues	10,282	285	10,567	9,193
Expenses				
Program services	7,294		7,294	6,627
Support services				
Management and general	26		26	39
Payment to affiliated parties	380		380	369
Total expenses	7,700	–	7,700	7,035
Increase in net assets	2,582	285	2,867	2,158
Net assets at beginning of year	9,839	47	9,886	7,728
Net assets at end of year	\$12,421	\$ 332	\$12,753	\$9,886

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Excluding Component Units)

Years Ended June 30, 2007 and 2006 (in thousands)



	2007	2006
Cash Flows From Operating Activities		
Student tuition and fees	\$ 515,225	\$ 493,828
Federal appropriations	16,728	16,700
Grants and contracts (federal, state, nongovernmental, other)	651,399	604,456
Sales and services of educational activities	137,397	141,232
Auxiliary enterprises	291,891	283,773
Other operating revenues	1,354	6,216
Payments to employees for services	(1,256,107)	(1,184,639)
Payments for fringe benefits	(384,769)	(357,847)
Payments to suppliers for goods and services	(664,715)	(616,780)
Payments for scholarships and fellowships	(66,331)	(65,939)
Loans issued to students	(13,626)	(14,199)
Collection of loans to students	13,318	15,883
Net cash used by operating activities	(758,236)	(677,316)
Cash Flows From Noncapital Financing Activities		
State appropriations	644,788	615,174
Grants for other than capital purposes	123,047	95,728
Gifts for other than capital purposes	117,133	94,605
Private gifts for endowment purposes	5,867	7,759
Other nonoperating revenues (expenses), net	(1,194)	(7)
Direct lending receipts	231,362	272,143
Direct lending disbursements	(231,631)	(272,277)
Agency transactions	(386)	(1,722)
Net cash provided by noncapital financing activities	888,986	811,403
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	118,443	39,124
Capital grants and gifts	9,079	9,434
Proceeds from capital debt	208,970	159,100
Proceeds from sale of capital assets	742	4,953
Purchases of capital assets	(264,203)	(143,807)
Principal paid on capital debt	(47,001)	(194,734)
Interest paid on capital debt	(30,064)	(28,648)
Net cash used by capital and related financing activities	(4,034)	(154,578)
Cash Flows From Investing Activities		
Investment income, net	64,722	47,504
Proceeds from sales and maturities of investments	596,091	1,266,074
Purchase of investments	(673,416)	(1,304,998)
Net cash provided (used) by investing activities	(12,603)	8,580
Net Increase (Decrease) in Cash and Cash Equivalents	114,113	(11,911)
Cash and Cash Equivalents at Beginning of Year	119,783	131,694
Cash and Cash Equivalents at End of Year	\$ 233,896	\$ 119,783

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Excluding Component Units) (Concluded)

Years Ended June 30, 2007 and 2006 (in thousands)



	2007	2006
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities		
Operating loss	\$(898,471)	\$(837,614)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	137,943	136,120
Changes in assets and liabilities		
Receivables, net	(18,806)	(23,224)
Inventories	15	45
Prepaid and other items	1,581	2,475
Accounts payable	10,112	(5,214)
Accrued liabilities	3,302	9,298
Deferred revenue	6,088	40,798
Net cash used by operating activities	\$(758,236)	\$(677,316)
Noncash Investing, Capital, and Financing Activities		
Unrealized gains on fair market value of investments	\$ 116,392	\$ 28,878
Building projects on account	25,580	3,142
Equipment borrowed under capital lease	1,795	1,418
Contribution of capital assets	1,269	1,696
Purchase of equipment on account	511	—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Organization

The University of Minnesota (University) is both a state land-grant university, with a strong tradition of education and public service, and a major research institution serving the state of Minnesota through five campuses: Crookston, Duluth, Morris, Rochester, and Twin Cities.

The University is considered a constitutional corporation and an agency of the State of Minnesota. As a result of this unique status, authority to govern the University is reserved to the Board of Regents rather than state law. The University complies with state law when specifically included by statute or when compliance does not conflict with the University's ability to accomplish its mission and purpose as established by the constitution of the State of Minnesota.

Reporting Entity

The financial reporting entity for the University of Minnesota includes the financial results of the five campuses and, as required under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—An Amendment of GASB Statement No. 14* (GASB 39), its legally separate component units. The component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University or its other component units.

Blended Component Unit—RUMINCO, Ltd. is a wholly owned single parent captive insurance company. Although it is legally separate from the University, RUMINCO, Ltd. is reported as if it were part of the University because its sole purpose is to handle medical malpractice, general liability, directors and officers liability, and automobile liability on behalf of the University.

Discretely Presented Component Units—The University's financial statements include the financial data of several tax-exempt component units. They are reported in separate columns on separate pages. GASB 39 requires discrete presentation of component units when either the resources held by these entities can only be used by, or for the benefit of, the University or its component units; or the component units are closely related to or financially integrated with the University.

University of Minnesota Foundation

The University of Minnesota Foundation (UMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts to benefit the University of Minnesota. The Board of Trustees of the UMF consists of between 30 and 45 members and includes the president of the University of Minnesota. One fourth of the members of the Board of Trustees are appointed by the University. Although the UMF is an independent organization, the majority of resources that the UMF holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2007, the UMF distributed \$91,452 to the University. Complete financial statements for the University of Minnesota Foundation can be obtained from the UMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 500, Minneapolis, MN 55455.

Minnesota Medical Foundation

The Minnesota Medical Foundation (MMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts in support of the advancement of health-related education, research, and service at the University of Minnesota. The Board of Trustees of the MMF consists of not fewer than 24 elected members, one third of whom must be physicians. Although the MMF is an independent organization, the majority of resources that the MMF holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2007, the MMF distributed \$49,209 to the University. Complete financial statements for the Minnesota Medical Foundation can be obtained from the MMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 300, Minneapolis, MN 55455.

Minnesota Landscape Arboretum Foundation

The Minnesota Landscape Arboretum Foundation (Foundation) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts for the benefit of the Minnesota Landscape Arboretum of the University of Minnesota. The Board of Trustees of the Foundation consists of between 8 and 36 trustees, and the number of trustees must be divisible by four. One fourth of the trustees are appointed by the University of Minnesota.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Although the Foundation is an independent organization, the majority of resources that the Foundation holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2007, the Minnesota Landscape Arboretum Foundation distributed \$5,208 to the University. Complete financial statements for the Minnesota Landscape Arboretum Foundation can be obtained from the Foundation office, 3675 Arboretum Drive, Chaska, MN 55318.

Minnesota 4-H Foundation

The Minnesota 4-H Foundation is a legally separate, tax-exempt organization, organized to receive, hold, invest, and administer assets and to make expenditures to or for the benefit of the programs of the Center for 4-H Youth Development, including support of the University of Minnesota Extension Service. The Board of Trustees consists of not fewer than 18 and not more than 21 persons elected from a slate of candidates prepared by the Board of Trustees.

During the year ended June 30, 2007, the Minnesota 4-H Foundation distributed \$1,259 to the University. Complete financial statements for the Minnesota 4-H Foundation can be obtained from the Minnesota 4-H Foundation office, McNamara Alumni Center, 200 Oak Street S.E., Suite 270B, Minneapolis, MN 55455.

University of Minnesota Alumni Association

The University of Minnesota Alumni Association (Association) is a legally separate, tax-exempt organization that serves alumni and the University of Minnesota with a mission to connect alumni to the University, advocate and support excellence in education, and build pride, spirit, and community. A volunteer board of 46 directors governs the Association. Members of the board are elected as follows: officers (9) and an honorary director (1) by the Board of Directors; at-large and geographical representatives (18) by the Association's general membership; and collegiate/professional representatives (18) by their respective societies.

During the year ended June 30, 2007, the Association distributed \$1,735 to the University. Complete financial statements for the Association can be obtained from the University of Minnesota Alumni Association,

McNamara Alumni Center, 200 Oak Street S.E., Suite 200, Minneapolis, MN 55455.

University Gateway Corporation

The University Gateway Corporation (Gateway) is a legally separate, tax-exempt entity that owns and operates a facility used to support three beneficiary organizations and the University of Minnesota in student recruiting, alumni relations, fund-raising activities, and general operations. The beneficiary organizations include the University of Minnesota Foundation, the University of Minnesota Alumni Association, and the Minnesota Medical Foundation. Gateway's six-member Board of Directors consists of three members from the University of Minnesota Foundation, two members from the University of Minnesota Alumni Association, and one member from the Minnesota Medical Foundation.

During the year ended June 30, 2007, Gateway distributed \$624 to the University. Complete financial statements for the University Gateway Corporation can be obtained from the McNamara Alumni Center Management Office, 200 Oak Street S.E., Suite 35, Minneapolis, MN 55455.

University of Minnesota Physicians

University of Minnesota Physicians (UMPhysicians) is a legally separate, tax-exempt clinical practice organization for the faculty of the University of Minnesota School of Medicine. The Board of UMPhysicians consists of 24 voting directors, including the UMPhysicians chief executive officer, the dean of the University of Minnesota Medical School, faculty and department heads of the University of Minnesota Medical School (18 members), and individuals from the community at-large (4 members); and 2 nonvoting directors.

During the year ended June 30, 2007, UMPhysicians distributed \$38,000 to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Avenue S.E., Suite 200, Minneapolis, MN 55414.

Tax Status—The Internal Revenue Service (IRS) has ruled that the University is an integral part of the State of Minnesota. Therefore, the University is generally exempt from federal income taxes, although certain activities are subject to federal unrelated business income tax.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Component Units

The University's component units are nonprofit organizations, organized under IRS code section 501(c)(3). These units report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial report for these differences. The component units' financial data has, however, been aggregated into like categories for presentation purposes and is shown in these statements in thousands, although in all cases except the University of Minnesota Physicians, the separately issued component units' financial statements are not rounded.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles prescribed by GASB. These statements are prepared on a consolidated, entity-wide basis. All significant interfund balances have been eliminated upon consolidation.

Basis of Accounting

The University is considered to be a special purpose government engaged primarily in business type activities (BTA). As a BTA, the University prepares its financial statements using the accrual basis of accounting and the economic-resources-measurement focus. Under the accrual basis of accounting, revenues and expenses are recognized when earned or incurred.

As a GASB institution, the University has the option of applying pronouncements issued by the FASB after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to adopt FASB pronouncements issued after the applicable date.

Significant Accounting Policies

Cash and Cash Equivalents—For purposes of the statement of cash flows, the University defines cash and cash equivalents as highly liquid, short-term (90 days or less) investments that bear little or no market risk. Cash

equivalents held in the Consolidated Endowment Fund (CEF), the Group Income Pool (GIP), and the Separately Invested Funds (SIF) are included in investments because the intent of these pools is long-term appreciation. Any cash balances held at the date of the statements are due to the timing of reinvesting the proceeds within the funds.

Investments—Investments in securities are reported at market value as determined by the major securities markets. Alternative investment strategies involving thinly traded securities are determined by the most recent purchase or sale price publicly available for that security. Private investments including real estate, timber, and venture capital are independently appraised annually and reported by investment managers as an updated estimate to that appraisal. As a result, these investments bear a greater risk that the reported value may be materially different than actual value. Purchases and sales of investments are recorded on a trade-date basis. Investment income is reported on the accrual basis and includes interest income and endowment income (interest earned on endowments but allocated to other funds). Realized and unrealized gains and losses are reported as a net increase (decrease) in the fair market value of investments.

The University uses derivative instruments for a variety of purposes. Financial futures are used to maintain investment portfolio asset allocations in accordance with institutional policy and to enhance the investment returns of certain asset classes. Forward foreign exchange contracts are used to hedge foreign currency exposure while interest rate swaps are used to manage the cost of debt. Financial futures and forward foreign exchange contracts are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The University is required to post collateral, typically U.S. Treasury bills, for derivative contracts held. Collateral required by these contracts is monitored daily and required deposits or withdrawals are made as necessary.

In general, the University follows the Uniform Management of Institutional Funds Act (UMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UMIFA, the Board of Regents determines the prudent amount of realized and unrealized endowment appreciation to be allocated to fund current operations. Investment of the realized or unrealized appreciation in excess of the annual spending limits is discussed in Note 2.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Inventories—Inventories held for resale are carried at the lower of cost (first-in, first-out) or market value. Other inventories are carried primarily at cost, which approximates market value.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent unspent bond proceeds, which are externally restricted for the construction or purchase of buildings or other capital assets. Although these funds meet the University's definition of cash and cash equivalents, they are recorded as long-term assets, as these funds are required to be used for long-term capital projects.

Capital Assets—Land, buildings, and other property are recorded at cost, if purchased or constructed, or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization in 2007 was \$132; no interest qualified for capitalization in 2006.

The following schedule summarizes the useful lives and capitalization threshold for capitalized, depreciable assets.

Asset category	Useful life (in years)	Capitalization threshold
Buildings and improvements	10–40	\$50,000
Leasehold improvements	Lease term	50,000
Infrastructure	10–40	50,000
Equipment	3–20	2,500
Library and reference books	10	N/A
Capitalized software	5	50,000

The University maintains certain collections (works of art or historical treasures) for public exhibition, education, or research in furtherance of public service. These collections are preserved, unencumbered, and cannot be disposed of for financial gain (proceeds from sales of collection items must be used to acquire other items for the collections). As such, certain collections are not capitalized for financial statement reporting purposes.

Unearned Income—Unearned income represents amounts received from tuition, auxiliary services, and grants and contracts prior to fiscal year-end but not yet earned.

Noncurrent Liabilities—Noncurrent liabilities represent the principal portion of bonds, notes, and capital lease obligations as well as estimated amounts of accrued

compensated absences and other liabilities that will not be paid within the next fiscal year.

Net Assets—Net assets are reported in three components based upon the type of external restriction imposed.

- **Unrestricted:** Net assets that have no external restriction imposed. Unrestricted net assets may be designated for specific purposes by the Board of Regents or subject to contractual limitations but generally are designated to fund the academic, research, and public service mission of the University.

- **Restricted:**

Expendable—Net assets that are restricted for specific purposes by grantors, donors, or law. Restrictions on these assets are released when the University complies with the stipulations required by the grantor, donor, or legislative act.

Nonexpendable—Net assets that are required to be retained permanently by the University. These assets represent the principal portion (historical value) of gifts to the University's true and life endowment funds, and institutional contributions to refundable loan programs.

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding debt used to purchase, construct, or improve such assets. If debt has been incurred but not yet expended for capital assets, these unspent proceeds are classified as restricted-expendable net assets.

If both restricted and unrestricted resources are to be used for the same purpose, the resources are used in accordance with applicable instructions of the grantor, donor, or law.

Revenue Classification—The University has classified revenues as operating or nonoperating based upon the following criteria:

- Operating revenues result from exchange activities. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. The University considers student tuition and fees (net of scholarship allowances), federal appropriations, most grants and contracts, interest on student loans, and sales and services of auxiliary and educational activities to be exchange transactions.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

- Nonoperating revenues represent nonexchange activities. The primary sources of these revenues are state appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the institution relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms.

Expense Classification—The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 11.

During fiscal years 2007 and 2006, departmental research in nonsponsored accounts of \$137,686 and \$121,073, respectively, was recorded as research expense.

Use of Estimates—To prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to accounts payable, allowances for uncollectible accounts and self-insurance reserves, scholarship discounts and allowances, arbitrage rebates, and vacation pay and pension accruals.

Reclassifications—Certain prior-year amounts have been reclassified to conform to the presentation used in the current year. These reclassifications have no impact on net assets as previously reported.

New Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information.

Information specifically disclosed will include plan descriptions, funding policy, members and types of benefits, and significant methods and assumptions used in the determination of the calculated liability (asset). This statement is effective for the fiscal year ending June 30, 2008. Management is in the process of evaluating the impact this statement will have on the University.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations addressing the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution and remediation activities that are required upon retirement of an asset. Under GASB 49, the University is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired once any one of five specified obligating events occurs. GASB 49 is effective for the fiscal year ending June 30, 2009. Management is in the process of evaluating the impact this statement will have on the University.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—An Amendment of GASB Statements No. 25 and No. 27* (GASB 50), which aligns financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. GASB 50 is effective for the fiscal year ending June 30, 2008.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), which addresses the recognition of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Additionally, it establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB 51 provides guidance on determining the useful life of intangible assets when contractual or legal provisions limit the length of their life. This statement is effective for

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



the fiscal year ending June 30, 2010, and the provisions of this statement are generally required to be applied retroactively for fiscal years ending after June 30, 1980. Management is in the process of evaluating the impact this statement will have on the University.

2. Cash and Investments

Summary

The University maintains centralized management for substantially all of its cash and investments. With the exception of insurance reserves maintained by RUMINCO, Ltd.—the wholly owned insurance subsidiary (Note 9) and other funds whose terms require separate management—the invested assets of the University are managed through several internal investment pools. Each investment pool has a different set of objectives designed to maximize investment return within consistent risk parameters established for that pool.

In general, investment securities are exposed to various risks, such as credit, concentration of credit, custodial credit, interest rate, and foreign currency. Although the objective of each investment pool is to control risk and preserve capital, it is likely that changes in the values of investment securities will occur in the near term, and possible that such changes could materially affect the amounts reported in the consolidated financial statements.

Authorizations

The Board of Regents establishes the University's investment policies and objectives. The internal investment pools created under these guidelines to manage the invested assets of the University are described below.

Temporary Investment Pool (TIP)—Short-Term Reserves—

The Temporary Investment Pool is invested to meet the current obligations of the University. The investment objective for the TIP is to maximize current income while preserving principal and maintaining liquidity. The pool is invested primarily in commercial paper, money market funds, corporate obligations, and U.S. government and agency securities within the credit quality and term constraints of the portfolio. In June 2006, the Board of Regents established a policy that allows for up to 30 percent of the pool to be invested in the Consolidated

Endowment Fund (CEF)—a fund of predominantly equity investments managed by outside investment managers and whose investments may have limited liquidity. As of June 30, 2007, the market value of TIP assets invested in CEF was \$107,119, which included investment earnings of \$7,119.

The TIP investments are guided by the following: average duration of three years or less for the entire portfolio and maximum duration of seven years for any individual holding; average credit quality of A1/A- or better; no use of leverage; and security ratings of investment grade (defined as Baa3/BBB- rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The TIP's average credit rating per Standard & Poor's Corporation is AA- and is further broken down as follows:

Standard & Poor's quality rating	Market value 2007	Market value 2006
AAA	\$368,313	\$559,346
AA		14,826
AA-	4,855	
A+	3,418	
A	26,895	4,321
A-	9,955	
A1	10,000	
A2	62,956	
BBB+	10,097	
BBB	12,285	58,348
BBB-	22,213	
BB+	9,967	
BB		9,744
N/A	1,110	1,055
Total	\$542,064	\$647,640

Consolidated Endowment Fund (CEF)—The Consolidated Endowment Fund represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested either in perpetuity or other specified time frames. The funds are invested to achieve a return of at least 5 percent above inflation over a three- to five-year period. The allocation policy for this fund targets a 20 percent investment in domestic equities; 20 percent investment in international equities; 20 percent in fixed-income related investments; 20 percent investment

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

in other investments including, but not limited to, private capital (such as private equity, venture capital, and distressed debt); and 20 percent invested in real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities).

The University's investments in private capital and real assets are generally structured as equity investments in limited partnership interests (LPs). The University invests in these LPs as a means of obtaining a higher rate of return over a long period of time but at a lower volatility than has been exhibited by publicly traded equities. Interests in LPs are privately negotiated transactions and not actively exchanged. Purchases and sales of LP interests are typically negotiated directly with a counter party and sometimes at a discount. The University receives liquidity from these investments through distributions from the general partners. Since the general partners maintain discretion over the timing of these distributions, the University is exposed to somewhat higher liquidity risk with respect to interests in LPs. The underlying investments of the LPs are valued at fair value as of June 30 based on quoted prices on national securities exchanges, independent appraisals, recent buys and sells if quoted prices or appraisals are not available, or at cost in the absence of an observable event. As of June 30, 2007 and 2006, the University had outstanding commitments of \$482,003 and \$188,160, respectively, to private capital investments that had not yet been drawn down by the general partners of these funds. Typically, committed capital is drawn down and invested over a several-year period. In the past, drawdowns on outstanding commitments have been funded by distributions from the private capital portfolio.

To maintain the allocation targets, the CEF may invest in various stock, bond, and currency futures contracts. The CEF's ratable credit risk, which was 5.9 percent of the pool in fiscal year 2007 compared to 9.2 percent in fiscal year 2006, consisted of debt securities that had an average Standard & Poor's rating of AA-.

The University distributes funds from the CEF to activities targeted by the endowment purpose. The distribution rate for fiscal year 2007 was 4.8 percent of a four-year moving average of the unit value of the fund. The distribution rate will decrease 10 basis points each year until the annual rate reaches 4.5 percent. Commencing in fiscal year 2008, the distribution calculation will use a five-year moving average of the unit value of the fund. When investment income is less than

the distribution rate, accumulated capital gains are used to supplement investment income to meet the spending policy. If investment income exceeds the amount needed for distribution, the excess remains in the respective endowment funds.

Group Income Pool (GIP)—Long-Term Reserves—The Group Income Pool represents assets invested for the purpose of various auxiliary and support-service units as well as long-term capital purposes. The investment objective of the GIP is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use; therefore, the GIP is invested in global, fixed-income securities through institutional mutual funds, and up to 50 percent of the pool can be invested in CEF. At June 30, 2007, the market value of GIP assets invested in CEF was \$19,829.

Separately Invested Funds (SIF)—Separately invested funds represent endowment and other restricted assets that, by the terms of the gift or by administrative decision, cannot be combined with the major investment pools.

Invested Assets Related to Indebtedness (IARI)—Included in investments are the invested assets related to indebtedness that are held by the bond trustee primarily in the debt-service reserve funds of the outstanding University bond issuances. In addition, unspent bond proceeds held by the University are invested for short-term income until needed for the capital projects for which the bonds were issued. The market value of debt-related investments held by the bond trustee and internally managed was \$171,200 and \$10,000 at June 30, 2007 and 2006, respectively.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University of Minnesota's investment in a single issuer. The University has an established policy for CEF that limits the amount of funds that may be invested by any one investment management firm to 25 percent of the total endowment. A further policy limits any investment manager to holding no more than 5 to 7 percent of the portfolio in a single issuer. As a result of these policies, the largest holdings with a single issuer as of June 30, 2007 and 2006, were less than 1 percent. The TIP's policy is to limit single issuer concentration to 7 percent. As of June 30, 2007 and 2006, no single issuer was above the 5 percent concentration threshold.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Custodial Credit Risk

Deposits—Custodial credit risk is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$13,575 of the University's bank balance of \$13,675 was uninsured and uncollateralized compared with the fiscal year ending June 30, 2006, when \$4,983 of the balance of \$5,083 was uninsured and uncollateralized.

