

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Friday, December 10, 2010

9:00 - 11:30 a.m.

600 McNamara Alumni Center, Boardroom

Board Members

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

AGENDA

1. Recognition of Senior Vice President for Health Sciences & Dean of the Medical School - R. Bruininks (p. 3)
2. Approval of Minutes - Action - C. Allen
3. Report of the President - R. Bruininks
4. Report of the Chair - C. Allen
5. Receive and File Reports (pp. 4-104)
 - A. Quarterly Report of Grant & Contract Activity
 - B. Annual Financial Report
6. Consent Report - Review/Action - C. Allen (pp. 105-116)
 - A. Report of the All-University Honors Committee
 - B. Gifts
 - C. Summary of Expenditures
7. Report of the Faculty Consultative Committee - K. VandenBosch (pp. 117-119)
8. Report of the Student Representatives to the Board of Regents - M. Privratsky (pp. 120-129)
9. Annual Report on the Status of University Research - T. Mulcahy (pp. 130-131)
10. Annual Financial Report - R. Pfutzenreuter (p. 132)
11. 2011 State Capital Budget Request - Review - R. Bruininks/K. O'Brien/R. Pfutzenreuter (pp. 133-137)
12. Report of the Facilities Committee - S. Hunter
13. Report of the Faculty, Staff & Student Affairs Committee - D. Johnson
14. Report of the Finance & Operations Committee - J. Frobenius
15. Report of the Audit Committee - S. Hunter
16. Report of the Educational Planning & Policy Committee - P. Simmons

17. Report of the Litigation Review Committee - A. Baraga
18. Old Business
19. New Business
20. Adjournment



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

Agenda Item: Recognition of Senior Vice President for Health Sciences and Dean of the Medical School

review review/action action discussion

Presenters: President Robert H. Bruininks

Purpose:

policy background/context oversight strategic positioning

To recognize Dr. Frank Cerra, Senior Vice President for Health Sciences and Dean of the Medical School.

Outline of Key Points/Policy Issues:

Dr. Cerra received his B.A. degree in biology from the State University of New York at Binghamton and his M.D. degree from Northwestern University School of Medicine. He came to the University of Minnesota in 1981 as director of surgical critical care. In 1995, Dr. Cerra was named dean of the Medical School after serving briefly as head of the Department of Surgery. Since assuming leadership as provost of the Academic Health Center in 1996, and being named senior vice president for health sciences in 1997, he guided many changes to enable the Academic Health Center to respond more nimbly to the evolving health care marketplace, to advance science and technology, and to translate those advances into new treatments. On June 11, 2009, Dr. Cerra was appointed Senior Vice President for Health Sciences and Dean of the Medical School. Dr. Cerra has led one of the largest and most comprehensive academic health centers in the United States, an enterprise that prepares two-third of the state's health professionals, supports biomedical research and industry, and receives substantial government and private grant awards. He will retire from his position as Senior Vice President for Health Sciences and Dean of the Medical School on December 31, 2010.

Background Information:

The Certificate of Appreciation may be awarded to any person for contributions or services at the collegiate or all-University level.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

Agenda Item: Receive and File Reports

review review/action action discussion

Presenters: Regent Clyde Allen

Purpose:

policy background/context oversight strategic positioning

Outline of Key Points/Policy Issues:

Background Information:

There are two items 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 Activity

**Fiscal Year 2011
First Quarter Data: July - September, 2010**

University of Minnesota
Quarterly Report of Grant and Contract Activity
Award Summary by Sponsor
Fiscal Year 2011 First Quarter: July - September, 2010