Investments—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's policy is to register investment securities in the name of the Board of Regents of the University of Minnesota.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University's investments. The University's TIP policy limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates. The University's investment in securities subject to this risk as of June 30, 2007, was as follows:

Investment type	Market value 2007	Average duration (years)
Government issues—agencies	\$277,944	2.12
Corporate bonds	88,741	0.72
Mortgage backed securities	55,361	4.27
Other (primarily mutual funds)	40,004	2.43
Cash and cash equivalents	80,014	0.010
Total	\$542,064	

The University's investment in securities subject to interest rate risk as of June 30, 2006, was as follows:

Investment type	Market value 2007	Average duration (years)
Government issues—agencies	\$342,035	2.20
Corporate bonds	48,213	0.82
Mortgage backed securities	66,559	4.27
Other (primarily mutual funds)	58,073	4.90
Cash and cash equivalents	132,760	0.003
Total	\$647,640	

Foreign Currency Risk

The University's exposure to foreign currency risk derives from its positions in foreign currency denominated investments. Changes in exchange rates can adversely affect the fair value of an investment. The University's investment policy permits it to target allocations for publicly traded international securities at 15 percent, with a range around this target of 10–20 percent. The University's exposure to foreign currency risk, stated in U.S. dollar equivalents, was as follows:

Investment type	Currency	Market value 2007	Market value 2006
Equity	Euro	\$ 69,424	\$ 45,587
Equity	Japanese yen	41,701	35,723
Equity	Great British pound sterling	37,328	30,194
Equity	Australian dollar	9,435	1,828
Equity	Swiss franc	4,412	3,399
Equity	Hong Kong dollar	2,914	3,471
Equity	Canadian dollar	2,534	3,076
Equity	Singapore dollar	1,655	529
Equity	Swedish krona	1,561	884
Equity	South Korean won	1,308	388
Equity	Danish krone	855	327
Equity	Norwegian krone	577	457
Equity	New Zealand dollar	568	126
Equity	Thailand baht	488	
Equity	Taiwan dollar	223	393
Equity	Turkish lira	87	224
Equity	Mexican peso	58	
Equity	Malaysian ringgit		201
Futures	Euro		17
Total		\$175,128	\$126,824

As of June 30, 2007, the University had \$5,896 in open foreign currency purchase contracts and \$5,891 in open foreign currency sales contracts with a net market value of \$152. This compares with \$6,078 in open foreign currency purchase contracts and \$6,285 in open foreign currency sales contracts with a net market value of \$(48) as of June 30, 2006.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

The following summarizes cash, securities lending collateral, and investments, including the University's insurance subsidiary as of June 30, 2007:

	Temporary investment pool	Invested assets related to indebtedness	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	Insurance subsidiary	Total
Cash & cash equivalents*	\$ 53,077	\$ 204		\$ 8,247	\$ (41)		\$ 8,602	\$ 70,089
Securities lending collateral			\$100,300					100,300
Short-term investments	11,207	1,015						12,222
Total current assets	64,284	1,219	100,300	8,247	(41)	–	8,602	182,611
Restricted cash and cash equivalents		163,807						163,807
Investments—securities	450,954	6,030		624,176	31,234	\$40	26,297	1,138,731
Investments—other				536,965			4,317	541,282
Total noncurrent assets	450,954	169,837	–	1,161,141	31,234	40	30,614	1,843,820
	\$515,238	\$171,056	\$100,300	\$1,169,388	\$31,193	\$40	\$39,216	\$2,026,431
Unrestricted amounts included above	\$ 79,904	\$ –	\$ 16,163	\$ –	\$13,373	\$ –	\$39,216	\$ 148,656

The following summarizes cash, securities lending collateral, and investments, including the University's insurance subsidiary as of June 30, 2006:

	Temporary investment pool	Invested assets related to indebtedness	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	Insurance subsidiary	Total
Cash & cash equivalents*	\$106,359	\$ 864		\$ 471	\$ 7,921		\$ 4,168	\$ 119,783
Securities lending collateral			\$60,803					60,803
Short-term investments	48,725	955						49,680
Total current assets	155,084	1,819	60,803	471	7,921	–	4,168	230,266
Restricted cash and cash equivalents								–
Investment—securities	466,156	8,028		529,560	23,554	\$40	5,061	1,032,399
Investments—other				336,073			21,932	358,005
Total noncurrent assets	466,156	8,028	–	865,633	23,554	40	26,993	1,390,404
	\$621,240	\$9,847	\$60,803	\$866,104	\$31,475	\$40	\$31,161	\$1,620,670
Unrestricted amounts included above	\$132,760	\$ –	\$15,922	\$ –	\$15,079	\$ –	\$31,161	\$ 194,922

*Temporary investment pool includes cash-in-transit of \$(26,827) and \$(26,400) on June 30, 2007 and 2006, respectively.

Unrestricted cash and investments include amounts that have not been restricted for specific purposes by grantors, donors, or law.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Securities Lending

To enhance the return on investments, the Board of Regents of the University has authorized participation in a global securities lending program. The program is managed by the University's custodian bank, which lends securities to approved broker-dealers in return for cash or other acceptable collateral. By contractual agreement, the level of collateralization must be at least 100 percent of the market value of the securities loaned. Types of securities lent include domestic and foreign equities and domestic government, agency, and corporate bonds, as well as foreign, sovereign, fixed-income securities. Collateral received is generally in the form of cash, although U.S. government or agency securities, sovereign debt (rated A or better), convertible bonds, and irrevocable bank letters of credit are also acceptable forms of collateral. The University retains all rights to ownership of the loaned securities and receives all dividend and interest income. Neither the University nor its securities lending agent has the ability to pledge or sell collateral securities unless a borrower defaults.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, the University records the market value of the collateral as an asset in the balance sheet along with a corresponding liability. The University had loaned securities with market values of approximately \$89,642 and \$59,081 on June 30, 2007 and 2006, respectively. These loaned securities were supported by collateral of approximately \$100,300 and \$60,803, which is included as securities lending collateral in the consolidated statements of net assets on June 30, 2007 and 2006, respectively. Of this collateral amount, approximately \$86,913 and \$58,189 was cash and approximately \$13,387 and \$2,614 was acceptable noncash collateral on June 30, 2007 and 2006, respectively.

In general, since the value of collateral received exceeded the market value of the securities on loan, the University's credit risk was minimal. The University and the borrowers of its securities maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such pools was 64 and 56 days as of June 2007 and 2006, respectively. Since the loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. If the University must terminate a term loan, the lending agent has the ability to substitute the same security from a different client while returning the University's security.

Income and cost from its participation in this securities lending program were \$4,007 and \$3,798, respectively, for the year ended June 30, 2007, and \$2,384 and \$2,364 for the year ended June 30, 2006.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2007, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$126,953		\$126,953
Sponsored grants and contracts	76,922		76,922
Notes receivable	84	\$ 916	1,000
Student receivables	36,077		36,077
Trade receivables	73,999		73,999
Accrued interest	7,928		7,928
Other	15,888		15,888
Allowance for uncollectible accounts	(9,040)		(9,040)
Total receivables, net	\$328,811	\$ 916	\$329,727
Student loans receivable	15,051	57,752	72,803
Allowance for uncollectible accounts	(2,074)	(577)	(2,651)
Student loans receivable, net	\$ 12,977	\$57,175	\$ 70,152

Accrued liabilities as of June 30, 2007, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 13,414		\$ 13,414
Compensation and benefits	151,519	\$20,156	171,675
Self-insurance reserves	16,680	11,516	28,196
Accrued interest	6,676		6,676
Refundable advances		56,157	56,157
Other	23,747		23,747
Total accrued liabilities	\$212,036	\$87,829	\$299,865

Activity for certain liabilities as of June 30, 2007, consisted of the following:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensation and benefits (excluding pensions, see Note 6)	\$159,509	\$162,109	\$(159,098)	\$162,520	\$150,170
Self-insurance reserves (see Note 9)	29,577	186,211	(187,592)	28,196	16,680
Refundable advances	56,807		(650)	56,157	
Other	26,359	23,747	(26,359)	23,747	23,747

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Receivables, net, and student loans receivable as of June 30, 2006, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$108,630		\$108,630
Sponsored grants and contracts	74,261		74,261
Notes receivable	200	\$ 1,149	1,349
Student receivables	36,388		36,388
Trade receivables	71,045		71,045
Accrued interest	5,926		5,926
Other	11,648		11,648
Allowance for uncollectible accounts	(9,096)		(9,096)
Total receivables, net	\$299,002	\$ 1,149	\$300,151
Student loans receivable	15,721	56,058	71,779
Allowance for uncollectible accounts	(2,225)	(561)	(2,786)
Student loans receivable, net	\$ 13,496	\$55,497	\$ 68,993

Accrued liabilities as of June 30, 2006, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 8,092		\$ 8,092
Compensation and benefits	149,854	\$20,251	170,105
Self-insurance reserves	19,815	9,762	29,577
Accrued interest	2,920	332	3,252
Refundable advances		56,807	56,807
Other	26,359		26,359
Total accrued liabilities	\$207,040	\$87,152	\$294,192

Activity for certain liabilities as of June 30, 2006, consisted of the following:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensation and benefits (excluding pensions, see Note 6)	\$146,813	\$150,073	\$(137,377)	\$159,509	\$148,277
Self-insurance reserves (see Note 9)	29,759	175,243	(175,425)	29,577	19,815
Refundable advances	58,080		(1,273)	56,807	
Other	20,634	26,313	(20,588)	26,359	26,359

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

4. Capital Assets

Capital assets, net, on June 30, 2007, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets					
Buildings and improvements	\$2,402,631		\$ 66,438	\$(16,861)	\$2,452,208
Leasehold improvements	1,420		616		2,036
Equipment	558,947	\$ 53,475	(54)	(32,804)	579,564
Infrastructure	326,814		9,960		336,774
Library and reference books	107,004	13,430		(9,746)	110,688
Capitalized software		16,188			16,188
Total depreciable capital assets	3,396,816	83,093	76,960	(59,411)	3,497,458
Nondepreciable capital assets					
Land	57,955	3,053	3,020		64,028
Museums and collections	38,427	2,060			40,487
Construction in progress	33,576	207,965	(79,980)	(290)	161,271
Total nondepreciable capital assets	129,958	213,078	(76,960)	(290)	265,786
Accumulated depreciation					
Buildings and improvements	1,053,396	67,139		(15,918)	1,104,617
Leasehold improvements	700	228			928
Equipment	372,131	49,142		(30,092)	391,181
Infrastructure	142,528	10,549			153,077
Library and reference books	51,656	10,885		(9,746)	52,795
Capitalized software					–
Total accumulated depreciation	1,620,411	137,943	–	(55,756)	1,702,598
Capital assets, net	\$1,906,363	\$158,228	\$ –	\$ (3,945)	\$2,060,646
Summary					
Depreciable capital assets	\$3,396,816	\$ 83,093	\$ 76,960	\$(59,411)	\$3,497,458
Nondepreciable capital assets	129,958	213,078	(76,960)	(290)	265,786
Total capital assets	3,526,774	296,171	–	(59,701)	3,763,244
Less accumulated depreciation	1,620,411	137,943	–	(55,756)	1,702,598
Capital assets, net	\$1,906,363	\$158,228	\$ –	\$ (3,945)	\$2,060,646

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Capital assets, net, on June 30, 2006, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets					
Buildings and improvements	\$2,346,286	\$ 429	\$ 67,273	\$(11,357)	\$2,402,631
Leasehold improvements	1,309		111		1,420
Equipment	561,241	48,494	75	(50,863)	558,947
Infrastructure	305,496		21,318		326,814
Library and reference books	104,114	11,966		(9,076)	107,004
Capitalized software					—
Total depreciable capital assets	3,318,446	60,889	88,777	(71,296)	3,396,816
Nondepreciable capital assets					
Land	46,166	12,671	(845)	(37)	57,955
Museums and collections	36,804	1,623			38,427
Construction in progress	54,266	69,028	(87,932)	(1,786)	33,576
Total nondepreciable capital assets	137,236	83,322	(88,777)	(1,823)	129,958
Accumulated depreciation					
Buildings and improvements	991,164	67,450		(5,218)	1,053,396
Leasehold improvements	520	180			700
Equipment	369,903	48,004		(45,776)	372,131
Infrastructure	132,598	9,930			142,528
Library and reference books	50,176	10,556		(9,076)	51,656
Capitalized software					—
Total accumulated depreciation	1,544,361	136,120	—	(60,070)	1,620,411
Capital assets, net	\$1,911,321	\$ 8,091	\$ —	\$(13,049)	\$1,906,363
Summary					
Depreciable capital assets	\$3,318,446	\$60,889	\$ 88,777	\$(71,296)	\$3,396,816
Nondepreciable capital assets	137,236	83,322	(88,777)	(1,823)	129,958
Total capital assets	3,455,682	144,211	—	(73,119)	3,526,774
Less accumulated depreciation	1,544,361	136,120	—	(60,070)	1,620,411
Capital assets, net	\$1,911,321	\$ 8,091	\$ —	\$(13,049)	\$1,906,363

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

5. Long-term Debt

Long-term debt on June 30, 2007, consisted of the following:

	Interest rate	Due at various dates through	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2004A	4.86%	2010	\$ 18,807		\$ 3,474	\$ 15,333	\$ 3,634
Series 2003A	4.39%	2031	68,500		1,500	67,000	1,250
Series 2001C	4.40%	2008	144,750		5,500	139,250	27,850
Series 2001B	4.33%	2008	2,320		340	1,980	1,980
Series 2001A	3.08%	2008	7,710		2,470	5,240	5,240
Series 1999A	4.16%	2009	156,950		9,800	147,150	73,575
Commercial paper notes, Series A	3.15%–3.65%	2008	159,100		12,000	147,100	147,100
Commercial paper notes, Series B	3.15%–3.65%	2008		\$ 61,000	3,000	58,000	58,000
Obligations to the State of Minnesota pursuant to infrastructure development bonds	3.55%–6.90%	2025	63,208		5,941	57,267	5,437
Auxiliary revenue bonds	3.00%	2013	7,500		955	6,545	1,015
Special purpose revenue bonds	4.00%–5.00%	2029		147,971	257	147,714	3,189
Capital leases and other	1.72%–8.00%	2015	4,102	1,795	2,276	3,621	565
Total			\$632,947	\$210,766	\$47,513	\$796,200	\$328,835

Long-term debt on June 30, 2006, consisted of the following:

	Interest rate	Due at various dates through	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2004A	4.86%	2010	\$ 21,991		\$ 3,184	\$ 18,807	\$ 3,474
Series 2003A	4.39%	2031	69,950		1,450	68,500	1,500
Series 2001C	4.40%	2008	150,050		5,300	144,750	28,950
Series 2001B	4.33%	2007	2,645		325	2,320	2,320
Series 2001A	3.08%	2007	10,085		2,375	7,710	7,710
Series 1999A	4.16%	2009	166,400		9,450	156,950	78,475
Series 1996A	4.50%–5.75%	2006	165,630		165,630	–	–
Commercial paper notes, Series A	3.15%–3.65%	2007		\$159,100		159,100	159,100
Obligations to the State of Minnesota pursuant to infrastructure development bonds	4.00%–6.90%	2025	67,716	1,103	5,611	63,208	5,449
Auxiliary revenue bonds	3.00%	2013	8,405		905	7,500	955
Capital leases and other	1.72%–8.00%	2014	4,079	1,801	1,778	4,102	1,238
Total			\$666,951	\$162,004	\$196,008	\$632,947	\$289,171



General Obligation Bonds

In November 2001, the Board of Regents of the University of Minnesota (Board of Regents) authorized the issuance of new general obligation debt securities to provide funds for certain approved capital projects, costs of issuance, and refunding of the Series 1993A bonds. Of the \$501,000 of debt authorized under the February 2001 and November 2001 resolutions, \$380,600 was issued for the Series 1999A and 2001 bonds, \$71,000 was issued for the 2003A bonds for the refunding of the Series 1993A bonds, and \$20,720 was issued for the Series 2004A bonds, with \$28,680 remaining unissued.

Under generally accepted accounting principles, the Series 2001A, 2001B, 2001C, and 1999A bonds are defined as demand bonds because bondholders have the option to put the bonds back to (demand repayment from) the University at any time. In the absence of standby bond purchase agreements, the University has classified the entire obligation of the Series 2001A and 2001B bonds as current liabilities. At the date of this report, none of the bondholders had exercised the put option. Thus, management believes that the bond obligations will continue to be met in accordance with the longer-term payment schedules provided within the bond prospectuses.

In December 2003, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 2001C bonds. The agreement requires the banks to provide funds for the purchase of Series 2001C bonds that have been tendered or deemed tendered and not remarketed subject to certain conditions. The available principal commitment was initially the aggregate principal amount of the Series 2001C bonds outstanding of \$144,750, but is reduced annually in the same amount as the annual principal reduction on the bonds. The agreement, which expires on December 16, 2008, provides for 10 equal semiannual installments, at six-month intervals, of the bonds put back to the banks holding the agreement. No amounts had been drawn under this agreement through June 30, 2007.

In June 2004, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 1999A bonds. The available principal commitment was initially the aggregate principal amount of the Series 1999A bonds outstanding of \$156,950, but this is reduced annually in the same amount as the annual principal reduction on the bonds. The agreement provides for four equal semiannual installment payments on June 1 and December 1. No amounts had been drawn under this agreement through June 30, 2007. In May 2006, this agreement was extended for an additional three-year term, with an expiration date of June 12, 2009.

All general obligation bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the prospectuses. In addition, the bonds are tax-exempt with the exception of the Series 2001B bonds.

Special Purpose Revenue Bonds

On December 14, 2006, the University issued \$137,250 Special Purpose Revenue Bonds, Series 2006. The proceeds of the bonds are to be used to finance a portion of the cost of a football stadium on the Twin Cities campus and to pay costs of issuance. State funding of up to \$10,250 per year for no more than 25 years is to be provided to reimburse the University for the annual debt service on these bonds. The bonds were issued at coupon rates of 4–5 percent with a premium of \$10,721.

Commercial Paper Notes

On October 4, 2005, the University issued \$159,100 in tax-exempt Commercial Paper Notes, Series A, to refund the General Obligation Bonds, Series 1996A, and to pay costs of issuance. The proceeds were used to defease the remaining outstanding Series 1996A bonds as required under the terms of a put option exercised by Goldman Sachs & Co. In addition, the integrated fixed to floating interest-rate swap agreement on these bonds was also terminated.

On March 1, 2007, the University issued \$61,000 in tax-exempt Commercial Paper Notes, Series B, to finance purchases of land, buildings, construction, and remodeling projects to be undertaken by the University, the acquisition and installation of equipment by the University, and to pay costs of issuance.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

In October 2007, the Board of Regents authorized the issuance of additional commercial paper in the principal amount of up to \$135,000 to provide funds to finance or reimburse the University for purchases of land, building, construction, and remodeling projects to be undertaken by the University, and the acquisition and installation of equipment by the University. No amounts have been issued under this program to date.

Auxiliary Bonds

The University's auxiliary bonds are secured by the net revenues of the auxiliary activity to which they relate, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. The auxiliary bond agreements require minimum mandatory reserves sufficient to cover the principal and interest due in any future fiscal year. To comply with this requirement, the University set aside \$1,355 on June 30, 2007, and \$1,209 on June 30, 2006, for future debt service. An additional \$5,894 and \$8,637 was set aside for building replacement reserves for June 30, 2007 and 2006, respectively. These mandatory reserves are included in restricted expendable net assets in the financial statements.

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt services of infrastructure development bonds issued by the state for University capital projects. The amount of outstanding debt issued by the state on behalf of the University was \$171,801 as of June 30, 2007, and \$189,624 as of June 30, 2006.

Capital Leases and Other Debt

Capital lease and other commitments consist of fleet vehicle leases and a real estate contract for deed. Capital assets acquired through capital leases total \$10,976 net of related accumulated depreciation totaling \$5,526. The leases bear interest rates between 1.72 percent and 8.00 percent, with none extending beyond 2015. The real estate contract for deed bears interest at 8.00 percent and is due in 2011.

Interest Rate Swaps

In order to protect against future interest rate fluctuations on the University's general obligation bonds, and for budgeting purposes, the University has entered into eight separate interest rate swaps. All of these are *pay fixed and receive variable* interest rate swaps, which effectively changes the University's variable interest rate bonds to synthetic fixed-rate bonds.

The University treats the integrated swaps associated with the issuance of the 2001A, 2001C, and 2003A variable-rate bonds as qualified hedges with respect to these bonds.

The notional amounts of the swaps match the principal amounts of the associated bond issuance. The University's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance. The fair value was provided by the swap counterparties.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2007, are as follows:

Associated bond issue	Nature of association	Notional amounts	Effective date	Fixed rate	Variable rate	Swap type	Fair value	Swap termination date
2003A	Integrated	\$ 67,000	12/04/2002	4.39%	BMA Index**	Pay fixed and receive variable	\$ (3,432)	08/15/2031
2001C	Integrated	139,250	01/09/2002	4.40%	WAR*	Pay fixed and receive variable	(6,898)	12/01/2036
2001B	Nonintegrated	1,980	11/13/2001	4.33%	WAR*	Pay fixed and receive variable	40	07/01/2011
2001A	Integrated	5,240	11/13/2001	3.08%	WAR*	Pay fixed and receive variable	15	07/01/2008
1999A	Nonintegrated	147,150	02/17/1999	4.16%	WAR*	Pay fixed and receive variable	(4,070)	01/01/2034
							\$360,620	\$(14,345)

Other hedging activities

Freestanding	70,000	08/27/1997	4.98%	BMA Index**	Pay fixed and receive variable	(5,900)	08/27/2017	
Freestanding	37,500	08/28/1997	4.88%	BMA Index**	Pay fixed and receive variable	(2,363)	08/28/2012	
Freestanding	37,500	09/01/1997	4.90%	BMA Index**†	Pay fixed and receive variable	(2,407)	07/01/2012	
							\$145,000	\$(10,670)

* WAR refers to the weighted average rate paid on the associated bond issue.

** BMA Index refers to the Bond Market Association Municipal Swap Index.

† London Interbank Offered Rate (LIBOR) Index effective July 1, 2007.

The University has swap transactions with three separate counterparties. The percentage of the notional amount of swaps outstanding on June 30, 2007, for each counterparty is 72, 21, and 7 percent, while these counterparties are rated A1, Aa2, and Aa3, respectively, by Moody's Investors Service.

The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap had a negative fair value, the University would be liable to the counterparty for a payment equal to the fair value of the swap.

The swap contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivatives' fair value

should the counterparty not perform under the terms of the swap agreements. The swap contracts with negative fair values are not exposed to credit risk.

In addition, the University is exposed to termination risk on one of the freestanding swaps. The freestanding swap with a notional amount of \$70,000 allows the counterparty to terminate the swap agreement if the variable rate paid by the counterparty to the University averages above 7 percent for any rolling consecutive 90-day period.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2007, debt service requirements of the University's outstanding long-term debt obligations and net swap payments are as follows.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Long-term debt obligations for the next five years and in subsequent five-year periods:

Fiscal year ending June 30	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
2008	\$123,170	\$205,100	\$ 565	\$328,835	\$115,664	\$ 3,442	\$ 447,941
2009	117,609		975	118,584	29,721	2,924	151,229
2010	44,067		785	44,852	20,497	2,151	67,500
2011	44,547		606	45,153	16,542	2,144	63,839
2012	39,898		406	40,304	12,634	2,138	55,076
2013–2017	57,640		284	57,924	44,197	6,216	108,337
2018–2022	57,068			57,068	30,915	1,531	89,514
2023–2027	60,433			60,433	17,433	909	78,775
2028–2032	43,047			43,047	4,050	300	47,397
	\$587,479	\$205,100	\$3,621	\$796,200	\$291,653	\$21,755	\$1,109,608

Defeased Bonds

In previous years, the University defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The defeased bonds are as follows:

	Amount defeased	Amount outstanding on June 30, 2007
General obligation bonds 1982 Series A	\$112,635	\$ 26,520
General obligation bonds 1996 Series A	\$159,000	\$153,000

Neither the outstanding indebtedness nor the related trust account assets for the defeased bonds are included in the University's financial statements.

6. Pension Plans

Description of Plans

The University contributes to a single-employer defined contribution plan—the Faculty Retirement Plan (FRP)—and two cost-sharing, multiple-employer, defined-benefit plans—the State Employees' Retirement Fund (SERF) of the Minnesota State Retirement System and the Public

Employee Police and Fire Fund (PEPFF) of the Public Employees Retirement Association pension plans. In addition, some employees eligible for the FRP may be eligible for additional benefits from the University of Minnesota Supplemental Benefits Plan (SBP), which is a single-employer defined benefit plan. For faculty members employed prior to 1963 and for female participants employed prior to July 1, 1982, the SBP is funded in an amount equal to or greater than the amount required under Chapter 356 of the Minnesota Statutes. All SBP participants are retired. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries.

SERF and PEPFF each issue a publicly available financial report that includes financial statements and required supplementary information for each plan. These reports may be obtained by writing or calling the plans, as follows:

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, MN 55103
651-296-2761

Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, MN 55103
651-296-7460 or 1-800-652-9026



Funding Policy and Annual Pension Cost

The University's annual pension cost and related information for each plan is as follows

	FRP	SERF	PEPFF	SBP
University contributions—fiscal year ended June 30				
2007	\$73,158	\$15,799	\$450	\$ 440
2006	67,595	14,868	362	440
2005	62,472	14,555	326	416
2004	56,713	13,661	310	425
Current contribution rates				
University	13.0%	4.0%	11.7%	N/A
Plan members	2.5%	4.0%	7.8%	N/A
Annual pension cost—fiscal year ended June 30				
2006	N/A	\$14,868	\$362	\$(511)
2005	N/A	14,555	326	325
2004	N/A	13,661	310	603
2003	N/A	14,151	272	(10)
Actuarial valuation date	N/A	6/30/06	6/30/06	7/01/06
Actuarial cost method	N/A	Entry age	Entry age	Entry age
Amortization method	N/A	Level percentage of salary, open	Level percent, closed	Level dollar amount by 6/30/21, closed
Remaining amortization period	N/A	30 years	14 years	30 years
Asset valuation method	N/A	Fair market value, smoothed over 4 years	Fair market value, smoothed over 5 years	Fair market value, smoothed over 4 years
Actuarial assumptions				
Investment rate of return	N/A	8.5%	8.5%	5.0%
Projected salary increase	N/A	5.25%–6.75%	5.25%–11.5%	3.5%
Assumed inflation rate	N/A	No assumption	5.0%	2.5%
Cost of living adjustment	N/A	2.5%	No assumption	Determined by formula, varies

These contribution amounts are equal to contractually required contributions for each year in compliance with state statute. The University makes all contributions to the SBP using a variable rate.

The following information pertains to the SBP as of July 1:

	2006	2005	2004
Pension benefit obligation	\$9,154	\$10,596	\$11,118
Less net assets available for benefits	5,099	5,590	6,245
Unfunded accrued liability	\$4,055	\$ 5,006	\$ 4,873
Funded ratio (net assets as a percentage of the pension benefit obligation)	55.70%	52.76%	56.17%

The actuarial present value of accumulated plan benefits in the SBP was not calculated.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

The plans invest in various securities including U.S. government securities, corporate debt instruments, mutual funds, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported for net assets available for plan benefits.

7. Related Organization

The University is responsible for appointing nine members of the 15-member Board of Directors of UCare Minnesota, a licensed nonprofit health maintenance organization (HMO) that provides medical services for its members. The University's accountability for this organization, however, does not extend beyond making Board appointments. Two members are automatically appointed by virtue of the University positions they hold; the dean of the Medical School and the head of the University's Department of Family Medicine and Community Health appoint the remaining members. During fiscal year 2007, UCare Minnesota contributed \$4,500 to the Department of Family Medicine and Community Health.

8. Commitments and Contingencies

On December 31, 1996, the University of Minnesota Hospital and Clinic (UMHC) operations and certain assets and liabilities were transferred to University of Minnesota Medical Center, Fairview (Fairview). Fairview and the University also agreed to affiliate with each other in support of research, education, and patient care missions of the University's Academic Health Center (AHC). Under this affiliation agreement, the University shares equally with Fairview in any unfunded education costs at the teaching hospital.

The University also provides certain services to Fairview, and Fairview provides certain services to the University, to be reimbursed at negotiated rates. These services include items such as utilities, mailing and addressing services, police protection, printing services, miscellaneous services related to telecommunications, and such other items as are necessary to support the relationship, for which \$6,977 and \$6,798 was billed to Fairview in fiscal years 2007 and 2006, respectively. Fairview billed the University \$304 and \$488 in fiscal years 2007 and 2006, respectively, for pharmaceuticals, medical professionals, and transcription services.

Construction projects in progress, principally buildings, approximated \$161,271 on June 30, 2007. The estimated cost to complete these facilities is \$555,214, which is to be funded from plant fund assets and \$121,467 in appropriations available from the State of Minnesota as of June 30, 2007.

The University owns steam production facilities that produce steam for heating and cooling the Twin Cities campus, which by agreement are managed, operated, and maintained by an unaffiliated company. The term of the agreement is for five years and began May 17, 2004. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs, as well as contingent payments based upon performance requirements.

The University is obligated under various operating leases for the use of real property and equipment. Included in the leases for real property is an agreement between Gateway and the University of Minnesota for a rent obligation through September 2014. Total operating lease expenditures for the years ended June 30, 2007 and 2006, were \$16,093 and \$15,703, respectively, of which \$13,498 and \$13,093 were for real property and \$2,595 and \$2,610 were for equipment, respectively.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



The future commitments as of June 30, 2007, are as follows:

Steam plant and operating lease commitments are listed for the next five years and in subsequent five-year periods:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2008	\$ 742	\$13,423	\$14,165
2009	650	9,883	10,533
2010		6,862	6,862
2011		5,957	5,957
2012		5,466	5,466
2013–2017		9,626	9,626
2018–2022		273	273
Total commitments	1,392	51,490	52,882
Less current portion	(742)	(13,423)	(14,165)
Long-term commitments	\$ 650	\$38,067	\$38,717

The University is a defendant in cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters. While any litigation has an element of uncertainty and the University cannot, therefore, predict how these cases will be finally resolved, management and its general counsel believe the outcomes of the cases, individually and combined, will not have a material adverse effect on the overall financial position of the University.

9. Self-insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company (see Note 1). Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 6 percent.

The University is also self-insured for workers' compensation through an internally maintained fund, and excess insurance is maintained through the Workers' Compensation Reinsurance Association (WCRA). The internal fund for workers' compensation is maintained only to fund the current year's expected payouts. Each year, an actuarial estimate of the University's liability for workers' compensation is compiled and recorded, but the liability is not separately funded.

The University's medical (health) coverage for faculty and staff is a self-insured program (UPlan). Under the medical UPlan, the University pays claims and establishes reserves, and the administration of the program is handled by three independent administrators: Medica and HealthPartners for medical plan administration and RxAmerica for pharmacy benefit management. Two carriers provide medical conversion policies to the University under which terminated employees are able to convert their UPlan coverage to single coverage once their COBRA rights expire. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$600,000 in a single year. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded.

The University's dental coverage for faculty and staff is also a self-insured program (UPlan). Under the dental UPlan, the University pays claims and establishes reserves. The administration of the program is handled by two independent administrators, Delta Dental and HealthPartners. An annual actuarial estimate of the University's liability for dental claims, including IBNR, is recorded.

Effective September 1, 2004, the University changed its medical coverage for eligible graduate assistants from a fully insured program to a self-insured program. Under the graduate assistant medical plan, the University pays claims and establishes reserves. The program is administered by Blue Cross and Blue Shield of Minnesota. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Effective September 1, 2005, the University negotiated a new student health plan for the Academic Health Center. The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated reserve ensures that funds are available to cover claims up to the point where stop-loss coverage begins.

Changes in reported liabilities since June 30, 2006, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$ 6,729	\$ 625	\$ (1,772)	\$ 908	\$6,490
Workers' compensation	7,000	3,078	(3,642)	1,517	7,953
UPlan medical	13,493	151,170	(150,437)	(2,580)	11,646
UPlan dental	797	13,368	(13,274)	(377)	514
Graduate assistant health plan	751	15,504	(15,176)	40	1,119
Student health plan	807			(333)	474

Changes in reported liabilities since June 30, 2005, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$ 6,306	\$ 2,474	\$ (2,133)	\$ 82	\$ 6,729
Workers' compensation	9,000	2,312	(2,676)	(1,636)	7,000
UPlan medical	12,365	143,003	(138,394)	(3,481)	13,493
UPlan dental	757	13,308	(13,015)	(253)	797
Graduate assistant health plan	757	13,831	(13,831)	(6)	751
Student health plan	574			233	807

Other adjustments reflect reserve changes on prior years' claims and changes in estimated IBNR.



10. Termination Benefits

Termination benefits are defined as benefits received for involuntarily or voluntarily terminating employment with the University in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. The benefits disclosed here exclude any health-care related benefits. The disclosure for these benefits will be implemented simultaneously with the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Other Than Pensions*.

Termination benefits that apply to the University of Minnesota include vacation, severance lump-sum payouts, and athletic contract buyouts. Vacation payouts apply to employees that have terminated employment prior to the end of the fiscal year and subsequently receive compensation payment in the next fiscal year. Eligible civil service and represented bargaining unit staff members may fall under the University of Minnesota's Layoff Severance Program. This program is an elected program provided to civil service and represented bargaining unit staff members who receive a notice of layoff and who meet the eligibility requirements as described. Benefits are based on years of continuous service with the University in designated types of appointments. Severance payouts may apply to tenured faculty members and academic professionals with continuous federal appointments under the University of Minnesota Federal Terminal Agreement. This program

is designed to facilitate change within units by providing remuneration in return for tenure resignation. The University athletic contract buyouts apply when a coach resigns his or her duty and the University of Minnesota has agreed to pay additional compensation related to the coaching employment agreement. All termination benefits outstanding as of June 30, 2007 and 2006, are paid in the subsequent fiscal year.

Civil Service and Represented Unit Staff Contracts

Benefits below reflect vacation and severance lump-sum payouts:

University contributions as of June 30	Number of staff members	Liability amount
2007	285	\$844
2006	247	\$466

Faculty Contracts

Benefits below reflect vacation and severance lump-sum payouts:

University contributions as of June 30	Number of staff members	Liability amount
2007	71	\$256
2006	57	\$314

Athletic Contracts

Benefits below reflect contract buyouts:

University contributions as of June 30	Number of staff members	Liability amount
2007	1	\$550
2006	—	\$ —

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

11. Operating Expenses by Natural Classification

Operating expenses by natural classification for June 30, 2007, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 559,067	\$ 85,395			\$ 644,462
Research	342,156	168,953			511,109
Public service	126,303	64,252			190,555
Academic support	243,482	100,970			344,452
Student services	69,988	14,894			84,882
Institutional support	118,285	31,056			149,341
Operation and maintenance of plant	99,137	90,154			189,291
Scholarships and fellowships	2,097	653	\$67,098		69,848
Depreciation				\$137,943	137,943
Auxiliary enterprises	83,432	120,016			203,448
Other operating expense		22			22
	\$1,643,947	\$676,365	\$67,098	\$137,943	\$2,525,353

Operating expenses by natural classification for June 30, 2006, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 532,423	\$ 88,913			\$ 621,336
Research	322,615	156,145			478,760
Public service	119,892	62,094			181,986
Academic support	224,226	70,138			294,364
Student services	65,170	14,764			79,934
Institutional support	110,842	14,616			125,458
Operation and maintenance of plant	92,188	99,722			191,910
Scholarships and fellowships	2,680	909	\$67,382		70,971
Depreciation				\$136,120	136,120
Auxiliary enterprises	73,723	111,501			185,224
Other operating expense		(277)			(277)
	\$1,543,759	\$618,525	\$67,382	\$136,120	\$2,365,786



12. Component Units

The significant accounting policies and related note disclosures for investments, securities lending, temporarily restricted net assets, and permanently restricted net assets, as reported in the separately issued financial statements of the University of Minnesota Foundation (UMF) and the Minnesota Medical Foundation (MMF), as well as disclosures for guarantee agreements and financing agreements for the University Gateway Corporation (Gateway) are presented below.

Summary of Significant Accounting Policies

University of Minnesota Foundation Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates of 2.65 to 5.15 percent based on when the contribution was made. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history.

Contributions as stated in the statement of activities include \$786 of indirect support received by UMF.

Assets Held in Charitable Trusts

UMF has entered into unitrust and annuity agreements as trustee that provide, among other matters, that the trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. UMF records the assets held in these trusts at fair value and the corresponding liability at the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amount is recorded as contribution revenue at the time the trust is established. In subsequent periods, the liability under charitable trust agreements is adjusted and changes therein are reported as a component of the

change in carrying value of trusts in the consolidated statement of activities. Upon termination of the income obligation, the assets of the trust are held by UMF in accordance with the donor's trust agreement.

Gift Annuity Agreements

UMF has entered into gift annuity agreements that provide that UMF shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. UMF records the assets received at fair value, and a corresponding liability is recorded for the actuarially determined present value of payments to be made to the designated beneficiaries, with the residual amount recorded as contribution revenue. Upon the death of the beneficiaries, the assets of the gift annuity fund are held by UMF in accordance with the agreements.

Minnesota Medical Foundation Contributions

Contributions, which include pledges, are recognized as revenues in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor.

Pledges are recorded as pledges receivable using discount rates ranging from 3.5 to 5.1 percent. Additionally, an allowance for uncollectible pledges is provided based on management's judgment, including factors such as aging schedules, prior collection history, and the nature of fund-raising activity.

Investments, fixed assets, and contributed materials are initially recorded at fair value when received.

Contributions with donor-imposed conditions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restriction on the statement of activities.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Investments

University of Minnesota Foundation

Investments in marketable equity and debt securities are carried at fair value as established by the major securities markets. Investments for which quoted market prices are not available are carried at values as provided by the respective fund managers or general partners. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. The estimated values as determined by the fund managers and general partners may differ from the values that would have been used had ready markets for the investments existed, and the differences

could be significantly higher or lower for any specific holding. UMF reviews the valuations provided by the fund managers and general partners for reasonableness.

Donated investments are recorded at their fair values, as determined on the date of donation. Investment income and gains and losses are recorded in the period incurred.

For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain net assets that the board of trustees or the donors have designated to be segregated and maintained separately.

The investments on June 30, 2007, are summarized as follows:

	Traditional structures	Alternative structures	
Values based on quoted market prices or alternative structures with underlying investments whose values are based on quoted market prices			
Cash and cash equivalents	\$166,469		
Treasury inflation protected securities (TIPS)	41,488		
Fixed income corporate bonds	78,801		
U.S. equity	111,149	\$ 78,254	
Foreign equity	78,128	26,726	
Hedge funds		34,730	
Subtotal	476,035	139,710	
Values based on estimates provided by fund managers or general partners			
Hedge funds		250,914	
Natural resources		65,909	
Real estate		80,770	
Private equity		289,741	
Foreign equity exposure		107,350	
Treasury inflation protected securities (TIPS)		9,889	
U.S. equity exposure		21,782	
Subtotal	–	826,355	
Total	\$476,035	\$966,065	\$1,442,100
Other investments not categorized above			35,315
Less investments loaned to broker			(42,534)
Less charitable gift annuities reported separately			(33,223)
Total			\$1,401,658

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Investments held in traditional structures represent those held directly by the UMF in custodial accounts with financial institutions. Investments held in alternative structures include those held through interests in collective trust funds, limited partnerships, commingled funds, and limited liability companies.

Investments included funds held for the custody of others of \$70,463 as of June 30, 2007.

Minnesota Medical Foundation

Investments in marketable equity and debt securities are reported at fair value based on quoted market prices. Investments in collective trust funds are carried at estimated fair value based on information provided by the managers of the collective trust funds. Investments for which quoted market prices are not available are carried at values as provided by the general partner and the respective underlying fund managers. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

The investments on June 30, 2007, are summarized as follows:

	Traditional structures	Alternative structures	Total
Values based on quoted market prices or alternative structures with underlying investments whose values are based on quoted market prices			
Cash and cash equivalents	\$ 11,384	\$ 871	\$ 12,255
Treasury inflation protected securities (TIPS)	36,274		36,274
Fixed income corporate bonds	47,854		47,854
U.S. equity	115,058	61,158	176,216
Foreign equity	29	26,231	26,260
Subtotal	\$210,599	\$88,260	\$298,859
Values based on estimates provided by fund managers or general partners			
Global distressed debt		2,037	2,037
Private equity		66	66
Foreign private equity		138	138
Subtotal	—	2,241	2,241
Total	210,599	90,501	301,100
Less investments loaned to broker			(49,518)
Total			\$251,582

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Investments held in traditional structures represent those held directly by MMF in custodial accounts with financial institutions. Investments held in alternative structures include those held through interests in collective trust funds and limited partnerships.

Investments include funds held for the custody of others of \$2,417 as of June 30, 2007. Net investment return for the year ended June 30, 2007, consisted of the following:

Interest and dividend income	\$ 7,184
Net realized and unrealized investment gains	34,956
	42,140
Less external investment manager and consultant fees	(1,311)
	\$40,829

Securities Lending

University of Minnesota Foundation

UMF participates in securities lending transactions. Under terms of its securities lending agreement, UMF requires collateral of value at least equal to 102 percent of the then fair value of the loaned securities and accrued interest, if any. The risks to UMF of securities lending are that the borrower may not provide additional collateral when required or return the securities when due. The securities lending transactions at and for the year ended June 30, 2007, are summarized as follows:

Investments loaned to broker	\$42,534
Investments collateral	43,606
Income from securities lending	64

Minnesota Medical Foundation

MMF participates in securities lending transactions. Under terms of its securities lending agreement, MMF requires collateral of value at least equal to 102 percent of the then fair value of the loaned securities and accrued interest, if any. The risks to MMF of securities lending are that the borrower may not provide additional collateral when required or return the securities when due.

Investments held as collateral consist of cash and cash equivalents, U.S. Treasury and government securities, and short-term corporate debt instruments. The securities lending transactions at and for the year ended June 30, 2007, are summarized as follows:

Investments loaned to broker	\$49,518
Investments collateral	50,934
Income from securities lending	62

Net Assets

University of Minnesota Foundation

Net assets of UMF and changes therein are classified into the following three categories:

1. Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of UMF.
2. Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are time restricted.
3. Permanently restricted net assets consist of contributions that have been restricted by the donors who stipulate the resources be maintained permanently, but permit UMF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets were available as of June 30, 2007, for the following purposes:

Capital improvement/facilities	\$ 98,948
Faculty support	21,572
Scholarships and fellowships	248,369
Lectureships, professorships, and chairs	263,569
College program support	267,994
Research	37,953
Trusts	13,675
Other	7,990
	\$960,070

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)



Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances and purposes the income was expendable to support as of June 30, 2007, were as follows:

Capital improvement/facilities	\$ 3,676
Faculty support	13,396
Scholarships and fellowships	192,594
Lectureships, professorships, and chairs	161,694
College program support	52,313
Research	7,891
Trusts	40,308
Other	1,651
	<u>\$473,523</u>

Minnesota Medical Foundation

Net assets of MMF are classified based on the existence or absence of donor-imposed restrictions.

Temporarily Restricted Net Assets

This classification includes net assets that have been restricted by donors for specific purposes or are not available for use until a specific time. These consist principally of gifts and grants for designated purposes, investment return, and payout from permanent endowments. Such net assets are retained until expended as provided by the donor. Temporarily restricted net assets were available as of June 30, 2007, for the following purposes:

Medical School–Twin Cities	\$ 78,756
Student scholarships and support	6,118
Academic Health Center	42,555
Faculty grants and awards	15,936
School of Public Health	3,625
Medical School–Duluth	1,505
	<u>\$148,495</u>

Permanently Restricted Net Assets

This classification includes net assets that have been permanently restricted by donors who stipulate the resources be maintained by MMF in accordance with the memorandum of agreement. Earnings and growth in excess of payout (4.75 percent of the average market value over 20 trailing quarters) are reinvested and permanently restricted by MMF. Permanently restricted net assets are restricted to investments in perpetuity. The permanently restricted net asset balances and purposes the income was expendable to support, as of June 30, 2007, were as follows:

Medical School–Twin Cities	\$131,293
Student scholarships and support	34,222
Academic Health Center	28,421
Faculty grants and awards	9,225
School of Public Health	7,325
Medical School–Duluth	496
	<u>\$210,982</u>

Guarantee Agreement and Financing Agreements

University Gateway Corporation

Guarantee Agreement

The University of Minnesota Foundation guarantees the Series 1997, 2002 and 2006 bonds. Gateway pays a credit enhancement fee equal to one quarter of 1 percent of the amount of the bonds outstanding on each June 1 and December 1.

Gateway recorded \$224 and \$224, respectively, of bond guarantee fee expense paid to the University of Minnesota Foundation for each of the years ended June 30, 2007 and 2006. The amounts are included in financing expense on the statement of activities and changes in net assets.

Financing Agreements

Bonds payable: The City of Minneapolis revenue bonds, Series 1997A and B, Series 2002 and 2006, are collateralized by substantially all the assets of Gateway, and repayment of the revenue bonds will be made through lease payments of the occupants.

To minimize interest cost, the University of Minnesota Foundation has guaranteed the revenue bonds (see Guarantee Agreement, above). In addition, Gateway's

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006 (in thousands)

Board of Directors' resolutions require mandatory capital contributions from the beneficiary organizations should the cash flow of Gateway be insufficient to meet the debt service obligations of Gateway.

Pursuant to a mortgage between Gateway and the trustee, the obligations to pay the principal and interest on the bonds have been collateralized by the mortgage on the property and equipment and an assignment of rents.

In July 2005, Gateway entered into an interest rate swap arrangement with a bank to fix the interest rate on \$12,000 of variable-rate debt at an annual interest rate

of 3.93 percent. The swap arrangement is indexed against the Bond Market Association Municipal Swap Index. The arrangement requires the difference between the fixed rate of interest and the index to be settled monthly. Included in interest expense for the year ended June 30, 2007 and 2006, was approximately \$37 and \$112 paid to the bank, respectively. The change in fair value of the interest rate swap arrangement has been recorded in the statement of activities and changes in net assets, resulting in a loss of approximately \$278 for the year ended June 30, 2007.

Approximate amounts payable under financing agreements on June 30, 2007 and 2006, consisted of the following:

	2007	2006
City of Minneapolis revenue bonds, Series 1997A, with interest ranging from 4.80 percent to 5.25 percent, maturing serially from December 2001 through December 2024	\$21,470	\$22,145
City of Minneapolis revenue bonds, Series 1997B, with interest at a variable rate, principal due in December 2027	15,000	15,000
City of Minneapolis revenue bonds, Series 2002, with interest at a variable rate, principal due in June 2032	7,350	7,350
City of Minneapolis revenue bonds, Series 2006, with interest ranging from 4.00 to 4.50 percent, maturing serially from December 2006 through December 2031	22,375	22,700
Other	314	336
	66,509	67,531
Less discount on Series 2006 bond	(88)	(92)
Less current portion	(547)	(347)
	\$65,874	\$67,092

Aggregate annual maturities are approximately as follows:

Fiscal years ending:	
2008	\$ 547
2009	555
2010	581
2011	601
2012	627
Thereafter	63,598
	\$66,509

The bonds are subject to earlier redemption upon the occurrence of certain events as specified in the bond documents.

It is Gateway's intention to utilize the proceeds from the issuance of the Series 2006 bonds to pay in full the balance of the Series 1997A bonds during the year ending 2008.

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Dallas Bohnsack

New Prague, District 2

Maureen Cisneros

West St. Paul, At Large

Linda Cohen

Minnetonka, At Large

John Frobenius

St. Cloud, District 6

Venora Hung

Golden Valley, District 5

Steven Hunter

St. Paul, At Large

Dean Johnson

Willmar, At Large

David Larson

Wayzata, District 3

David R. Metzen

Sunfish Lake, District 4

Patricia S. Simmons

Rochester, District 1

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1,800—12/07



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Consent Report

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To approve engagement of an audit firm other than the University's principal external auditors, with a value greater than \$25,000, in accordance with the Board of Regents Policy, *Audit Committee Charter*, Subd.4.(g).

Outline of Key Points/Policy Issues:

Approval is requested for the engagement of McGladrey & Pullen, Certified Public Accountants, by the University's Office for Technology Commercialization, for agreed-upon-procedures to verify the accuracy and evaluate the integrity of the financial information presented in the quarterly royalty reports submitted to the University of Minnesota by Boehringer Ingelheim Vetmedica, Inc., as called for in the license agreements for the period April 1, 2002 through June 30, 2007. This contract is for a value not to exceed \$43,500.

This request has been referred to the full Board of Regents for approval since the Audit Committee does not meet until February 2008.

Background Information:

Reference in part Board of Regents Policy: *Audit Committee Charter*, Subd.4.(g):

The Audit Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than \$25,000 or that may impair the audit firm's independence regarding the University.

President's Recommendation for Action:

The President recommends approval of the Consent Report.

Purchase of Audit Services over \$25,000

To approve the engagement of McGladrey & Pullen, Certified Public Accountants, by the University's Office for Technology Commercialization, for agreed-upon-procedures to verify the accuracy and evaluate the integrity of the financial information presented in the quarterly royalty reports submitted to the University of Minnesota by Boehringer Ingelheim Vetmedica, Inc., as called for in the license agreements for the period April 1, 2002 through June 30, 2007. This contract is for a value not to exceed \$43,500.

As required by Board Policy, Audit Committee Charter, the Audit Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than \$25,000, or that may impair the audit firm's independence regarding the University.

Submitted by: Denise Seck, Acting Controller

Approval of the item requested by:


Richard Pfitzenreuter, Vice President/CFO

11/29/07
Date



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Gifts

review review/action action discussion

Presenters: Foundation President Gerald Fischer

Purpose:

policy background/context oversight strategic positioning

Outline of Key Points/Policy Issues:

Background Information:

President's Recommendation for Action:

The President recommends that the Summary Report of Gifts to the University of Minnesota through October 31, 2007 are hereby approved.

**MEETING OF THE BOARD OF REGENTS
GIFTS TO BENEFIT THE UNIVERSITY OF MINNESOTA
SUMMARY REPORT***

December 14, 2007 Regents Meeting

	<u>October</u>		<u>Year-to-Date</u>	
	<u>2007</u>	<u>2006</u>	<u>07/01/07 10/31/07</u>	<u>07/01/06 10/31/06</u>
U of M Gift Receiving	\$ 1,680,561	\$ 40,610	\$ 1,919,725	\$ 188,244
4-H Foundation	25,559	27,910	393,749	1,099,281
Arboretum Foundation	496,838	215,541	983,318	840,373
MN Medical Foundation	7,330,349	2,896,245	12,573,617	14,437,310
University of Minnesota Foundation	<u>24,867,316</u>	<u>14,942,706</u>	<u>60,596,365</u>	<u>47,540,358</u>
Total Gift Activity	<u><u>\$ 34,400,623</u></u>	<u><u>\$ 18,123,012</u></u>	<u><u>\$ 76,466,774</u></u>	<u><u>\$ 64,105,566</u></u>

*Detail on gifts of \$5,000 and over is attached.

Pledges are recorded when they are received. To avoid double reporting, any receipts which are payments on pledges are excluded from the report amount.

Gifts to benefit the University of Minnesota

Gifts received in October 2007

<u>Donor</u>	<u>Rec'd by</u>	<u>Gift/Pledge</u>	<u>Purpose of gift</u>
<u>\$1 Million and Over</u>			
Shakopee Mdewakanton Sioux Community	UMF	Gift/Pledge	On Campus Stadium, Scholarships
Anonymous	MMF	Gift	Family Medicine and Community Health
Margaret and Angus Wurtele Foundation of Minneapolis	UMF	Gift	Wurtele Venture Fund
3M Company	UMF/UM	Gift	Various Colleges
Anonymous	UMF	Gift	Carlson School of Management
<u>\$500,000 - \$1,000,000</u>			
John W. Mooty Foundation Trust	UMF	Pledge	On Campus Stadium, Law School
Fairview Health Services	MMF	Gift	Medical School Administration
Jane N. Mooty Foundation Trust	UMF	Pledge	On Campus Stadium
Monica A. Molander Estate	UMF	Gift	Scholarships
<u>\$250,000 - \$500,000</u>			
Julia Neubart	MMF	Gift	Neurosurgery
Eva Constantine	MMF	Gift	AHC Cancer Center
Charles W. and Elizabeth C. Mooty	UMF	Pledge	Carlson School of Management, On Campus Stadium
Anonymous	UMF	Gift	On Campus Stadium, College of Liberal Arts
International Dairy Queen Incorporated	UMF	Pledge	Carlson School of Management
Alfred Harrison	MMF	Gift	Pediatrics
<u>\$100,000 - \$250,000</u>			
Augusta Newman	UM	Gift	Weisman Art Museum
Daniel Kunin	MMF	Pledge	Pediatrics
Vikings Children's Fund	MMF	Gift	Pediatrics
Dorothy Ellstrom Estate	UMF/MMF	Gift	College of Veterinary Medicine, Raptor Center, Ophthalmology
Gray Plant Mooty Foundation	UMF	Gift/Pledge	Law School
Gray Plant Mooty Mooty and Bennett PA	UMF	Pledge	On Campus Stadium
General Motors Corporation	UMF	Gift	Institute of Technology
Frederick J. and G. Ann Bentz	UMF/UM	Gift/Pledge	Minnesota Landscape Arboretum, College of Design

\$100,000 - \$250,000

Bruce and Tracy Mooty	UMF	Gift/Pledge	Law School, On Campus Stadium, Department of Intercollegiate Athletics
Ronald W. and Mary Ann Weber	UMF	Gift	University of Minnesota, Duluth
Miles and Shirley Fiterman Charitable Foundation	UMF	Pledge	Weisman Art Museum
Anonymous	UMF	Pledge	On Campus Stadium
Adopt A Room	MMF	Gift	Pediatrics

\$50,000 - \$100,000

University of Minnesota Touchdown Club Incorporated	UMF	Gift	Department of Intercollegiate Athletics, On Campus Stadium
James J. and Kristin D. Bender	UMF	Pledge	Law School
Donaldson Company Incorporated	UMF	Gift	Institute of Technology
Lions Multiple District Hearing Foundation Incorporated	MMF	Gift	Otolaryngology
Joseph T. Ling Estate	UMF	Gift	Institute of Technology
Mark Niblick	UMF	Gift	Scholarships
The Cleveland Foundation	UMF	Gift	College of Biological Sciences
Ford Motor Company	UMF	Gift	Institute of Technology
Calvin J. Roetzel	UMF	Gift	College of Liberal Arts
RTP Company	UMF	Gift	Institute of Technology
Medtronic Incorporated	MMF	Gift	Surgery
Mary Jo and Dick Kovacevich Family Foundation	UMF	Gift	Humphrey Institute of Public Affairs
Lifecore Biomedical Incorporated	UMF	Pledge	School of Dentistry
James W. Reagan	MMF	Pledge	Pediatrics
Huntsman (Europe) BVBA	UMF	Gift	Institute of Technology
Gary A. Reineccius	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Corning Incorporated	UMF	Gift	Institute of Technology
Anonymous	MMF	Gift	Medicine
Alvan L. Schrader	UMF	Gift	On Campus Stadium

\$25,000 - \$50,000

Robert E. and Gail Buuck	UMF	Gift	Disability Services
General Mills Incorporated	UMF	Gift	Institute of Technology, College of Food, Agricultural and Natural Resource Sciences
Davisco Foods International Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Dr. Newman M. and Lillian Bortnick	UMF	Gift	Institute of Technology, Carlson School of Management, College of Continuing Education
Burt E. and Helen H. Swanson	UMF	Gift	Carlson School of Management
Center for Computer-Assisted Legal Instruction	UMF	Gift	Law School
Phyllis B. Branin	UMF	Gift	Institute of Technology
Ameriprise Financial	UMF	Gift/Pledge	Various Colleges
Donald E. Sveen	UMF	Gift	Carlson School of Management

\$25,000 - \$50,000

Park Midway Bank	UMF	Pledge	On Campus Stadium
John W. Miller	UMF	Gift	School of Nursing
Anonymous	MMF	Gift	Obstetrics, Gynecology and Women's Health
Dr. N. Marbury Efimenco	UMF	Gift	College of Liberal Arts
Anonymous	UMF	Gift	Minnesota Landscape Arboretum
Joy J. Lindsay	UMF	Gift	Carlson School of Management
Jack Zipes	UM	Gift	Libraries
Sage F. and John Cowles Jr.	UMF	Pledge	Weisman Art Museum
Dr. Robert L. Sadoff	UMF	Gift	College of Pharmacy
Twin Oak Farms	UMF	Pledge	Department of Intercollegiate Athletics
The HRK Foundation	UMF	Gift	College of Veterinary Medicine
Sandra M. Skovlund	MMF	Pledge	Otolaryngology
SALA Architects Incorporated	UMF	Gift	College of Design
Roger W. and Sally A. Plath	UMF	Pledge	On Campus Stadium
PIC USA Incorporated	UMF	Gift	College of Veterinary Medicine
Patricia M. Heilig	UMF	Gift	Institute of Technology
Narus Incorporated	UMF	Gift	Institute of Technology
Michael R. Sieben	UMF	Pledge	On Campus Stadium
Mardag Foundation	UMF	Gift	College of Education and Human Development
LeJeune Family Foundation	MMF	Gift	AHC Cancer Center, Urologic Surgery
John H. Lynch	UMF	Pledge	On Campus Stadium
Jeffrey D. Litman	UMF	Pledge	On Campus Stadium
Hypertherm Incorporated	UMF	Gift	Institute of Technology
Frank Levinson	UMF	Gift	Humphrey Institute of Public Affairs
Dr. John M. and Marcia M. Woell	UMF	Pledge	School of Dentistry
Dr. Christine C. and James J. Renier	UMF	Pledge	College of Veterinary Medicine
C. Mayeron Cowles and C. Fuller Cowles	UMF	Gift	Weisman Art Museum
Anonymous	MMF	Gift	AHC Cancer Center

\$10,000 - \$25,000

Margaret L. Grunnet	MMF	Gift	Psychiatry
3M Foundation Incorporated	UMF/UM	Gift/Pledge	Various Colleges
Katherine R. Lillehei Charitable Lead Annuity	UMF	Gift	School of Nursing
Eli Lilly and Company	UMF/MMF	Gift	College of Veterinary Medicine, Medical School Administration
Warren E. Soderberg Estate	UMF	Gift	Institute of Technology
ExxonMobil Corporation	UMF	Gift	Institute of Technology, Carlson School of Management
Dr. John H. Brekke	UM	Gift	University of Minnesota, Duluth
Anonymous	UMF	Gift	College of Veterinary Medicine
William G. Gamble	MMF	Gift	Surgery
The Whitney Arcee Foundation	MMF	Gift	Neurology

\$10,000 - \$25,000

Sol Center	MMF	Pledge	Diabetes Institute for Immunology and Transplantation
Burley Foods LLC	UMF	Gift	Department of Intercollegiate Athletics
Katherine R. Lillehei Charitable Lead Unitrust	UMF	Gift	School of Nursing
Michael M. Paparella	MMF	Gift	International Hearing Foundation
George W. Taylor Charitable Trust	UMF	Gift	Institute of Technology
AMC Cancer Research Center	UMF	Gift	College of Veterinary Medicine
Nidus Laboratories Incorporated	MMF	Gift	Dermatology
Deloitte Foundation	UMF	Pledge	Carlson School of Management
St. Jude Medical Incorporated	UMF	Gift	Institute of Technology
Pfizer Incorporated	UMF	Gift	College of Pharmacy
Perham Golf Event	UMF	Gift	Department of Intercollegiate Athletics
EAG Family Foundation	UMF	Gift	University of Minnesota, Duluth
Dr. Lee D. and Mary J. Jess	UMF	Pledge	School of Dentistry
Donald M. Weesner Foundation	UM	Gift	Minnesota Landscape Arboretum
Coloplast Corporation	UMF	Gift	Institute of Technology
Boston Scientific Corporation	UMF	Gift	Institute of Technology
Allergan Incorporated	MMF	Gift	Ophthalmology
Charles A. Bonicatto	MMF	Gift	Medicine
Agriliance LLC	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
International Crane Foundation Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Mary Jane Haugh	MMF	Gift	Pediatrics
Jon Clement Mertz Memorial Golf Classic	MMF	Gift	AHC Cancer Center
Pharmaceutical Solutions Incorporated	UMF	Gift	College of Veterinary Medicine
Midwest Coca-Cola Bottling Company	UMF	Gift	University of Minnesota, Duluth
Land O'Lakes Foundation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
The Donald R. Wahlund Foundation	UM	Gift	Minnesota Landscape Arboretum
Superior Beverages LLC	UMF	Gift	University of Minnesota, Duluth
Novartis Pharmaceuticals Corporation	UMF	Gift	College of Pharmacy
Larry (Elie) R. Halpern	UMF	Gift	Law School
Bayer CropScience LP	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Dr. Charles L. Matsch	UMF	Gift	University of Minnesota, Duluth
John J. Plank	MMF	Gift	Medicine, Ophthalmology
William S. Reiling	UMF	Gift	On Campus Stadium
W. G. Christianson Foundation	MMF	Gift	Diabetes Institute for Immunology and Transplantation
The National Collegiate Athletic Association	MMF	Gift	Orthopaedic Surgery
Sadie and Wilton E. Vannier	UMF	Gift	School of Nursing
Roy H. Olson	UMF	Gift	College of Pharmacy
Roby C. Thompson	MMF	Gift	MMF Programs

\$10,000 - \$25,000

Robert H. Rosenberg	MMF	Pledge	Otolaryngology
Robert and Margaret Berdahl	UMF	Gift	College of Liberal Arts
Richard B. Beeson Jr.	UMF	Pledge	On Campus Stadium
R. G. Finley	UMF	Pledge	University of Minnesota, Duluth
North American Millers' Association	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Nitto Denko Corporation	UMF	Gift	Institute of Technology
Nancy and Warren MacKenzie Foundation	UMF	Gift	College of Liberal Arts
Minnesota Nursery and Landscape Foundation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Lorraine P. Jamar	MMF	Gift	Obstetrics, Gynecology and Women's Health
LeAne H. Rutherford	UMF	Gift	University of Minnesota, Duluth
Lang Family Foundation	UM	Gift	Minnesota Landscape Arboretum
Lakes Gas Company	UMF	Gift	University of Minnesota, Duluth
K. and K. Express LLC	UMF	Gift	On Campus Stadium
John E. Ptak	MMF	Gift	Physical Therapy Program (PM&R)
Janice Andrus	UM	Gift	Minnesota Landscape Arboretum
Gregory T. and Mary S. McNellis	UMF	Pledge	On Campus Stadium
Edic Stephanian	MMF	Pledge	Surgery
Dr. Michael D. Aafedt	UMF	Pledge	Department of Intercollegiate Athletics
Dr. Gregory B. Holmes	UMF	Gift	College of Pharmacy
Donald W. Welander Sr. and Karen Welander	UMF	Pledge	On Campus Stadium
Boker's Incorporated	UMF	Gift	Carlson School of Management
Blue Cross Blue Shield of Minnesota	UMF	Gift	School of Nursing
Barnett Helzberg	UMF	Gift	Humphrey Institute of Public Affairs
Albert F. Kosek Estate	UMF	Gift	Law School
Alan R. Shons	MMF	Gift	Surgery
A. William and Susan J. Sands	UMF	Gift	On Campus Stadium
4-H Citizenship Short Course	UM	Gift	4H Foundation

\$5,000 - \$10,000

The Guard and Reserve Foundation	UMF	Gift	Department of Intercollegiate Athletics
Hysitron Incorporated	UMF	Gift	Institute of Technology
Dell Computer	UM	Gift	Minnesota Landscape Arboretum
General Mills Foundation	UMF/UM	Gift/Pledge	Various Colleges
The Caravan Trust	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Patrick T. Prunty	UMF	Gift	Carlson School of Management
Duluth News-Tribune	UMF	Gift	University of Minnesota, Duluth
Ben's Buddies	MMF	Gift	Pediatrics
Dr. Karl and Kris Bennett	UMF	Gift	Academic Health Center, Institute of Technology, School of Nursing

\$5,000 - \$10,000

The Sholl Group II Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Scott L. Weatherby	UMF	Pledge	University of Minnesota, Duluth
Peter J. Donnino	UMF	Gift	On Campus Stadium
Percutaneous Systems Incorporated	MMF	Gift	Urologic Surgery
Old Dutch Foods Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Jackie Robinson Foundation Incorporated	UMF	Gift	Scholarships
Benjamin F. Nelson Estate	UMF	Gift	Academic Health Center
Oppenheimer Wolff and Donnelly LLP	UMF	Gift	Institute of Technology, Law School
Sally A. Callahan	UMF	Gift	Department of Intercollegiate Athletics
The Institute for Basic and Applied Research in Surgery	MMF	Gift	Surgery
Dr. William J. Silliman	UMF	Gift	Institute of Technology
Greg Marzolf Jr. Foundation	MMF	Gift	Academic Health Center
Valent BioSciences Corporation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Sewell Charitable Fund-Fidelity Charitable Gift Fund	UMF	Gift	Law School
Richard S. Goldman	UMF	Gift	Carlson School of Management
Honeywell International Incorporated	UMF	Gift	Institute of Technology
E. I. DuPont DeNemours and Company	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Betty Clarkson McCollom	UMF	Gift	Institute of Technology
Ronald L. Christenson	UMF	Gift	Institute of Technology
Target Corporation	UMF	Gift	Carlson School of Management
Emerson Charitable Trust	UMF	Gift	Institute of Technology, Carlson School of Management
The Bentson Foundation	MMF	Gift	Pediatrics
Wells Fargo Foundation	UMF	Gift/Pledge	Various Colleges
Donald F. and Mary Lou Klassy	UMF	Gift	On Campus Stadium
Lillian F. Wallace Charitable Trust	MMF	Gift	AHC Cancer Center
Jack A. Johnson Estate	UMF	Gift	Department of Intercollegiate Athletics
Dr. Dennis J. Brandstetter	UMF	Gift	School of Dentistry
Zinpro Corporation	UMF	Gift	College of Veterinary Medicine
World Golf Foundation Incorporated	UMF	Gift	College of Education and Human Development
Winston and Maxine Wallin Fund-St. Paul Foundation	UMF	Gift	Carlson School of Management
W. Shelley Walsh Revocable Trust	UMF	Gift	Department of Intercollegiate Athletics
Tom Clayton	UMF	Gift	College of Liberal Arts
The Janice Gardner Foundation	MMF	Gift	International Hearing Foundation
Tankenoff Families Foundation	MMF	Gift	Pediatrics
Susan W. Haldeman	UMF	Gift	Law School
Susan L. Keiser	UMF	Gift	Raptor Center
Ruth S. Donhowe	UMF	Gift	Weisman Art Museum

\$5,000 - \$10,000

Roger C. Justin	UMF	Pledge	Law School
Robert A. Gaertner	UMF	Gift	College of Liberal Arts
Rhonda Hovan	UMF	Gift	College of Veterinary Medicine
Peter M. Kramer	MMF	Gift	AHC Cancer Center
Peter F. Pierce	MMF	Gift	AHC Cancer Center
P. and D. Kahn Philanthropic Fund- Jewish Community Fund	UMF	Gift	Institute of Technology
Minnesota Geotechnical Society	UMF	Gift	Institute of Technology
Michael and Barbara Sill Family Fund- Minneapolis Foundation	UMF	Gift	On Campus Stadium
Merck and Company Incorporated	MMF	Gift	Radiology
Lynda A. and G. Martin Johnson	UMF	Gift	Department of Intercollegiate Athletics
Kimco Corporation	MMF	Gift	Diabetes Institute for Immunology and Transplantation
Keith and Jody Radtke	UMF	Pledge	Law School
John and Carolyn Kanyusik Family Fund	UMF	Gift	School of Dentistry
Jo Ann Verburg and James M. Moore	UMF	Gift	Weisman Art Museum
James R. Otieno	UMF	Gift	Carlson School of Management
Jack Sturdevant	UMF	Pledge	On Campus Stadium
Isotechnika Incorporated	MMF	Gift	Surgery
InterMune Incorporated	MMF	Gift	Medicine
Genzyme Corporation	MMF	Gift	Medicine
Gary J. and Barbara R. Haugen	UMF	Gift	Law School
Franklin Bank	UMF	Pledge	On Campus Stadium
Excel Dental Studios Incorporated	UMF	Gift	School of Dentistry
Drs. Thekla K. and Justin S. Swanson	UMF	Pledge	School of Dentistry
Drs. Richard and Christine Baylon	UMF	Pledge	School of Dentistry
Drs. John P. and Kara D. Conry	UMF	Gift	School of Dentistry
Dr. Paul and Shartsi Musherure	UMF	Pledge	School of Dentistry
Dr. Nils Hasselmo	UMF	Gift	Weisman Art Museum
Dr. Frederick Requa and Lois Freeberg- Requa	UMF	Pledge	School of Dentistry
Dr. Fred R. Erisman	UMF	Gift	Libraries
Dr. Charles M. Nolte	UMF	Pledge	Weisman Art Museum
Douglas and Tracy Dolliff	UM	Gift	Minnesota Landscape Arboretum
Donald W. Goldfus	UMF	Gift	Academic Health Center
David Schoenfeld and Candice Green	UMF	Pledge	Law School
David S. and Mary M. Maring	UMF	Pledge	Law School
Bruce A. Richard	UMF	Gift	Institute of Technology
Archibald I. and Edith D. Leyasmeyer	UMF	Pledge	Weisman Art Museum
Actelion	MMF	Gift	Medicine



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Quarterly Summary of Expenditures

review review/action action discussion

Presenters: Regent Patricia Simmons

Purpose:

policy background/context oversight strategic positioning

To provide a quarterly report regarding budget expenditures from the Office of the Board of Regents, the Office of the President, and Eastcliff operations and maintenance.

Outline of Key Points/Policy Issues:

Background Information:

President's Recommendation for Action:

The President recommends that the Summary of Expenditures be approved.

UNIVERSITY OF MINNESOTA
 BOARD OF REGENTS
 SUMMARY OF EXPENDITURES
 GENERAL OPERATIONS AND MAINTENANCE FUND
 THREE MONTHS ENDING SEPTEMBER 30, 2007

	CURRENT YEAR			PRIOR YEAR		
	CURRENT BUDGET 2006/07	REVENUES/ EXPENDITURES YTD 2006/07	PERCENT EXPENDED	CURRENT BUDGET 2005/06	REVENUES/ EXPENDITURES YTD 2005/06	PERCENT EXPENDED
Beginning Balance (Prior Year Carryforward)	\$51,026	\$51,026		\$67,718	\$67,718	
Revenues						
Total Current Year Allocation Net Transfers	\$808,004	\$808,004		\$766,262	\$766,262	
Total Resources	<u>\$859,030</u>	<u>\$859,030</u>		<u>\$833,980</u>	<u>\$833,980</u>	
∞						
Expenditures						
Salaries	\$497,862	\$119,900	24.1%	\$437,484	\$123,119	28.1%
Fringe Benefits	\$159,610	\$37,295	23.4%	\$149,024	\$39,314	26.4%
Supplies, Expenses, Equipment	\$203,723	\$36,942	18.1%	\$233,498	\$47,674	20.4%
Total Expenditures	<u>\$861,195</u>	<u>\$194,137</u>	<u>22.5%</u>	<u>\$820,006</u>	<u>\$210,107</u>	<u>25.6%</u>
Ending Balance	<u>(\$2,165)</u>	<u>\$664,893</u>		<u>\$13,974</u>	<u>\$623,873</u>	

UNIVERSITY OF MINNESOTA
PRESIDENT'S OFFICE
SUMMARY OF EXPENDITURES
GENERAL OPERATIONS AND MAINTENANCE FUND
THREE MONTHS ENDING SEPTEMBER 30TH, 2007 (1ST Quarter)
(Unaudited)

	CURRENT YEAR			PRIOR YEAR		
	<i>CURRENT BUDGET 2007/08</i>	<i>REVENUES/ EXPENDITURES YTD 2007/08</i>	PERCENT EXPENDED	CURRENT BUDGET 2006/07	REVENUES/ EXPENDITURES YTD 2006/07	PERCENT EXPENDED
Beginning Balance (Prior Year Carry forward)	\$315,316	\$315,316		\$393,213	\$393,213	
Revenues						
Total Current Year Allocation	\$3,938,824	\$3,701,076		\$3,851,587	\$3,648,773	
Total Resources	<u>\$4,254,140</u>	<u>\$4,016,392</u>		<u>\$4,244,800</u>	<u>\$4,041,986</u>	
Expenditures						
President's Office Salaries	\$1,427,354	\$406,800	28.5%	\$1,488,301	\$412,435	27.7%
President's Office Fringe Benefits	\$709,380	\$125,911	17.7%	\$695,475	\$133,782	19.2%
Supplies, Expense, Equipment Ofc of the President-General Operations	\$128,129	\$78,198	61.0%	\$137,890	\$66,351	48.1%
Eastcliff Management Office Salaries	\$98,412	\$30,754	31.2%	\$90,777	\$28,341	31.2%
Eastcliff Management Office Fringe Benefits	\$32,181	\$7,348	22.8%	\$32,771	\$7,783	23.7%
Supplies, Expense, Equipment Eastcliff Management Ofc-General Operations	\$19,911	\$10,098	50.7%	\$25,435	\$61,262	240.9%
President's Travel&External Relations	\$28,358	\$2,586	9.1%	\$28,874	\$5,845	20.2%
Fund Transfers	\$43,416	\$0	0.0%	\$6,391	\$63,080	987.0%
President's Discretionary	\$995,000	\$289,170	29.1%	\$859,865	\$43,271	5.0%
University Wide Memberships	\$376,077	\$149,150	39.7%	\$376,077	\$186,046	49.5%
Ofc of Inst Compliance Salaries	\$196,005	\$52,265	26.7%	\$183,426	\$50,034	27.3%
Ofc of Inst Compliance Fringe Benefits	\$62,050	\$16,441	26.5%	\$58,852	\$16,180	27.5%
Supplies, Expense, Equipment Ofc of Inst Compliance	\$37,054	\$18,027	48.7%	\$42,288	\$20,004	47.3%
Total Expenditures	<u>\$4,153,327</u>	<u>\$1,186,749</u>	28.6%	<u>\$4,026,422</u>	<u>\$1,094,415</u>	27.2%
Ending Balance	<u><u>\$100,813</u></u>	<u><u>\$2,829,643</u></u>		<u><u>\$218,378</u></u>	<u><u>\$2,947,571</u></u>	

**UNIVERSITY OF MINNESOTA
EASTCLIFF OPERATIONS
SUMMARY OF EXPENDITURES
GENERAL OPERATIONS AND MAINTENANCE FUND
THREE MONTHS ENDING SEPTEMBER 30, 2007
(UNAUDITED)**

	CURRENT YEAR			PRIOR YEAR		
	CURRENT BUDGET 2007-08	REVENUES/ EXPENDITURES YTD 2007-08	PERCENT EXPENDED	PRIOR BUDGET 2006-07	REVENUES/ EXPENDITURES YTD 2006-07	PERCENT EXPENDED
Beginning Balance (Prior Year Carryforward)*	\$0	\$0		\$0	\$0	
Revenues						
Total Current Year Allocation**	\$244,205	\$244,205		\$201,530	\$201,530	
Transfer from the General Contingency						
Total Resources	<u>\$244,205</u>	<u>\$244,205</u>		<u>\$201,530</u>	<u>\$201,530</u>	
Expenditures						
Household Maintenance						
Salaries, Fringes	\$17,767	\$5,293	29.8%	\$17,767	\$5,257	29.6%
Supplies, Expense, Equipment	\$226,438	\$68,326	30.2%	\$183,763	\$68,163	37.1%
Household Maintenance Total	<u>\$244,205</u>	<u>\$73,619</u>	<u>30.1%</u>	<u>\$201,530</u>	<u>\$73,420</u>	<u>36.4%</u>
Ending Balance	<u>\$0</u>	<u>\$170,586</u>		<u>\$0</u>	<u>\$128,110</u>	

Notes:

* "Prior Year Carryforward" was taken off of this report because it is used for Eastcliff capital and renewal projects rather than operating purposes. Eastcliff project reporting to the board is part of the normal capital project reporting process.

** Eastcliff's budget was not increased for 5 years (until FY '08).



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Report of the Nominating Committee for the Fairview Health System Board of Trustees

review review/action action discussion

Presenters: Regent John Frobenius

Purpose:

The Board of Regents Nominating Committee for the Fairview Health System (FHS) Board of Trustees will meet on Wednesday, December 12, 2007, to determine nominees to fill two vacancies on the FHS Board of Trustees.

Materials regarding the committee's nominations will be distributed to the Board of Regents prior to the meeting on December 14, 2007.

Outline of Key Points/Policy Issues:

Background Information:

Pursuant to changes in the governance structure of Fairview Health Services (FHS) approved by the Board of Regents September 13, 2002, which constituted a change in the Fairview-University Affiliation Agreement, and an expansion of the Fairview System Board, the University of Minnesota has four representatives on the FHS Board: two ex-officio members (the Dean of the Medical School and the Senior Vice President for Health Sciences) and two members selected by the Board of Regents.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Amendment to 2008 State Capital Request

review review/action action discussion

Presenters: President Robert H. Bruininks

Purpose:

policy background/context oversight strategic positioning

The President is recommending the removal of a \$20,000,000 project from the University of Minnesota 2008 State Capital Request.

Outline of Key Points/Policy Issues:

The removal of the \$20,000,000 Ambulatory Care Center infrastructure project results in a revised 2008 State Capital Request totaling \$288,000,000 consisting of \$225,300,000 from the State of Minnesota and \$62,700,000 from the University of Minnesota.

Background Information:

The Board of Regents previously approved the 2008 State Capital Request at its October 2007 meeting.

President's Recommendation for Action:

The President recommends deletion of the \$20,000,000 Ambulatory Care Center infrastructure project from the 2008 State Capital Request.



REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

2008 STATE CAPITAL REQUEST

WHEREAS, the University of Minnesota Board of Regents approved on October 12, 2007, a \$308,000,00 state capital budget request to the State of Minnesota including a request for \$20,000,000 for a project to support infrastructure relating to a new ambulatory care center; and

WHEREAS, the \$20,000,000 original request was part of a larger effort to construct a new Ambulatory Care Center to replace existing, outmoded clinic facilities located on the Twin Cities Campus; and

WHEREAS, detailed project cost estimates and program planning for the new Ambulatory Care Center are actively underway and significant progress is being made with a goal of constructing this project late next year; and

WHEREAS, the creation of the new Ambulatory Care Center will entail the development and implementation of a complex operational, financial and legal partnership involving the University of Minnesota Physicians, Fairview Health System and the Academic Health Center; and

WHEREAS, the infrastructure associated with a new Ambulatory Care Center interfaces with the broader infrastructure of the Academic Health Center precinct and requires further evaluation and coordination to address technical and operational interdependencies; and

WHEREAS, numerous critical schedule, operational and financing variables associated with the Ambulatory Care Center resulted in a judgment that this complex project had the potential to distract from higher priority capital projects facing the University.

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents approves a modification of the University's 2008 State Capital Request to the State of Minnesota by the removal of the \$20,000,000 Ambulatory Care Center infrastructure project resulting in a revised 2008 State Capital Request totaling \$288,000,000 consisting of \$225,300,000 from the State of Minnesota and \$62,700,000 from the University of Minnesota.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Board of Regents Policy: Mission Statement

review review/action action discussion

Presenters: Regent Patricia Simmons

Purpose:

policy background/context oversight strategic positioning

To review proposed amendments to Board of Regents Policy: *Mission Statement*.

Outline of Key Points/Policy Issues:

- The changes proposed are not substantive.
- The changes proposed are intended to provide:
 - (a) consistency with Board of Regents Policy: *Reservation and Delegation of Authority*; and
 - (b) language and formatting consistent with other Board policies.

Background Information:

In April 2001 the Board approved changes to Board of Regents Policy: *Reservation and Delegation of Authority*, necessitating a review of all Board policies.

Board of Regents Policy: *Mission Statement* was last reviewed by the Board in September 2003. No action was taken.



MISSION STATEMENT

Adopted: January 14, 1994

Supersedes: (see end of policy)

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY**

Page 1 of 2

DRAFT for review December 14, 2007

MISSION STATEMENT

Subd. 1. PhilosophyMission. The University of Minnesota (University), founded in the belief that all people are enriched by understanding, is dedicated to the advancement of learning and the search for truth; to the sharing of this knowledge through education for a diverse community; and to the application of this knowledge to benefit the people of the state, the nation, and the world.

The University's mission, carried out on multiple campuses and throughout the state, is threefold:

- **Research and Discovery** — To generate and preserve knowledge, understanding, and creativity by conducting high-quality research, scholarship, and artistic activity that benefit students, scholars, and communities across the state, the nation, and the world.
- **Teaching and Learning** — To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and prepare graduate, professional, and undergraduate students, as well as non-degree seeking students interested in continuing education and lifelong learning, for active roles in a multiracial and multicultural world.
- **Outreach and Public Service** — To extend, apply, and exchange knowledge between the University and society by applying scholarly expertise to community problems, by helping organizations and individuals respond to their changing environments, and by making the knowledge and resources created and preserved at the University accessible to the citizens of the state, the nation, and the world.

Subd. 2. PurposeGuiding Principles. In all of its activities, the University strives to sustain an open exchange of ideas in an environment that:

- embodies the values of academic freedom, responsibility, integrity, and cooperation;
- provides an atmosphere of mutual respect, free from racism, sexism, and other forms of prejudice and intolerance;



MISSION STATEMENT

Adopted: January 14, 1994

Supersedes: (see end of policy)

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY**

Page 2 of 2

DRAFT for review December 14, 2007

- assists individuals, institutions, and communities in responding to a continuously changing world;
- is conscious of and responsive to the needs of the many communities it is committed to serving;
- creates and supports partnerships within the University, with other educational systems and institutions, and with communities to achieve common goals; and
- inspires, sets high expectations for, and empowers the individuals within its community.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Board of Regents

December 14, 2007

Agenda Item: Report of the Student Representatives to the Board of Regents

review review/action action discussion

Presenters: Meghan Keil, Chair, Student Representatives to the Board of Regents

Purpose:

policy background/context oversight strategic positioning

The Report of the Student Representatives to the Board of Regents provides the student perspective on issues and concerns facing University students.

Outline of Key Points/Policy Issues:

The Report will discuss and make recommendations regarding the following issues:

- Sustainability
- Student Assessment of Faculty Instruction
- Twin Cities Campus Safety
- Technology in the Classroom and Access to Student Academic Resources

A report from the campus student governance organizations is included in the docket materials.

Background Information:

Board of Regents Policy: *Student Representatives to the Board of Regents* allows the Student Representatives to the Board of Regents, with consent of the Executive Director, to make a quarterly report to the Board. In recent years, the Student Representatives have made semi-annual reports to the Board.

**Student Representatives to the Board of Regents
Semi-Annual Report
December 14, 2007**

The Student Representatives to the Board of Regents are pleased to submit their Fall semester report to the Board of Regents. Included in this report is a discussion of the most prominent issues confronting students attending the University of Minnesota systemically, and suggestions how these student concerns could potentially be addressed. Furthermore, this report includes a briefing from the Student Governments at each campus that details their accomplishments, goals and challenges thus far this semester.

PART I - INDIVIDUAL ISSUE ANALYSIS

The Student Representatives selected the topics detailed in Part I based on the importance of the issue to the student body and its relevance to the University system and the oversight of the University of Minnesota's Board of Regents.

A. SUSTAINABILITY

The well-being of our environment is an ever-increasing concern in today's world. For this reason, sustainability is an initiative that many students feel is important for the University to encourage and promote. The Student Representatives believe that there are three main areas of focus within the broad category of sustainability-related issues. This report details the main areas of focus in the following section after a summary of the current efforts of the University to promote sustainability. Please note the summary only examines the number of LEED certified buildings, the use of biodegradable products, and sustainable energy use.

LEED Certified Buildings:

- Life Science – Duluth Campus
- School of Business and Economics – Duluth Campus
- Civil Engineering (if approved by MN Legislature) – Duluth Campus

Use of Biodegradable Products:

- Straws and Cups in Turtle Mountain Café – Morris Campus
- Silverware in Northern Shores Coffee Shop and Food Court – Duluth Campus

Energy Use:

- Half of energy used generated by a wind turbine – Morris Campus

Institutionalization

The effort to improve the University's sustainability practices has been an official Board of Regents policy since July, 2004. Coordinate campuses, faculty, students, and staff have taken the lead in fostering discussion on and developing policies and practices geared towards fulfilling the Board of Regents vision of a sustainable University. However, the University lacks an institutional structure through which the University can encourage and promote discussion on

sustainability related topics and develop environmentally-friendly practices. Currently, there is no institutional mechanism committed to the oversight and reporting of the implementation of campus-wide efforts to comply with the Board's policy. The absence of such structures has led to a unfocused direction in sustainability efforts and a disconnect between enunciated ideals and the implementation of policies and practices. Moreover, coordination between units is nonexistent and any advances made in implementing sustainability initiatives are not transparently reported or articulated.

Therefore, the Student Representatives recommend that the Administration and the Board encourage the institutionalization of Sustainability Steering Committees at the system, campus, and unit (i.e. College of Medicine) level that will promote collaborative discussion on sustainability related topics, develop proactive policies and practices, and oversee and report on the status and direction of present and past initiatives. The Student Representatives also recommend that the University of Minnesota and each coordinate campus establish a Sustainability Coordinator officer to facilitate the operations of the steering committees in addition to providing day-to-day leadership, long-term planning, and the direction of environmentally-friendly initiatives. These measures will help the University align its vision and practices with the Board's policy and will position the institution to lead the nation in sustainability initiatives.

Transparency

The University lacks a institutional procedure of reporting the status of its sustainability initiatives to internal units, external constituencies, and the Board itself. The Facilities Committee indicated in their Work Plan for the 2007-2008 year (see the September 2007 Docket) that the members desired to address the issues relating to sustainability and the progress of the spirit of the sustainability policy. Unfortunately, beyond this important update, there is no reporting structure intended to give periodical and timely reports.

Therefore, the Student Representatives recommend that the University institute a procedure in which the Administration and the proposed Sustainability Coordinators and Sustainability Steering Committees provide timely reports and reviews of the status of their policies and practices in a public manner that encourages transparency. Furthermore, the Student Representatives recommend the establishment of centralized reporting web-sites containing up-to-date data and information on the progress and results of sustainability initiatives that are accessible to all within the University community.

Biodegradable Products

One sustainable practice the University can employ is the introduction of biodegradable products into the University system. Currently, these products are utilized at an ad hoc basis at different entities throughout the system at the choice and behest of the entities and constituencies within them. For instance, the Turtle Mountain Café at the Morris campus now uses biodegradable straws and silverware. Encouraging further use of such products can help the University implement the Board's policy on sustainability and would align the University's interest in the

further institutionalization of a sustainability practices while simultaneously creating transparency to the execution of the University's developed policies.

Therefore, the Student Representatives recommend that the University require the proposed Sustainability Coordinators and Steering Committees to explore increased use of biodegradable products throughout the University system in innovative and cost-effective ways in order to reduce our carbon footprint for future University students.

B. STUDENT ASSESMENT OF FACULTY INSTRUCTION

According to University Senate policy, students must evaluate a course upon completion. . Students, faculty, and University staff use the Student Evaluation of Teaching (SET) form in order to assess faculty performance and to improve teaching and learning. While this form is available as both a paper and web-based questionnaire, the majority of courses use paper-based questionnaires. Faculty members view these forms only after the final course grades have been assigned, and in some instances do not receive feedback from the evaluations for up to a year.

The SET includes a set of “student release” questions that can be made public if the teacher authorizes it. This data is accessible via the One Stop website after the Office of Measurement Services has released it. Faculty members may add additional questions in order to measure specific course activities and learning and teaching strategies employed throughout the semester. The University Senate is revising the student release questions and has crafted new pilot questions which were used in Spring 2007 student evaluations.

Students however, have voiced increasing concerns about the legitimacy and effectiveness of teacher evaluations, in large part because they feel unaffected by the evaluations and because they are unable to view the results. In addition, students are unaware that some “student release” questions are available online. The Student Representatives recognize the importance of the SET in improving teaching and as consideration for the purposes of merit pay, tenure, and promotion. The Student Representatives also realize the ethical questions posed by publishing the information contained in these evaluations, as the information is confidential.

Therefore, the Student Representatives recommend that the University expand the dissemination of the SET data and information. This change could improve sustained enrollment, reduce schedule changes once classes have started, and empower the student body to make more informed course selections. These changes could improve the academic experience and overall student satisfaction at the University.

Furthermore, the Student Representatives recommend that SET data be incorporated into the *University Plan, Performance, and Accountability Report*. The 2007 Report lacks information about the evaluation of faculty performance. A SET presentation at the July 2007 Educational Planning and Policy meeting revealed aggregate time-series data that could be derived from teacher evaluations. Since the University currently tracks trends in the student responses to the

questions, the inclusion of the appropriate data into the Accountability Report would be a beneficial tool for students and faculty alike in the assessing of the quality of education at the University of Minnesota.

C. TWIN CITIES CAMPUS SAFETY

Student safety is an integral aspect of collegiate success. Additionally, through strategic planning, the University of Minnesota Police Department (UMPD) has identified three public safety goals: people are safe, people feel safe, and services are provided with fairness and respect. With a recent influx of violent crime on the Twin Cities campus and the continuing construction of an on-campus football stadium, safety will be more important than ever. However, the University can enhance its approach to safety. For instance, as of Fall 2006 the UMPD had the lowest officer/student ratio in the Big 10 Conference. A 2001-2003 UMPD satisfaction survey indicated most students did not see police visibility on campus. In addition, the number of Minneapolis police officers has been reduced in recent years with many reductions occurring in neighborhoods adjacent to the University where many students reside.

Therefore, the Student Representatives recommend the addition of police officers on the Minneapolis and St. Paul campuses. Additional police will enhance visibility of law enforcement officials and thereby increasing the feeling of safety on campus, which will facilitate more opportunities for positive interactions between the police and students. An increase in the UMPD could serve as auxiliary officers in neighborhoods adjacent to the University. The Student Representatives also recommend the further utilization of advanced technology and safety programs such as 624 Walk, where students can have student officers escort them to their residence, to further bolster the safety on the Twin Cities campus.

D. TECHNOLOGY IN THE CLASSROOM AND ACCESS TO STUDENT ACADEMIC RESOURCES

The issue of technology in the classroom is becoming ever more important in the education system. Technology in the classroom is here to stay; more teachers are integrating their lecture notes with power point software, technologies such as radio frequency answering devices are being used to teach in a more technologically enhanced Socratic method, classroom required texts are being put on e reserve for teacher and student convenience, and more students and faculty communicate through e-mail more than ever before. Contemporary trends in the development of classroom technology show us that technology in the classroom is going to experience more changes as further software and hardware manufacturers focus on capitalizing on these markets. In all likelihood, we should expect a greater demand for technology in the classroom as students and teachers use classroom technologies to improve educational attainment.

Unfortunately, not all students can afford the convenient access to computers that some of us take for granted. Students with computers have access to a computer 24 hours a day, while most of the University's computer labs have restricted hours, which can be inconvenient under high

stress times like midterms and finals. Desktop computers provide the necessary resources that most courses require, but laptops offer students an educational experience that desktop pcs and computer labs cannot.

Students with laptops at the University have educational advantages that students without laptops do not have. Laptops give students the ability to view online classroom resources during lecture, such as lecture outlines, power point presentations, e-reserve materials, and advanced note taking techniques. As a University, it is our duty to offer equal educational resources for our students.

In representing the student's interests, the Student Representatives of the Board of Regents believe that the University should seek a remedy to the current technology gap in the student body, through the creation of financial aid assistance for low-income students and students from low-income families. In addition to personal computers, another important resource for students are the invaluable computer labs that allow for group collaboration, group instruction, and course specific software and data sets.

Earlier this fall, several graduate students at the University reported they had less than acceptable access to Internet resources in their academic facilities. In one instance, the students had to purchase a router to obtain acceptable Internet access. Since access to Internet resources are increasingly vital to a healthy academic experience, many concerned students contacted and have met with various University administrators to try to solve this unacceptable problem. The efforts of these students to ameliorate the Internet access and computing equipment procurement problems have been productive thus far, but procuring internet access is not a responsibility of the student body

Graduate students with similar experiences say that one significant problem is the poor quality of communication between students and administration. Administrators are in fact already aware of problems like these – a Master Steering Committee meeting recently touched on just these issues – but leaders in the graduate and professional schools will have to continue to work with departmental and college-level administration to establish a better framework of communication within their schools and throughout the university.

PART II - STUDENT GOVERNMENT INITIATIVES

In constructing the Student Government progress reports, the Student Representatives solicited feedback and information from their respective student body presidents. This information is presented to the Board primarily for informational purposes.

Graduate and Professional Student Association (GAPSA)

GAPSA had a busy and productive Fall semester. GAPSA recently led an advocacy workshop session at the National Conference of the National Association of Graduate-Professional Students, held November 15-18, 2007 in Austin, Texas. GAPSA executive board members presented on the body's role in the Support the U day as an example of how other universities can jump start their advocacy efforts.

Back home in Minnesota, GAPSA has worked to serve the graduate and professional students of the University of Minnesota. GAPSA gave grants to over thirty student groups and over sixty individual students for activities and travel to support the academic life of the University. GAPSA also held social events in several campus and Dinkytown locations for the University's graduate and professional students this Fall. GAPSA members have also represented graduate and professional students on the University Fees Committee, the Board of Regents, and on other University and community representative assemblies such as the Metropolitan Council meetings on the Central Corridor transit project.

Minnesota Student Association (MSA)

The Minnesota Student Association (MSA) is the undergraduate student body government of the Twin Cities campus. Members consist of representatives from student organizations, the University Senate, and elected at-large representatives. MSA promotes active participation in the University and its surrounding communities as well as strengthening relationships with the State Legislature. In addition, MSA Forum passes position statements and resolutions on behalf of the undergraduate body regarding current student concerns.

Current Goals and Accomplishments:

Academics & Services Committee

- Continuation of the MSA Express, a curb-to-curb van service for students on Fridays and Saturdays that provides safe rides home.
 - Meetings with administration to discuss expansion of this service are starting to take place.
- Working to improve bike safety on campus and education about it as well as the addition of bike lanes.
- Planning a student concerns forum during which students will have the opportunity to raise important issues not currently under consideration by MSA and the Administration.

Campus Relations Committee

- Raising awareness about MSA through increased participation in MSA sponsored events and increased hosting of various events on campus such as MSA Day, Homecoming, and student organization-related events

Diversity Education Fund Grant Committee

- Providing \$15,485 in grants to student groups that promote campus diversity, education, or service as inherent goals in their initiatives

Facilities & Housing Committee

- Working to improve student involvement with the Renters' Survey, a housing guide administered by MSA that offers advice and student input on housing options.
 - Performing a campus-wide evaluation of student housing



- Hosting another Safety Walk to identify potential areas where students should exercise utmost caution. The Safety Walk also helps to strengthen relations between the student government, campus police, and neighborhood associations.

Legislative Affairs Committee

- Planning ‘Support the U’ Day
 - Goals include increasing student turnout and improved advocacy through training participants on lobbying techniques and the University’s appropriations request to the legislature.
- Looking ahead to the 2008 Elections, the committee will promote civic engagement by hosting Democratic and Republican Presidential Primary Parties

Successes

- Increased Involvement by the Forum
 - MSA is witnessing one of the most passionate and well-informed Forums, with members bringing up pressing issues and innovative ways to resolve them

Challenges

- Low attendance at Forum and committees makes it difficult to realize objectives
- Continued low student body awareness of MSA and its programs and services
 - MSA will strive to make a commitment to work harder during Spring 2008 to improve in this area

MORRIS CAMPUS STUDENT ASSOCIATION (MCSA)

The Morris Campus Student Association (MCSA) represents UMM students and their interests. We endeavor to encourage and develop responsible student participation in the educational affairs of the college and in student welfare; aid and assist in the establishment of policies and regulations regarding student academic freedom; and provide means for using University resources to develop responsible student leadership.

MCSA’s importance on the Morris campus is exemplified by its close relationship with administrators, faculty, and staff. Students on the Morris campus have representation on every committee sanctioned by the UMM Campus Assembly, and several students hold positions on University-wide committees.

Accomplishments:

- Active advocacy for continued and substantial student representation in the revision of the UMM Campus Assembly Constitution
- Successful establishment of Academic Majors Fair with representation from each discipline and academic support units

- Reestablishment of MCSA Advisory Council to facilitate input and open communication between MCSA and student organizations, Residence Hall Association, and athletic teams
- Initiated a dialogue on senior capstone projects and their place in the institution's curriculum
- Hosted a breakfast with students, student Representatives to the Board, Regents, and President Bruininks prior to the October board meeting held at UMM

Current Goals:

- Streamlining the Technology Fee application process and the procedures for the allocation of the fee which will occur during spring semester
- Exploring a cooperative effort between campus and community organizations to construct a disc golf course at an area park

Challenges

- Combating apathy and encouraging further involvement in student government and Campus Assembly
- Low visibility within the student body and campus community relating to our functions and initiatives

CROOKSTON STUDENT ASSOCIATION (CSA)

The Crookston Student Association (CSA) is the representative body of the students at the University of Minnesota, Crookston campus. CSA represents the student body in any concerns that the students may have on the Crookston campus along with the entire university system, approves and assigns funding for different club activities and creates and enforces policies. CSA consists of an executive board including eight senators who hold specific offices along with a representative from each club on campus. The full board meetings are held bi-weekly with the executive board meetings held weekly.

Current Goals and Accomplishments:

The main goal of CSA this semester has been to interact and meet with the international students on campus, an important task since the percentage of international and English as a Second Language (ESL) students continue to increase.

CSA is also working to improve the awareness that recycling is available, to increase the accessibility for recycling containers, and to potentially provide a recycling center on campus.

CSA held the Fall Convocation on October 24 to recognize the different accomplishments of the students. These accomplishments included students on the Chancellor's 4.0 list and students in athletics.

The UMC Administration is currently considering whether should become a smoke/tobacco free campus. CSA is conducting a student survey to gain insight on the perspectives, feelings, and

opinions students have toward the implementation of a smoke free policy. The student survey will be distributed via email on November 30 to all students attending UMC. There will be an open forum on December 5th to give students an opportunity to voice their opinions and ideas to the administration.

UNIVERSITY OF MINNESOTA DULUTH STUDENT ASSOCIATION (UMDSA)

The University of Minnesota Duluth Student Association (UMDSA) is the official voice of the student body. It has the responsibility to advocate student concerns, needs, desires and opinions across campus through the media, administration, and committees involved in policy making. It has three Vice Presidents: Student Affairs, Academic Affairs and Finance and Administration as well as many directors that are appointed by the President. Congress meetings are held weekly and executive/committee meetings bi-weekly.

Current Goals and Accomplishments:

Bulldog Taxi Program (BTP) – The Bulldog Taxi Program is a partnership with Custom Cab Company that allows students to receive a \$2 (per person in the car) safe ride between the hours of 9:00pm and 6:30am. Only Student Service Fee-paying students are eligible to register for the program. The BTP, now in its third year, has significantly grown with over 1,700 students registered to date. The program has generated so many riders this semester alone that Custom Cab will be add two additional vehicles to its fleet in the coming weeks.

Late Night Library – The Academic Affairs Committee has worked with the library to once again extend the library hours to be open until 2:00am during finals week. Also in its third year, this program's demand has grown so much that for the first time the entire library will be available for students to use. UMDSA also provides a study break with refreshments for students at midnight.

Budget, Loans, and Grants – This process is available to all non-student service fee-receiving student groups on campus. Eligible Student Organizations can apply for grants, up to have of their semesterly budget. Organizations are then interviewed and a UMDSA Committee distributes the grants appropriately. This semester over \$10,300 was issued to student groups on campus.

Freshman Elections – UMDSA held their Freshman Elections in mid-October. The body received twelve freshman applications, the most in over five years. Seven new freshmen were elected into UMDSA. Additionally, two were elected into vacant general Representative-at-Large seats. Currently, all UMDSA seats are filled.



Open House – UMDSA held an open house in late October. Refreshments were served and over 100 students stopped by to learn about the 2007-2008 UMDSA Initiatives, register for the BTP, provide suggestions on possible initiatives and learn more about what UMDSA does for students on campus.

Current Challenges:

New Executive Board – Almost all the Vice Presidents and Directors are relatively new to UMDSA. However, the Board has been extremely successful in learning their roles and in addressing and accomplishing many of the 2007-2008 Initiatives.

Low Student Body Awareness of UMDSA and Its Programs – The Bulldog Taxi Program and Late Night Library, however, are helping to alleviate the low awareness.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Annual Report on the Status of University Research

review review/action action discussion

Presenters: Vice President Timothy Mulcahy

Purpose:

policy background/context oversight strategic positioning

To fulfill an annual obligation of and an opportunity for the Vice President for Research to brief members of the Board of Regents about the health of the University of Minnesota's research programs.

Outline of Key Points/Policy Issues:

The FY07 report will include descriptions of the following measures of research productivity for the past year:

- Research Statistics for Fiscal Year 2007
- 10 Year Trend Analysis for the University of Minnesota
- Comparative Analyses with other Public Research Universities
- Other Ranking Systems
- Strategies to Increase Research Competitiveness

Submitted to the Board of Regents by R. Timothy Mulcahy
Vice President for Research
December 14th, 2007

UNIVERSITY OF MINNESOTA 2007 ANNUAL RESEARCH REPORT



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INTRODUCTION

In December of each year the Vice President for Research has provided an annual report to the Board of Regents of the University of Minnesota summarizing the University's annual research performance as evidenced by measures of many types of sponsored research-related activities and descriptors. The current annual report, covering fiscal year 2007 (FY07), will include a description of these important metrics (Section 2), will provide an analysis of research trends at the University over the past decade (Section 3) and will compare the University's sponsored research performance with that of peer institutions and aspirational targets (Section 4). Such analyses are incorporated as essential elements in the assessment of research performance based on award and expenditure data, and are essential strategic elements as the University of Minnesota continues its strategic repositioning initiative to emerge as one of the top three public research universities in the world within ten years.

In reporting such analyses, it is important to define terms commonly used to describe measures of research productivity. Research activity is usually described in terms of *research awards* or *research expenditures*. Awards refer to commitments made by research sponsors to campus investigators while expenditures reflect funds actually spent in support of the research activity. In a healthy, growing research enterprise *awards* exceed *expenditures* reported in any particular fiscal year since actual spending on research typically lags behind the awarding of support.

Research expenditure categories have emerged as some of the most commonly cited measures of research productivity and as a common basis for comparison across multiple research institutions. Multiple expenditure definitions exist however, complicating the use of this metric and mandating careful evaluation before applying these measures to make direct comparisons of research performance. Fortunately, the National Science Foundation (NSF) annually compiles Research and Development (R&D) expenditure data from research universities in the United States utilizing a standardized definition of *R&D expenditures*. Because it is one of the only standardized research data sets, NSF R&D expenditure data have become recognized as the national standard for research comparisons and arguably is the best basis for the construction of national research rankings. Considering the prominence of research ranking (“top 3”) in the University’s definition of its strategic objective and the nearly universal recognition of NSF expenditure figures as the leading single metric for research productivity, NSF expenditures must ultimately be included in any evaluative scheme adopted by the University.

For reasons too complicated to elaborate here, the University of Minnesota reports two different expenditure figures: *sponsored program expenditures*, and the *NSF R&D expenditures*. *Sponsored program expenditures* include *externally* funded research programs in all fields. *NSF R&D expenditures* on the other hand, measure research funding in the areas of science and engineering to the exclusion of other areas of research at a given institution and include institutional support of research. While the two metrics include different elements and differ in magnitude, in most cases there is a strong correlation between these two statistics (for the University of Minnesota the NSF values are typically ~10% greater than the sponsored program expenditure figures for the same fiscal year) so the NSF R&D metric remains reasonably robust for use in comparative analyses.

Ordinarily, the official publication of the NSF statistics is roughly two fiscal years out of date, introducing a temporal disconnect complicating the linkage of specific changes in research performance to specific initiatives in a time frame useful for strategic management. For example, the 2006 Annual Report utilized the 2004 NSF figures, the most recent data available at the time of the report to the Regents. As a result, the ability to determine how changes introduced in 2006 influenced relative rankings among peer research universities would not be verifiable until the release of the 2006 NSF expenditure data sometime in late 2008 or early 2009. In contrast to their traditional pattern, the NSF recently released the 2005 and 2006 research expenditure data enabling inclusion of unusually up-to-date data in this year’s report, giving a tantalizing glimpse of some potential outcomes of strategic positioning.

It is important to emphasize that although NSF research expenditure data are perhaps the most recognized measures of research productivity, this single measure, and rankings based upon it, are not necessarily reflective of the overall quality or prominence of any individual university or its programs, especially with respect to those core activities not directly related to research. This year’s report, therefore, includes summaries of other ranking systems (Section 5) based on outputs (for example: publications, citations and impact measures) rather than inputs (funding levels) alone and will compare the University’s ranking based on these schemes with the funding level ranking systems.

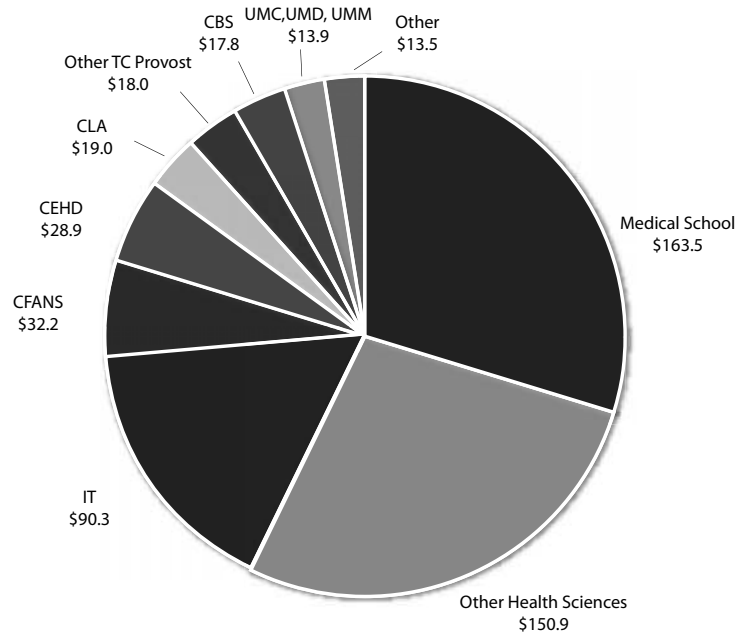
Research
STATISTICS • FY2007

a. Expenditures and Awards

Sponsored expenditures for 2007 totaled \$548 million, up 5.7% from fiscal year 2006. Figure 2.1 illustrates the current distribution of sponsored project expenditures across the University's academic units. Although not evident from Figure 2.1, a number of collegiate units increased their respective funding levels relative to 2006. The School of Nursing (27.0%), School of Public Health (16.1%), UMD (not including the UMD Medical School) (10.4%) and Academic Health Center Shared units (21.7%) posted double-digit increases in 2007 while the College of Liberal Arts (9.9%), Institute of Technology (6.8%), College of Veterinary Medicine (6.7%), School of Dentistry (6.4%), College of Pharmacy (5.5%) and College of Biological Sciences (2.9%) also reported significant increases. In aggregate, the units in the Academic Health Center increased research spending by 6.4% in 2007 while expenditures attributable to those Twin City units reporting to the Provost increased 4.0%.

Figure 2.1
FY2007 Sponsored Expenditures by College

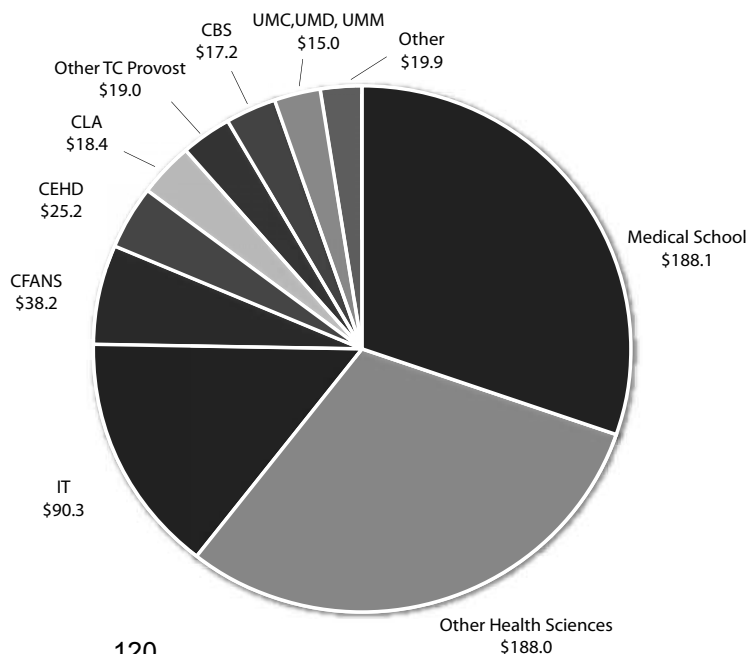
(Dollar amounts represented in millions)



Total: \$548 million

Figure 2.2
FY2007 Sponsored Awards by College

(Dollar amounts represented in millions)



120

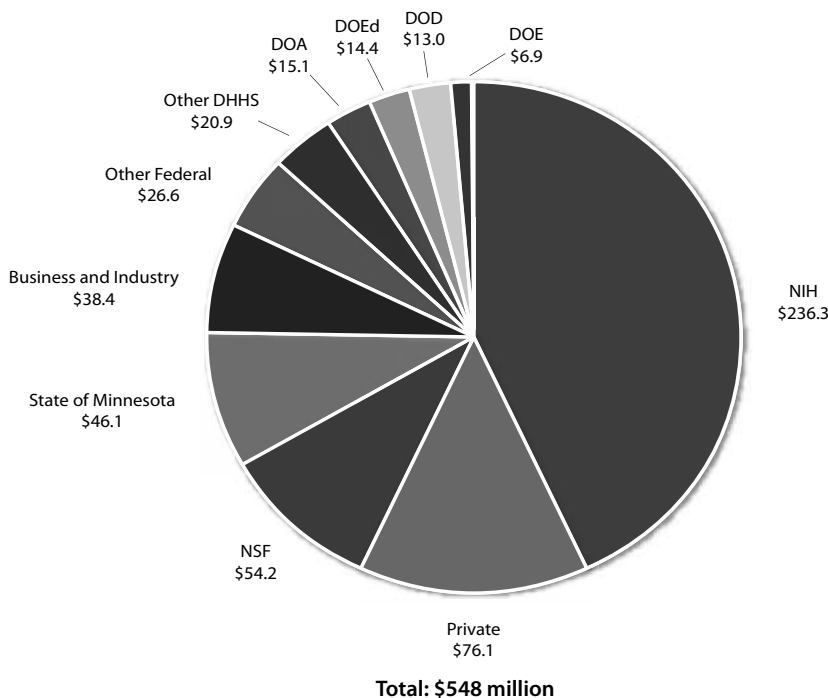
Total: \$619 million

The **award** total for 2007 increased 7.5% to \$619 million. Figure 2.2 illustrates the current distribution of award dollars across the University's academic units. Although not shown in Figure 2.2, many colleges posted large increases in awards totals from FY2006 to FY2007 (Shared Units in the Academic Health Center, 46.6%; School of Public Health, 44.9%; College of Liberal Arts, 20.6%. Others posted modest increases (Medical School, 4.8%; College of Biological Sciences, 4.3%) while 2007 funding levels declined for number of colleges (Institute of Technology, -6.3%; School of Nursing, -9.1%; College of Pharmacy, -10.1%; College of Veterinary Medicine, -10.3%; and, College of Education and Human Development, -18.6%).

Federal agencies accounted for 71% of FY2007 research expenditures, led by the National Institutes of Health (43.1%) and the National Science Foundation (9.9%) with all other federal sources providing an additional (17.7%). Three non-federal sources, the State of Minnesota (8.4%), Business and Industry (7.0%) and private organizations (13.9%) provided the remainder of the 2007 research expenditures. This distribution is not significantly altered relative to 2006.

Figure 2.3
FY2007 Sponsored Expenditures by Source

(Dollar amounts represented in millions)



Additional static views of the 2007 awards and expenditures data, as well as information about patenting and licensing activity can be viewed on the Levels and Trends web site (<http://www.oar.umn.edu/trends/index.cfm>) maintained by the Office of the Vice President for Research.

b. Patenting and Licensing

Patent and licensing productivity continued strong through 2007 (Table 2.1). Despite a decline in the number of disclosures by faculty and the number of new patents filed with the United States Patent Office relative to 2006 levels, the total number of active license agreements and gross revenues increased, continuing a progressive climb in both levels of activity over the past several years. The decline in disclosures reflects a temporary situation associated with completion of the Office for Technology Commercialization reorganization and re-staffing. The decline in new patent applications is a consequence of both the decrease in disclosures and a deliberate strategic decision to be more discriminating when it comes to patent submission. According to the most recent licensing data published by the Association of University Technology Managers (AUTM), the University of Minnesota ranked 6th in the nation in 2005 in terms of revenue generation from university-based technology.

In response to a disappointingly low number of start-ups formed through licensing of University technologies in the past couple of years, we implemented new strategies (reported to the Board throughout the year) to bolster performance in this area. In the 2005 Annual Research Report we announced an initial target to launch three new companies based on University technologies during 2006. As indicated in Table 2.1, we succeeded in meeting that goal and in 2007 launched 4 new start-ups. Through the outstanding efforts of the staff of the Office for Technology Commercialization and the Venture Center several additional start-up opportunities are under active development. This aspect of our revised technology commercialization strategy is paying dividends.

Table 2.1

(Dollar amounts represented in millions)

U OF M TECHNOLOGY COMMERCIALIZATION DATA						
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Disclosures	238	219	224	251	230	193
New U.S. Patent Applications	98	73	82	104	84	51
U.S. Patents Issued	45	56	43	54	29	44
Licenses						
New	72	58	101	86	85	77
Start-ups	6	3	4	1	3	4
Total Active Agreements	543	574	632	680	724	767
Gross Revenues	\$26.2	\$38.5	\$47.4	\$47.5	\$56.4	\$63.5
Patent Cost Reimbursements	\$1.1	\$1.0	\$1.0	\$1.2	\$1.4	\$1.7

Source: Office for Technology Commercialization.

10 YEAR TREND ANALYSIS

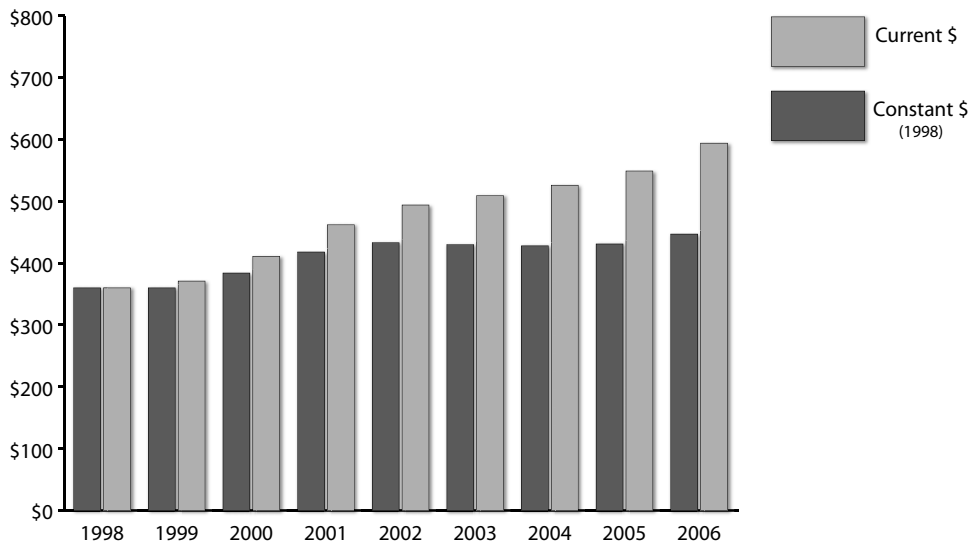
University of Minnesota

a. Research Expenditures for 1998-2006 Reported by NSF:

As noted previously, NSF released research expenditure data for 2005 and 2006 late this fall. These statistics are included in Figure 3.1, which presents a 9 year profile of research expenditures at the University of Minnesota for the period 1998-2006. NSF-reportable research expenditures have increased each year over this interval, growing at an average annual rate of 5% per year in current dollars; 3.0% when corrected for inflation. Expenditures increased 4.4% in 2005 and an impressive 8.4% in 2006, reaching \$594M.

Figure 3.1 NSF Survey Expenditures

(Dollar amounts represented in millions)

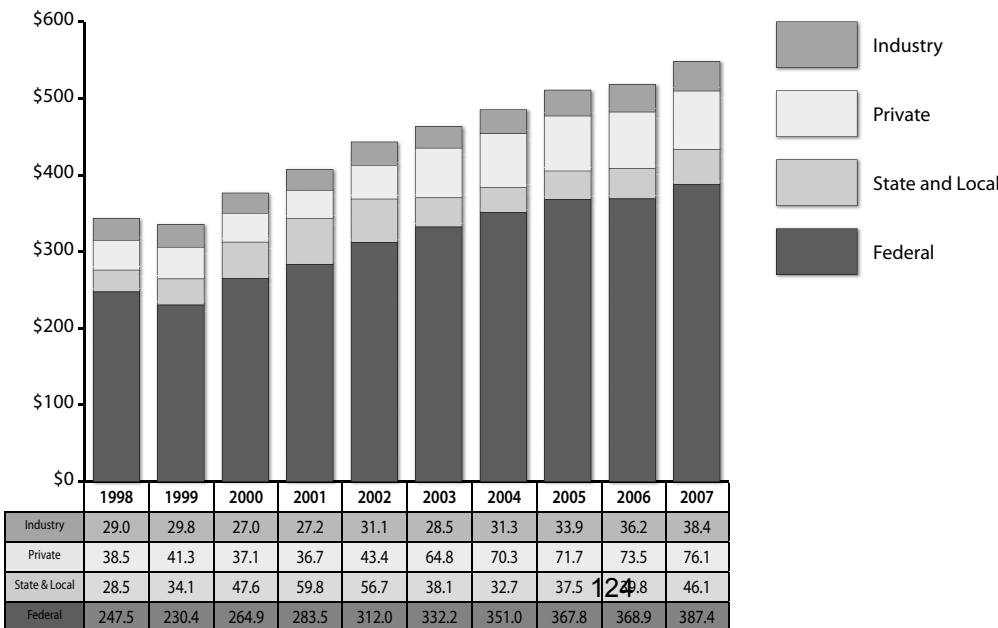


b. Sponsored Expenditures by Source 1998-2007:

Since 1998, the proportional distribution of research funding for the University from major sponsor categories has remained relatively constant. Federal support typically provides in excess of 70% of the research budget with the remainder originating from state and local governments, business and industry and private agencies and foundations. As shown in Figure 3.2, increases in federal research support over the past 10 years account for the majority of the increase in the absolute dollars available for research support to the University.

Figure 3.2 Sponsored Expenditures by Category

(Dollar amounts represented in millions)



COMPARATIVE ANALYSIS

with Other Public Research Universities

a. Comparison Group:

While research funding at the University of Minnesota has increased progressively over the past 10 years it is important to compare that positive performance against that of peer institutions and aspirational targets in order to gauge progress towards satisfaction of our goal to be one of the top three public research universities. Table 4.1 summarizes the relative ranking of the top twenty US public research universities based on the level of research expenditure data reported in the 2006 NSF annual research survey.

Since 2004 data was the latest available at the time of preparation of last years Annual Research Report, Table 4.1 also reports the data for 2005. A quick survey of the list of universities and the change in their respective rankings over the past two years emphasizes the dynamic nature of this ranking and underscores the need to include in this analysis several universities not otherwise included in the University's selected Comparison Group.

Table 4.1

RANKINGS: TOP 20 PUBLICS					
	NSF (Publics) 2004	NSF (Publics) 2005	NSF (Publics) 2006	Center for Measuring U Performance (Publics) 2006	Shanghai (World) 2007
U Wisconsin	3	2	1	Group 1	17
UCLA	1	3	2	Group 1	13
U Michigan	2	1	3	Group 1	21
UC San Francisco	4	4	4	Group 4	18
U Washington	5	6	5	Group 2	16
UC San Diego	6	5	6	Group 3	14
Ohio State	10	8	7	Group 2	61
Penn State	7	7	8	Group 3	43
U Minnesota	8	10	9	Group 2	33
UC Davis	11	11	10	Group 3	43
U Florida	17	12	11	Group 2	51
UC Berkeley	8	9	12	Group 1	3
U Arizona	14	13	13	Group 3	74
U Pittsburgh	15	15	14	Group 1	49
U Colorado	13	14	15	Group 6	34
UTX A&M	16	17	16	Group 4	91
U Illinois Urbana-Champaign	12	16	17	Group 1	26
UTX MD Anderson Cncr Ctr.	22	21	18	Group 8	151-202
UNC Chapel Hill	18	18	19	Group 1	58
Georgia Tech	19	19	20	Group 5	102-150

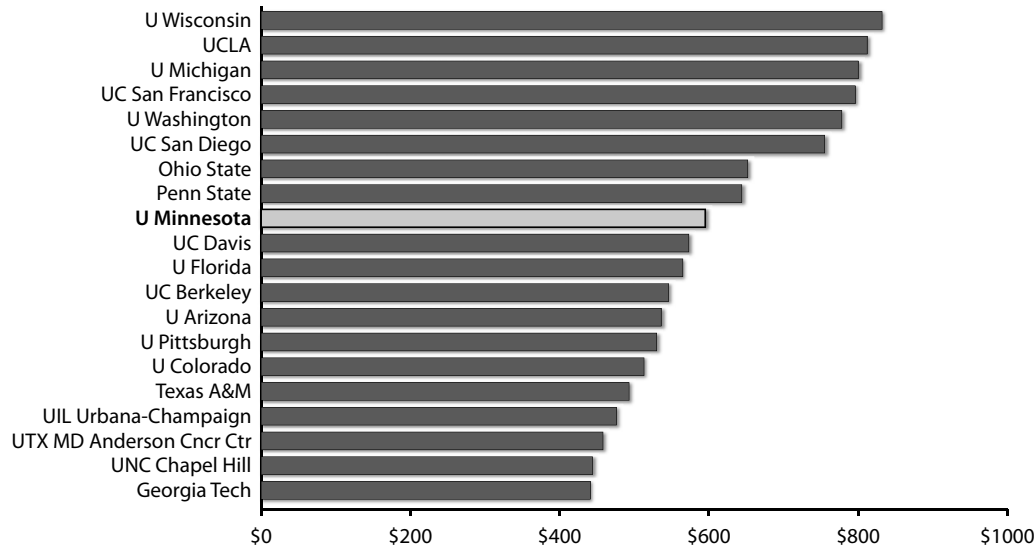
As mentioned previously, no single parameter, not even the NSF annual research expenditure ranking, serves as an entirely satisfactory measure of relative research performance. Consequently other ranking systems, though themselves fraught with drawbacks, have evolved and gained some credibility among the research community. Table 4.1 also includes updated ranking data from two such systems: the 2006 Center for the Measuring University Performance rankings (formerly the Florida Center) and the 2007 Academic Ranking of World Universities published by the Shanghai Jiao Tong University. Additional discussion of data reported in this latter ranking system is included in Section 5 of this Annual Report.

b. UMN Ranking: 2006 NSF Survey of Expenditures:

Figure 4.1 depicts the total research expenditures reported to the NSF in 2006 by the universities included in Table 4.1. On the basis of total research expenditures reported in 2006 the University of Minnesota ranks 9th among these public research universities. It should be noted that the 9th, 10th and 11th ranked public research universities are separated by difference of a mere \$30 million. Small differences in future funding performance can therefore be expected to have a profound impact on the relative ranking of those institutions in this ranking range, including the University of Minnesota.

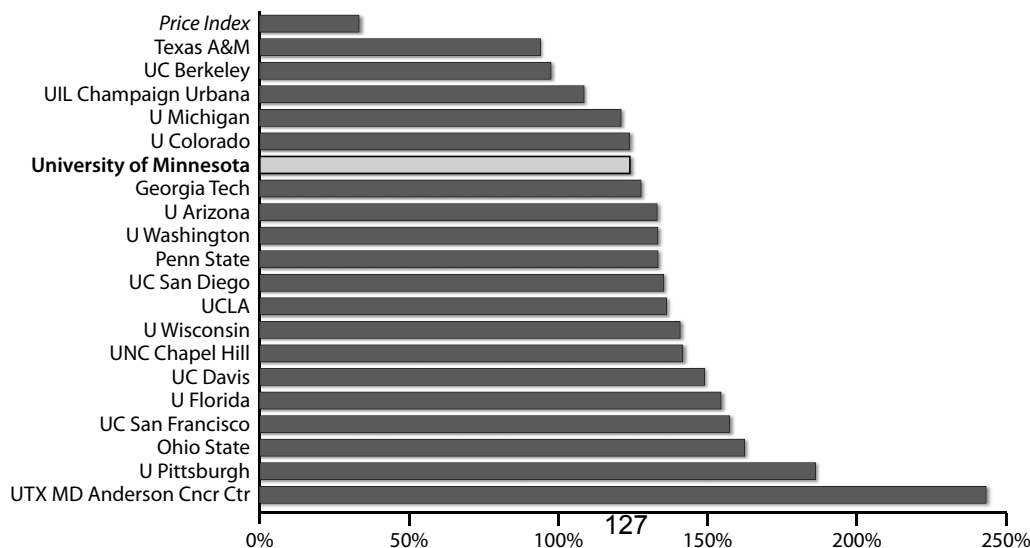
Figure 4.1 NSF Survey Expenditures: 2006 R&D Expenditures

(Dollar amounts represented in thousands)



Previous analyses indicated that differential growth rates among peer institutions has had a profound impact on annual rankings, identifying this parameter as an important factor when monitoring progress toward satisfaction of the University’s aspirational goal. The rate of growth in research expenditures from 1998 to 2006 (Figure 4.2) reveals a wide range of performance among the key comparators, with a mean annual growth rate among all the comparators of 11% in 2004, 15.4% in 2005 and 4.6% in 2006. By comparison, research expenditures at the University of Minnesota increased 3.5% in 2004, 4.4% in 2005 and 8.4% in 2006.

Figure 4.2 NSF Survey Expenditures: % Increase 1998 - 2006



As already mentioned, the 2006 Annual report did not include 2005 NSF expenditure data as they were not available at the time. Those data are incorporated into Table 4.2 to provide a comparison with the previously reported 2004 statistics and to serve as a baseline for comparison with the recently released 2006 data.

The institutions listed in the second column of the Table appear in rank-order according to the just released 2006 NSF research expenditure figures. The shaded entries represent public research universities. 2004 totals and corresponding rankings of the public research universities are represented in the next two columns. These are the last figures shared with the Board. The new data for 2005 and 2006 are summarized in the next pair of three column sets, providing the corresponding annual **Total** research expenditures, the **% Change** relative to the previous year and the **Rank** of each institution based on their respective total for that year. The color of each cell in the Rank column indicates whether the ranking improved (Green), remained the same (Yellow) or declined (Red) relative to the previous year's ranking.

Table 4.2

(Dollar amounts represented in millions)

NSF RANKINGS: TOP 20 INSTITUTIONS REPORTING LARGEST R&D EXPENDITURES									
		2004		2005			2006		
2006 Rank (All)	Institution	Total \$	Rank (Publics)	Total \$	% Change	Rank (Publics)	Total \$	% Change	Rank (Publics)
	All R&D expenditures†	42945		45777	6.6%		47760	4.3%	
	Leading 20 institutions	12888		13685	6.2%		14194	3.7%	
1	Johns Hopkins U‡	1375		1,444	5.0%		1,500	3.9%	
2	UW Madison	764	3	798	4.5%	2	832	4.3%	1
3	UCLA	773	1	786	1.7%	3	811	3.2%	2
4	U Michigan	769	2	809	5.2%	1	800	-1.1%	3
5	UC San Francisco	728	4	754	3.6%	4	796	5.6%	4
6	U Washington	714	5	708	-0.8%	6	778	9.9%	5
7	UC San Diego	709	6	721	1.7%	5	755	4.7%	6
8	Stanford	671		715	6.6%		679	-5.0%	
9	U Pennsylvania	597		655	9.7%		676	3.2%	
10	Duke	521		631	21.1%		657	4.1%	
11	Ohio State	518	10	609	17.6%	8	652	7.1%	7
12	Cornell	576		607	5.4%		649	6.9%	
13	Penn State	600	7	626	4.3%	7	644	2.9%	8
14	MIT	543		581	7.0%		601	3.4%	
15	U Minnesota	526	8	549	4.4%	10	595	8.4%	9
16	UC Davis	512	11	547	6.8%	11	573	4.8%	10
17	U Florida	447	17	531	18.8%	12	565	6.4%	11
18	Washington U St. Louis	490		532	8.6%		548	3.0%	
19	UC Berkeley	526	8	555	5.5%	9	546	-1.6%	12
20	U Arizona	479	14	530	10.6%	13	536	1.1%	13
	All other surveyed institutions	27802		32092	15.4%		33566	4.6%	

NOTE: Due to rounding, detail may not add to total.

†Excludes R&D performed by university-administered federally funded research and development centers.

‡Johns Hopkins University includes the Applied Physics Laboratory, total R&D expenditures for which were \$678 million in FY05 and \$709 in FY06.

Research expenditures for the University of Minnesota in 2005 increased to \$549 million, up from \$526 million in 2004 (a 4.4% increase). This annual growth was near the middle of the pack of

our public peers and, consequently, our rank relative to our peers declined from 8th (tied with UC Berkeley) in 2004 to 10th in 2005.

The University's total research expenditures increased to \$595 million in 2006, an impressive 8.4% increase over the 2005 total. This increase was the second largest percent increase among all the public research universities included in the NSF's top 20 universities analysis, an accomplishment exceeded only by the University of Washington which reported a 9.9% increase in 2006. As a result of this growth differential for 2006, the University of Minnesota's ranking among public research universities rebounded to 9th. Furthermore, in 2005 the "gap" in total research expenditures between the U and the number 3 public research university (then UCLA) was \$237 million. That "gap" has been reduced to \$205 million in 2006 (a comparison with the University of Michigan which ranks #3 in 2006); a reduction of \$32 million or 13.5%.

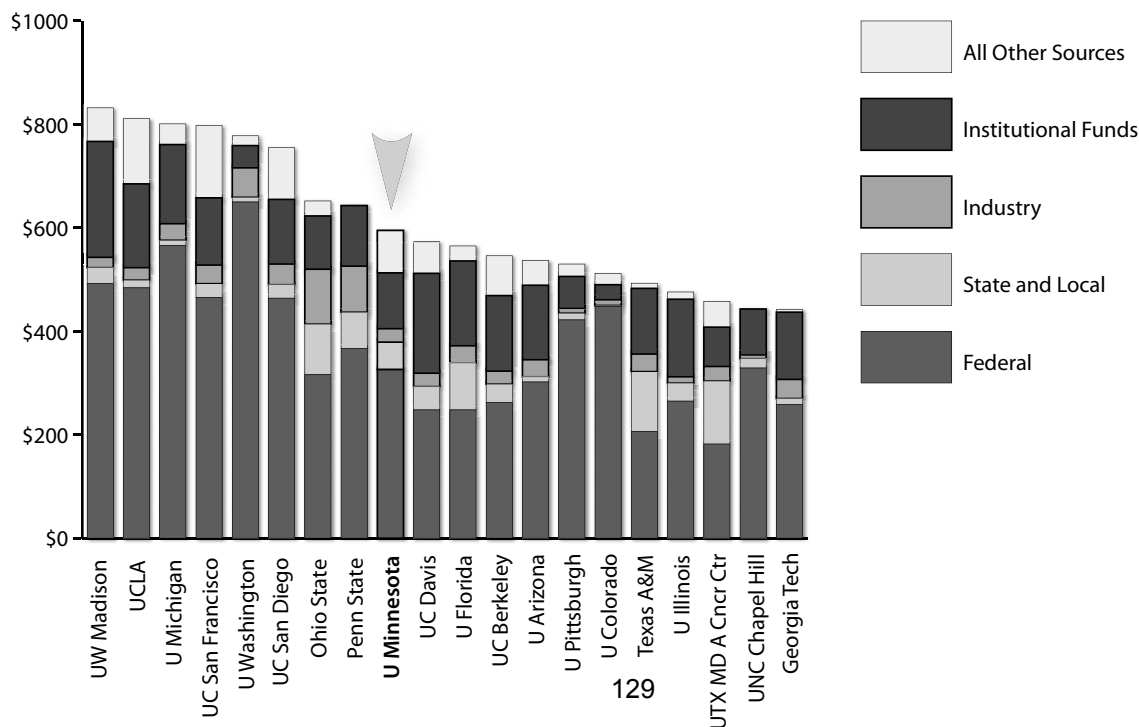
Clearly the University of Minnesota had an excellent year in FY2006, out-performing many of its peers in this important standardized research metric. While this signals a change from the trajectory over the past several years, it is important to note that performance in any single year cannot be relied upon as a predictor of future performance, particularly considering the volatility of the current federal research budget. Therefore, it is risky to assume that this performance signals a long term trend. Nevertheless, this is a significant achievement that should be acknowledged and celebrated.

c. Comparison by Source of Support:

Another very informative analysis enabled by the NSF annual research data is a comparison of variations in the *source* of funding at top research universities. Often it is assumed that differences in total research expenditures reported in the NSF survey are attributable in large measure to the competitiveness of campus investigators for federal research funds. While faculty competitiveness for federal support undoubtedly is a significant contributor, in some cases differences in other sources of research support play a surprisingly large role in differences in the total level of support reported in the NSF survey, as illustrated in Figure 4.3.

Figure 4.3 Academic S&E Expenditures: 2006

(Dollar amounts represented in thousands)



Comparisons with other peer institutions reveal that, in addition to variations in federal support, differences in institutional support and/or sponsored research from business and industry contribute significantly to differences in individual comparisons. Strategies designed to improve performance in these other categories, as compliments to increased federal competitiveness, offer additional opportunities to enhance the University's national research ranking. Efforts to enhance performance in these other funding categories therefore need to figure prominently in the University strategic plans.

As illustrated in Figure 4.4, differences in the availability and commitment of institutional funds (funds from unrestricted institutional sources like: state appropriations, indirect costs, tuition/fees or endowment income) in support of research play a major role in the cumulative differences in total research expenditures and, hence, overall ranking. Despite a significant increase in institutional funds committed to research activities in 2006, the University of Minnesota ranked 11th among public research universities.

Figure 4.4 Expenditures of Institutional Funds

(Dollar amounts represented in thousands)

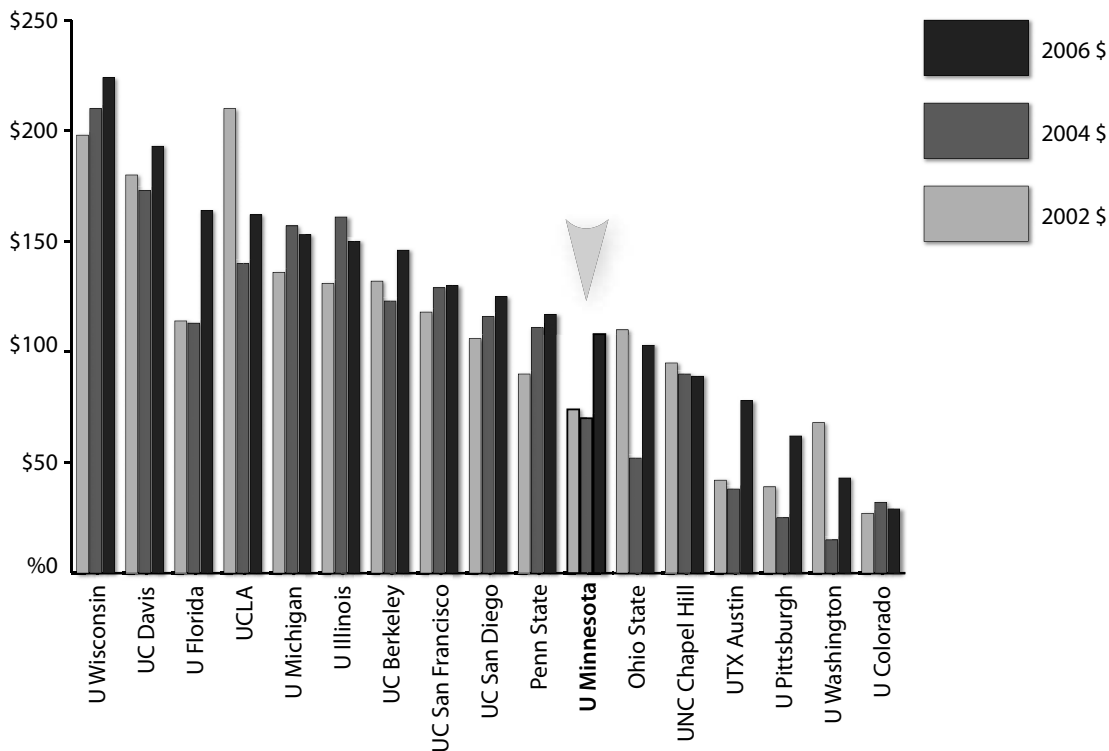
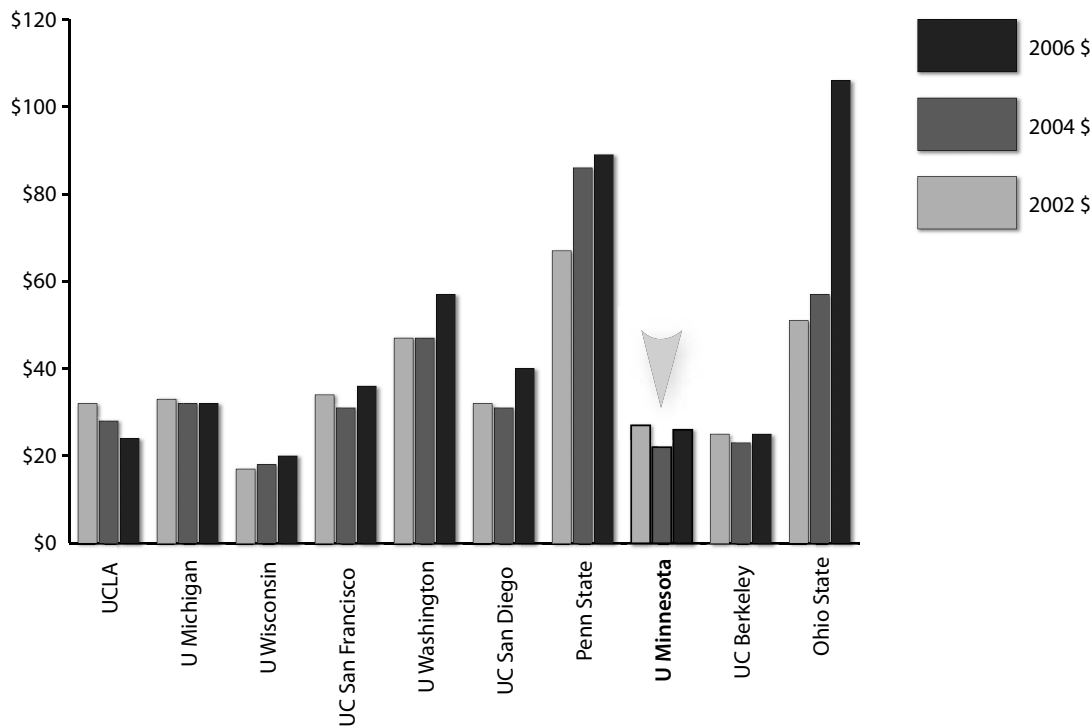


Figure 4.5 clearly illustrates the impact that growth in one or more of these other research support categories, in this case support from Business and Industry (B&I), can have on relative research standing. This figure depicts the different levels of B&I support at several public research universities as well as the changes in absolute levels from 2002 to 2006. What is readily apparent in this diagram is the very noticeable growth (\$50M increase) in B&I support at the Ohio State University between 2004 and 2006. They are now the number 1 ranked public university in terms of B&I support for research, surpassing Penn State.

A re-examination of Table 4.2 reveals that over this same interval, OSU improved its overall research ranking from 10th to 7th. Since the difference in research expenditures between 2004 and 2006 at OSU amounts to approximately \$134M, 37% of this impressive growth was directly attributable to an increase in B&I support. Efforts to replicate growth in this sponsorship category are now commonplace at many of our aspirational peers.

Figure 4.5 Expenditures of B&I Funds

(Dollar amounts represented in thousands)

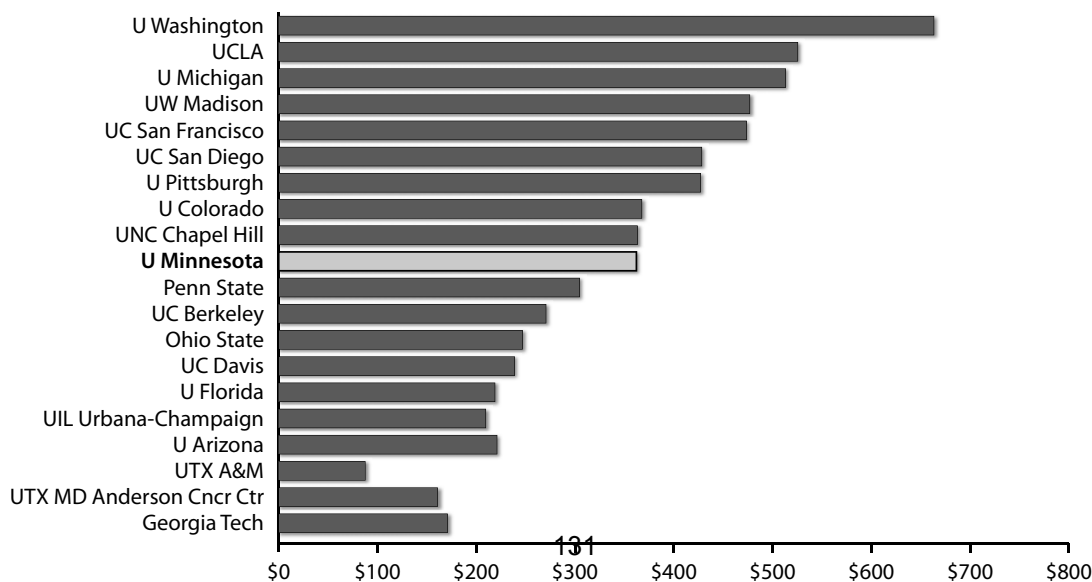


d. Ranking According to Federal Obligations: A Measure of Competitiveness?

It has been suggested that analysis of relative research performance on the basis of federal research obligations to individual universities would provide a better reflection of relative *competitiveness* than total research expenditures do because federal research support is typically competitively awarded on the basis of peer-reviewed merit (Proenza, LM, *Inside Higher Ed*, 2007). As shown in Figure 4.6, \$362M of research support was obligated to the University of Minnesota by federal agencies in 2005 (the latest year for which Federal Obligations statistics are available). By this metric, the U ranked 10th among public research universities.

Figure 4.6 Federal Obligations for Science and Engineering: FY2005

(Dollar amounts represented in millions)

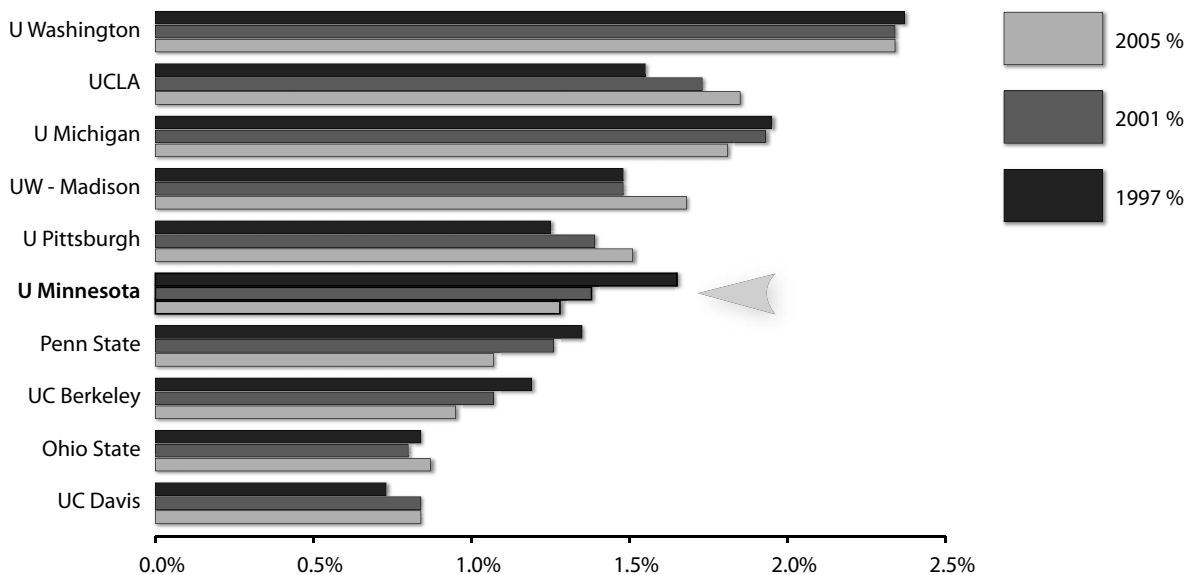


While this ranking is roughly comparable to the U's 2006 9th –overall ranking based on total research expenditures, note that some of the universities that surpass the U on the basis of the obligation metric are different, illustrating that the two systems are not the same. Nevertheless, both systems indicate that the U currently ranks among the very best of the nation's research universities.

In the same article, Proenza further suggests that a “percent growth’ parameter be employed to monitor competitiveness over time. Specifically, he suggests that “research competitiveness can only be demonstrated when one university’s research portfolio is growing faster than those of other comparable universities, or faster than the rate at which federal funding itself is growing.” Figure 4.7 presents this type of analysis for a number of public research universities, illustrating federal obligations over time as a percentage of total federal research obligations.

This assessment reveals that since 1997 the U's share of the total federal commitment to research has declined, while several of the universities in our comparator group have remained stable, or increased. This pattern is consistent with the differential growth rates reported in each of the last two Annual Research reports based on total expenditures.

Figure 4.7 Percentage Share of Federal Obligations



Other Research RANKING SYSTEMS

Reference has already been made to limitations associated with the use of research expenditure statistics as yardsticks of relative research standing despite an unquestionable relationship between the ability to compete for funding and an institution's research prominence. In addition, many critics of the use of these solitary metrics cite the fact that funding levels are *inputs* that do not speak directly to relevant research *outputs*, such as productivity, quality or impact.

Partially in recognition of these issues, alternative systems of assessment that include, or rely exclusively on, output measures have been developed. Although not free from problems of their own, these systems offer different perspectives on relative strengths of research programs that can be used in conjunction with expenditure statistics and other quality measures to better inform an evaluation of overall quality and standing among peer institutions.

Over the past year the Office of the Vice President for Research has considered some of these systems, two of which ("Academic Rankings of World Universities" published annually by the Institute of Higher Education, Shanghai Jiao Tong University and the "Highest Impact U.S. Universities" published every four years by *Science Watch*) will be highlighted in this report as complements to the NSF expenditure ranking data. Neither of these metrics include an element related to funding level among their evaluation criteria.

a. Academic Rankings of World Universities:

This ranking system is based on six discreet parameters each weighted individually (Table 5.1) and combined to give an overall score that in turn is used to generate a ranked list of universities worldwide. The ranking system emphasizes prestigious awards and bibliometric data normalized to institution size.

Table 5.1

ARWU RANKING CRITERIA AND WEIGHTS: 2007		
Criteria	Indicator	Weight
Quality of Education	Alumni of an institution winning Nobel Prizes and Fields Medals	10%
Quality of Faculty	Staff of an institution winning Nobel Prizes and Fields Medals	20%
	Highly cited researchers in 21 broad subject categories	20%
Research Output	Articles published in Nature and Science*	20%
	Articles in Science Citation Index-expanded, Social Science Citation Index	20%
Size of Institution	Academic performance with respect to the size of an institution	10%
Total		100%

Table 5.2 summarizes the 2007 ARWU rankings for the group of comparator public universities included in other sections of this report, displaying their relative ranking among world universities, all US universities and all public US universities. In these categories the University of Minnesota ranked 33rd, 25th, and 9th, respectively. The U's ranking among its public peers by this system agrees well with its ranking based on total research expenditures (Figure 4.1) and federal research obligations (Figure 4.6) despite the inherent differences in the ranking methodologies.

Table 5.2

ACADEMIC RANKING OF WORLD UNIVERSITIES: 2007			
Institutions	Total Rank among world universities in 2007	Rank among all US universities in 2007	Rank among Public US universities in 2007
UC Berkeley	3	3	1
UCLA	13	11	2
UC San Diego	14	12	3
U Washington	16	14	4
U Wisconsin	17	15	5
UC San Francisco	18	16	6
U Michigan	21	18	7
UIL Urbana-Champaign	26	19	8
U Minnesota	33	25	9
U Colorado	34	26	10
Penn State	43	32	15
UC Davis	43	32	16
U Pittsburgh	49	36	19
U Florida	51	38	20
UNC Chapel Hill	58	39	21
Ohio State	61	41	22
U Arizona	74	44	24

Source: Academic Rankings of World Universities 2007 - <http://www.arwu.org/ranking.htm>

In response to an increasing number of requests, the AWRU report also now provides ranking in five broad subject fields; Natural Sciences and Mathematics, Engineering/Technology and Computer Sciences, Life and Agriculture Sciences, Clinical Medicine and Pharmacy, and Social Sciences. Using the ranking system just described for institutions, AWRU has ranked each of the five broad fields of research at each of the universities included in their world study.

Table 5.3 provides the ranking for each broad field of research at the public universities, providing relative rank among worldwide universities and among US public universities. The U ranked 12th in Life and Agricultural Sciences, 7th in Clinical Medicine and Pharmacy, 18th in Engineering/Technology and Computer Science, 13th in Natural Sciences and Mathematics and 3rd among public universities in Social Sciences according to this ranking scheme. While field differences are noted, the U's ranking in these fields is very comparable to the U's AWRU public university rank (9th) and its ranking among public universities on the basis of research expenditures (9th).

Table 5.3

2007 ACADEMIC RANKING OF WORLD UNIVERSITIES: BROAD FIELD ANALYSIS										
Institutions	Life and Agricultural Sciences		Clinical Medicine and Pharmacy		Engineering Technology and Computer Sciences		Natural Sciences and Mathematics		Social Sciences	
	World	US Publics	World	US Publics	World	US Publics	World	US Publics	World	US Publics
UC Berkeley	18	6	34	13	5	3	2	1	5	1
UCLA	21	9	6	3	33	17	9	2	14	4
UC San Diego	14	5	23	10	9	7	19	6	25	10
U Washington	4	2	3	2	22	13	28	10	33	14
U Wisconsin	8	4	19	9	21	11	17	4	19	16
UC San Francisco	3	1	2	1	*	*	*	*	*	*
U Michigan	25	10	8	5	3	1	24	9	10	2
UIL Urbana-Champaign	19	7	*	*	3	1	20	7	*	*
U Minnesota	33	12	14	7	34	18	34	13	12	3
U Colorado	*	*	*	*	42	20	14	3	*	*
Penn State	*	*	*	*	6	4	46	18	22	8
UC Davis	20	8	*	*	*	*	44	17	*	*
U Pittsburgh	49	14	10	6	*	*	*	*	*	*
U Florida	31	11	42	14	30	15	*	*	*	*
UNC Chapel Hill	48	13	29	11	*	*	*	*	26	11
Ohio State	*	*	*	*	26	14	*	*	23	9
U Arizona	*	*	*	*	*	*	*	*	*	*

* Indicates that this institution was not ranked in the top 50 in this particular field in 2007.
Source: Academic Rankings of World Universities 2007 - <http://www.arwu.org/ranking.htm>

b. Bibliometric Indicators I: Citation Frequency:

Bibliometric-based indicators, metrics based on the frequency with which individual publications are cited in the scholarly works of others, have also emerged as indicators of quality, impact and significance. The more frequently an individual work is referenced in subsequent research of others, the greater is its presumed significance.

Hence, rankings based on the number of citations for the scholarly works associated with individual universities has come to serve as an indicator of the relative quality of the research for the university as a whole, or for individual areas of research. This system is frequently used in the natural and social sciences. The utility of bibliometric indicators is enhanced by the availability of a comprehensive database of citations initiated in the early 1960s and maintained by Thomson Scientific.

Table 5.4 summarizes the average citation ranking for 8 fields of study at 17 of the top 20 public research universities in the United States (on the basis of total research expenditures). The final column in the Table provides the ranking for each university based on average citation frequency for each of the 21 fields maintained in Thomson Scientific's Essential Science Indicators database.

The University of Minnesota ranked in the top 10 for each of the fields shown in Table 5.4; the only exception being the area of Molecular Biology and Genetics. The University's average citation ranking was particularly high in the broad fields of Chemistry and Environment/Ecology (4th and 3rd, respectively). Based on its collective record across all 21 fields, the U achieved an 8th overall ranking among US public research universities.

Table 5.4

RANKINGS OF US PUBLIC UNIVERSITIES ON THE BASIS OF CITATIONS										
Institutions	NSF (Publics) 2006	Clinical Med	Neuro-science	Ag. Sciences	Environment/ Ecology	Material Sciences	Molecular Biology & Genetics	Chem.	Social Sciences (General)	All Fields
U Wisconsin	1	12	12	2	4	12	10	5	5	7
UCLA	2	4	2	†	‡	13	6	11	2	2
U Michigan	3	5	7	†	15	7	7	10	1	5
UC San Francisco	4	2	1	†	‡	†	2	†	14	3
U Washington	5	3	6	†	7	6	4	12	6	1
UC San Diego	6	7	4	†	‡	†	3	13	20	6
Ohio State	7	17	‡	11	‡	11	†	†	12	16
Penn State	8	†	‡	10	18	1	15	9	13	14
U Minnesota	9	9	8	6	3	8	17	4	9	8
UC Davis	10	†	‡	1	1	†	14	†	‡	15
U Florida	11	20	‡	8	10	10	†	15	‡	19
UC Berkeley	12	†	‡	22	2	3	5	1	8	4
U Arizona	13	†	‡	†	12	†	†	†	18	17
U Pittsburgh	14	6	5	†	‡	†	16	19	16	10
U Colorado	15	11	13	†	16	†	12	†	17	11
UIU Urbana-Champaign	17	†	14	4	14	5	†	2	7	9
UNC Chapel Hill	19	8	16	†	17	†	8	8	4	12

† Indicates these institutions were ranked greater than 80 in total institutions ranked in this field of science.

‡ Indicates these institutions were ranked greater than b in total institutions ranked in this field of science.

Source: Essential Science indicators - <http://esi.isiknowledge.com/home.cgi>

c. Bibliometric Indicators II: Science Watch's "Top Tens" and the Highest Impact U.S. Universities:

Science Watch, a publication which tracks trends and performance in basic research, uses a "Relative Impact" based on citation frequency data and has used this metric to identify the top 10 highest-impact U.S. universities in each of the 21 fields included in the Essential Science Indicators database. The universities with the largest number of top ten finishes constitute the "Highest Impact U.S. Universities".

The innovation in this ranking scheme is the derivation of a relative "impact" measure from citation frequency statistics. Table 5.5 summarizes the *Science Watch* data published in 2007 for 17 of the top 20 public research universities. The University of Minnesota scored "top ten" honors in Agricultural Sciences (#6), Physics (#7), Mathematics (#3), and Computer Science (#9).

The total of 4 top tens among the 21 broad subject fields put the U tied for 5th rank among U.S. public universities with the University of Michigan, the University of Illinois, Urbana-Champaign, and UCLA. Once again, the U's overall ranking by this system compares well with its ranks in other ranking schemes.

Figure 5.5 Science Watch: Highest Impact Universities

FIELDS		UC Berkeley	UCLA	UC San Diego	U Washington	U Wisconsin	UC San Francisco	U Michigan	UIU Urbana-Champaign	U Minnesota	U Colorado	Penn State	UC Davis	U Pittsburgh	U Florida	UNC Chapel Hill	Ohio State	U Arizona
BIO/BIO MEDICAL	Clinical Medicine		5															
	Neuroscience	10				6												
	Agricultural Sciences				2		10	6		7	5							
	Plant & Animal Sciences	1	6															2
	Immunology		9	10		6												
	Environment/Ecology	9		5	3											7		
	Molecular Biology & Genetics	10	4			6												
	Pharmacology & Toxicology		2	7		5				8							6	
	Biology & Biochemistry					10												
PHYSICAL SCIENCE	Physics			5					7									
	Chemistry	10	6															
	Geosciences			4														
	Space Sciences	9	7				6				3							
	Material Sciences	3		1			7			8	10			8				
	Mathematics	2		5			8	3										
	Engineering		5															
	Computer Sciences	3		8			5	9	6		7							
SOCIAL SCIENCE	Psychiatry/Psychology												4					
	Economics/Business		9													7		
	Law	4					7											
	Education		7		2		1	9									10	
Total	10	4	6	8	3	5	4	4	4	3	3	3	1	1	3	1	1	
Relative Rank (among these 17 Publics)	1	5	3	2	9	4	5	5	5	9	9	9	14	14	9	14	14	
National Rank (all universities with greater than 5 in Top 10)	3		7	4		11												

Source: Thomson Scientific's University Science Indicators

STRATEGIES

to Increase Research Competitiveness

The comparative analyses of research performance provided in this annual report clearly establish the University of Minnesota as one of the top public research universities in the nation. Cumulative experience with research patterns and issues common at the University has identified a series of operational opportunities which can directly benefit research productivity and enhance the already competitive research environment at the U. As first detailed in last year's Annual Report we have taken the following steps to enhance research productivity:

- Worked with colleges to develop strategies to enhance research productivity
- Facilitated faculty productivity by increasing research support systems and by reducing the administrative burden associated with grant preparation and submission
- Established the Office of Collaborative Research Services to support faculty efforts in preparation of large, complex grant proposals
- Developed administrative procedures to increase responsiveness to funding opportunities and solicitations
- Aggressively advocated for grant and funding opportunities aligned with the U's research strengths and comparative advantages
- Initiated a new approach to IP negotiations and created the Academic and Corporate Relations Center to enhance responsiveness and build stronger research relationships with potential corporate sponsors of research
- Increased institutional support for research and grant matches
- Established new interdisciplinary research centers and provided support for new interdisciplinary research initiatives

The effectiveness of these initiatives, which have already had a positive impact on research competitiveness, will continue to be monitored and refinements made as appropriate. Additional strategies will also be developed to augment the efforts already implemented. The University must continue to maintain a proactive approach.

CONCLUSION

The University of Minnesota posted a very impressive increase in sponsored research expenditures in 2006, topping the 2005 expenditure levels by more than 8%, the second largest increase in funding levels among its comparison group. Total research expenditures reached nearly \$600M and the funding “gap” between the U and the third ranked public university was reduced from \$237M to \$205M, a reduction of nearly 14% in a single year. Based on the 2006 statistics the U ranks 9th overall among public universities, recovering from a decline to 10th position in 2005. As evidenced by this strong performance, the research enterprise at the University of Minnesota remains healthy.

The University’s status among the elite public research universities is also confirmed by multiple alternatives ranking systems, all of which easily place the U among the top ten of its peer group, the best in the nation. Through its strategic re-positioning initiatives the University has taken and will continue to take bold, assertive steps to enhance its research enterprise. If we remain attentive and committed to this transformation process steady progress towards satisfaction of the U’s strategic objective, early signs of which are evident in the most recent performance metrics, can be achieved.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 14, 2007

Agenda Item: Annual Financial Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

To present an overview of the 2007 Annual Financial Report to the Board of Regents.

Outline of Key Points/Policy Issues:

The Annual Financial Report presents the financial position and the results of operations for the University of Minnesota and its component units for FY 2007.

The Report can be found on pages 11 to 81 of the Board docket. Explanations for major fluctuations are included with these docket materials.

Background Information:

This report is prepared annually and discussed in detail with the Board of Regents Finance and Operations Committee in conformance with the Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
December 13-14, 2007**

**Annual Management Report
June 30, 2007**

(Dollars in thousands)

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

Total assets of \$4,512.2 million on June 30, 2007, increased 15.0% or \$590.0 million over total assets of \$3,922.2 million on June 30, 2006. Current assets totaled \$546.2 million and \$564.8 million on June 30, 2007 and 2006, respectively, a decrease of 3.3% or \$18.6 million. Current assets consisted primarily of cash and cash equivalents, securities lending collateral, and net receivables.

Total current and noncurrent University receivables, net of allowances, on June 30, 2007 and 2006 were \$399.9 million and \$369.2 million, respectively. The increase of \$30.7 million or 8.3% in total University receivables was due primarily to an increase in capital appropriations for a number of new building projects and an increase in state appropriations for operations and maintenance.

Capital assets, net of accumulated depreciation, totaled \$2,060.6 million and \$1,906.4 million on June 30, 2007 and June 30, 2006, respectively. The \$154.3 million or 8.1% increase was mainly due to increased building project spending. The major building projects completed in fiscal year 2007 included the Vincent Stabile Building in Rochester and the Ben Pomeroy Student-Alumni Learning Center, Mayo Memorial Auditorium renovation, and phase one of the 717 Delaware Street S.E. renovation on the Twin Cities campus. Additional building project spending in fiscal year 2007 included Hanson Hall and a skyway to the Carlson School of Management, the Koltoff Hall ventilation upgrade, TCF Gopher Stadium, renovation of the Mineral Resources Research Center building, the Equine Clinical Research Center, and phase two of the 717 Delaware Street S.E. renovation on the Twin Cities campus. Construction on the Duluth campus included the Labovitz School of Business and Economics and the renovation of the Life Science Building.

Other noncurrent assets (excluding net receivables and capital assets) totaled \$1,847.2 million and \$1,394.4 million on June 30, 2007 and 2006 respectively. Included in the amounts were long-term endowment and other investments of \$1,680.0 million and \$1,390.4 million on June 30, 2007 and 2006, respectively. The increase in investments included net unrealized and realized gains of \$182.9 million for fiscal year 2007 and \$83.2 million for fiscal year 2006.

Restricted cash and cash equivalents increased primarily by the unspent bond proceeds earmarked for the TCF Stadium project.

Current liabilities (excluding current portion of long-term debt) totaled \$519.3 million on June 30, 2007, up 18.6 % or \$81.6 million from \$437.7 million on June 30, 2006. Current liabilities consisted of accounts payable, securities lending collateral, and accrued liabilities and other, including significant expected obligations under the University's self-insured medical plan. Accounts payable increased due to higher spending for a number of construction projects taking place in fiscal year 2007. Current liabilities also included funds received in advance of expenditures on sponsored accounts and the current portion of bonds payable.

The current portion of long-term debt increased by \$39.7 million or 13.7% to \$328.9 million on June 30, 2007 from \$289.2 million on June 30, 2006. The increase in current debt is mainly due to issuance of Commercial Paper, Series B. On March 1, 2007, the University issued \$61.0 million in tax-exempt commercial paper to finance the purchase of land and buildings, construction and remodeling projects to be undertaken by the University, and the acquisition and installation of equipment by the University

Noncurrent liabilities totaled \$557.0 million and \$433.9 million on June 30, 2007 and 2006, respectively. The increase in noncurrent liabilities of \$123.1 million or 28.4% is due to the increase in long-term debt related to principal amounts due on University bonds. The noncurrent portion of long-term debt increased to \$467.4 million on June 30, 2007 from \$343.8 million on June 30, 2006. This \$123.6 million or 36.0% increase was mainly due to the issuance of the Special Purpose Revenue Bonds.

Total net assets increased \$345.7 million or 12.5% to \$3,107.1 million on June 30, 2007. Total net assets on June 30, 2007 included unrestricted net assets of \$338.1 million, a decrease of \$32.0 million or 8.6%; restricted expendable net assets of \$1,116.5 million, an increase of \$216.6 million or 24.1%; restricted nonexpendable net assets of \$222.8 million, an increase of \$6.4 million or 3.0%; and invested in capital, net of related debt of \$1,429.6 million, an increase of \$154.7 million or 12.1% over June 30, 2006, respectively.

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

For the year ended June 30, 2007, student tuition and fees totaled \$514.1 million, net of \$115.6 million of scholarship allowances. This revenue represents an increase of \$19.1 million or 3.9% over the year ended June 30, 2006, with student tuition and fees of \$495.0 million, net of \$98.6 million of scholarship allowances. The increase in student tuition and fees revenue was due to tuition and required fee increases, which averaged approximately 6.5 percent, and relatively stable enrollment.

Federal, State, and other governmental grants increased \$37.3 million or 8.7% to \$464.7 million for fiscal year 2007 from \$427.4 million during fiscal year 2006. The increase in federal grants was due primarily to the receipt of the Insight Award from the National Institutes of Health. State and other governmental grants increased primarily due to the Minnesota Partnership for Biotechnology and Medical Genomics (U-Mayo partnership). Nongovernmental grants increased as a result of timing related to grant start and end dates and due to additional UMPHysicians funding.

Auxiliary revenue was up \$14.6 million or 5.3% to \$288.2 million for fiscal year 2007 from \$273.6 million for the same period of fiscal 2006. Contributing to the increase was revenue for the Big Ten Network signing bonus; a new contract with Learfield Sports, which handles the University's athletic multimedia and marketing; and student health and dental insurance accounted for in Boynton Health Services operating accounts. Other increases included football ticket sales, U Press sales, Veterinary Medical Center services, and Duluth bookstore revenues.

Operating expenses increased to \$2,525.4 million for the year ended June 30, 2007 from \$2,365.8 million for the year ended June 30, 2006. In general, operating expenses increased due to salary and fringe increases given during fiscal year 2007. Auxiliary enterprises expense increased \$18.2 million to \$203.4 million for fiscal year 2007 from \$185.2 for fiscal year 2006. Overall, operating expenses were in excess of operating revenues by \$898.5 million and \$837.6 million for the years ended June 30, 2007 and 2006, respectively.

State appropriations used in the University's operations totaled \$645.6 million and \$616.4 million for the year ended June 30, 2007 and 2006, respectively. Investment income of \$56.8 million for fiscal year 2007 increased by \$19.2 million over fiscal year 2006. The net increase in the fair market value of investments of \$182.9 million for

fiscal year 2007 resulted in increased revenue of \$99.7 million over the net increase in the fair market value of investments of \$83.2 million recorded during fiscal year 2006.

Other significant sources of revenue to the University included gifts in support of operating expenses of \$119.8 million and \$97.2 million, and grants and gifts for capital purposes of \$9.3 million and \$12.4 million in fiscal years 2007 and 2006 respectively.

Net nonoperating and other revenues were \$1,244.2 million for the year ended June 30, 2007, up from \$972.9 million for the year ended June 30, 2006. The overall increase in total net assets for fiscal year 2007 was \$345.7 million. This increase compares to an increase of \$135.3 million recognized during fiscal year 2006.

**UNIVERSITY OF MINNESOTA
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**Annual Management Report
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(Dollars in thousands)**

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

The University's cash and cash equivalents increased \$114.1 million due to the inflow of funds provided by noncapital financing activities, partially offset by the use of funds for operating activities, capital and related financing activities, and investing activities. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling \$644.8 million and \$615.2 million, grants totaling \$123.0 million and \$95.7 million, and gifts totaling \$117.1 million and \$94.6 million in fiscal years 2007 and 2006, respectively.

Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year funded the University's equipment needs and ongoing renovation and construction initiatives.