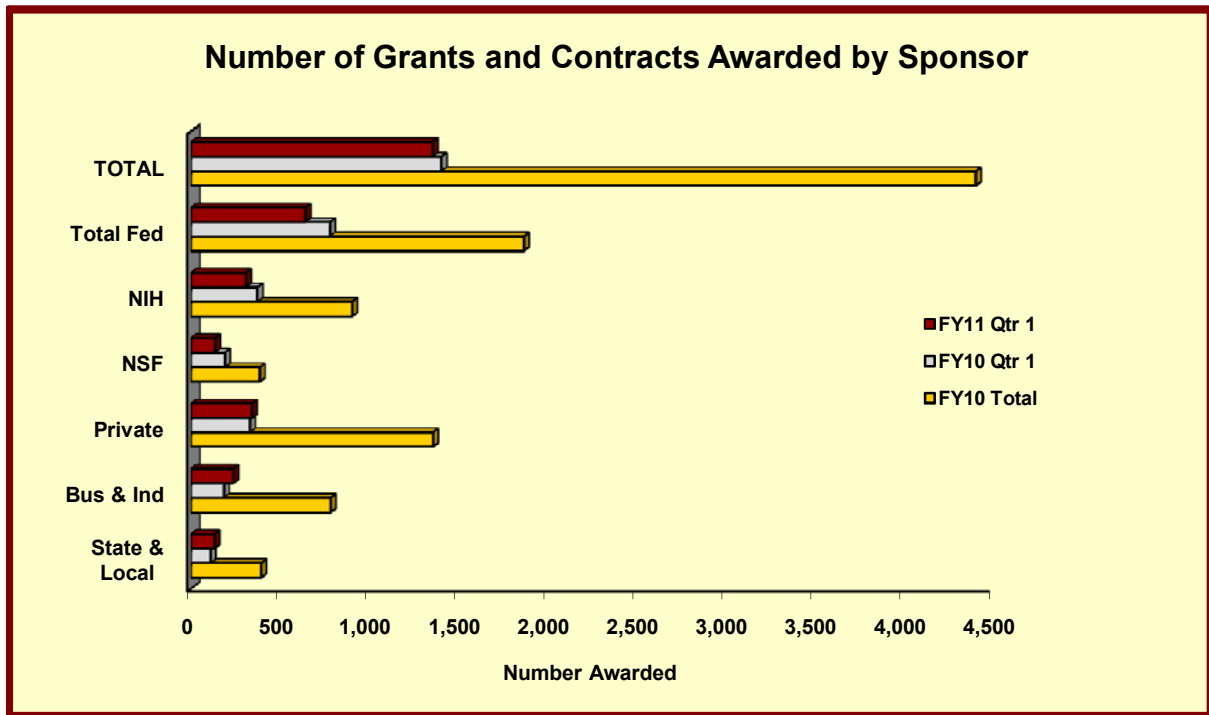


Figure 1: Number of Awards by Sponsor.
 Comparison of Fiscal Year 2011 versus Fiscal Year 2010. (For numerical data, see Table 1 below.)

Agency	Quarter 1		YTD	
	FY10	FY11	FY10	FY11
Total Fed	780	643	1,868	643
NIH	373	308	905	308
NSF	191	135	386	135
Private	331	343	1,358	343
Bus & Ind	185	238	784	238
State & Local	110	132	394	132
TOTAL	1,406	1,356	4,404	1,356

Table 1: Qtr 1 and Fiscal Year 2010 comparisons.

University of Minnesota
Quarterly Report of Grant and Contract Activity
Award Summary by Sponsor
Fiscal Year 2011 First Quarter: July - September, 2010

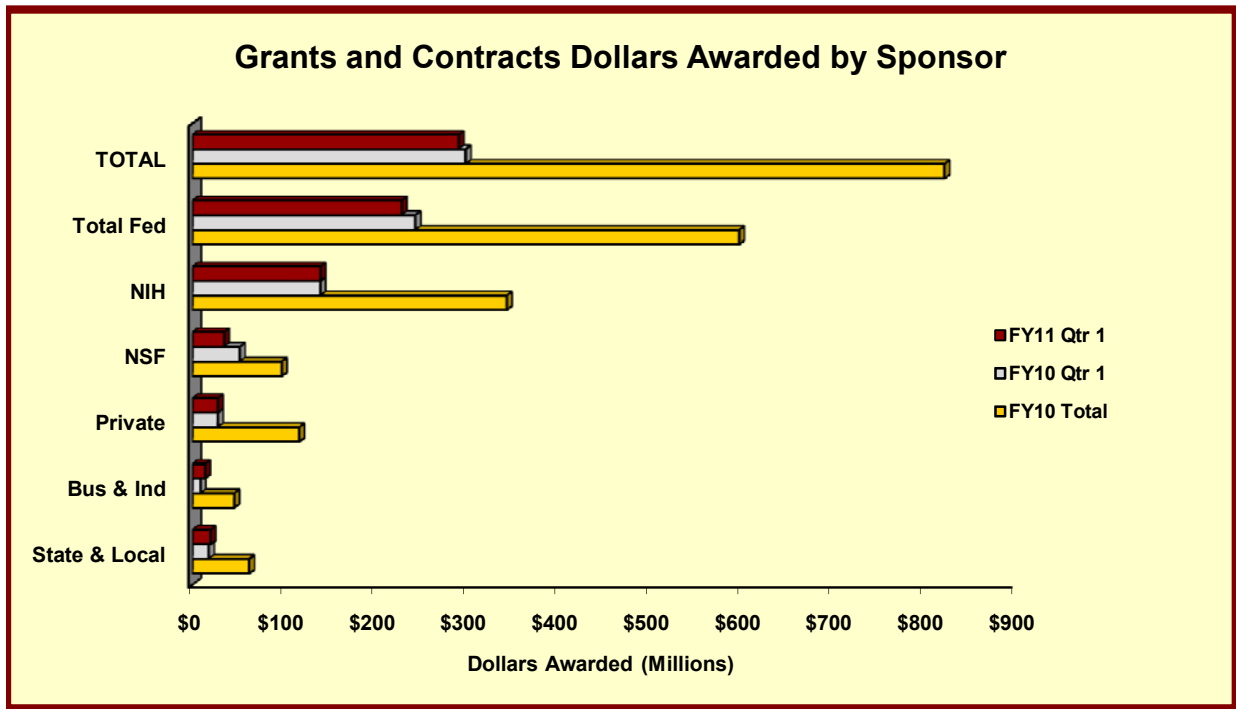


Figure 2: Award Totals by Sponsor.

Comparison of Fiscal Year 2011 versus Fiscal Year 2010. (For numerical data, see Table 1 below.)

Agency	Quarter 1		YTD	
	FY10	FY11	FY10	FY11
Total Fed	\$244	\$229	\$598	\$229
NIH	\$140	\$140	\$344	\$140
NSF	\$52	\$35	\$98	\$35
Private	\$28	\$28	\$117	\$28
Bus & Ind	\$9	\$14	\$46	\$14
State & Local	\$18	\$20	\$62	\$20
TOTAL	\$299	\$291	\$823	\$291

Table 2: Qtr 1 and Fiscal Year 2010 comparisons.

University of Minnesota
Quarterly Report of Grant and Contract Activity
Award Summary by College
Fiscal Year 2011 First Quarter: July - September, 2010

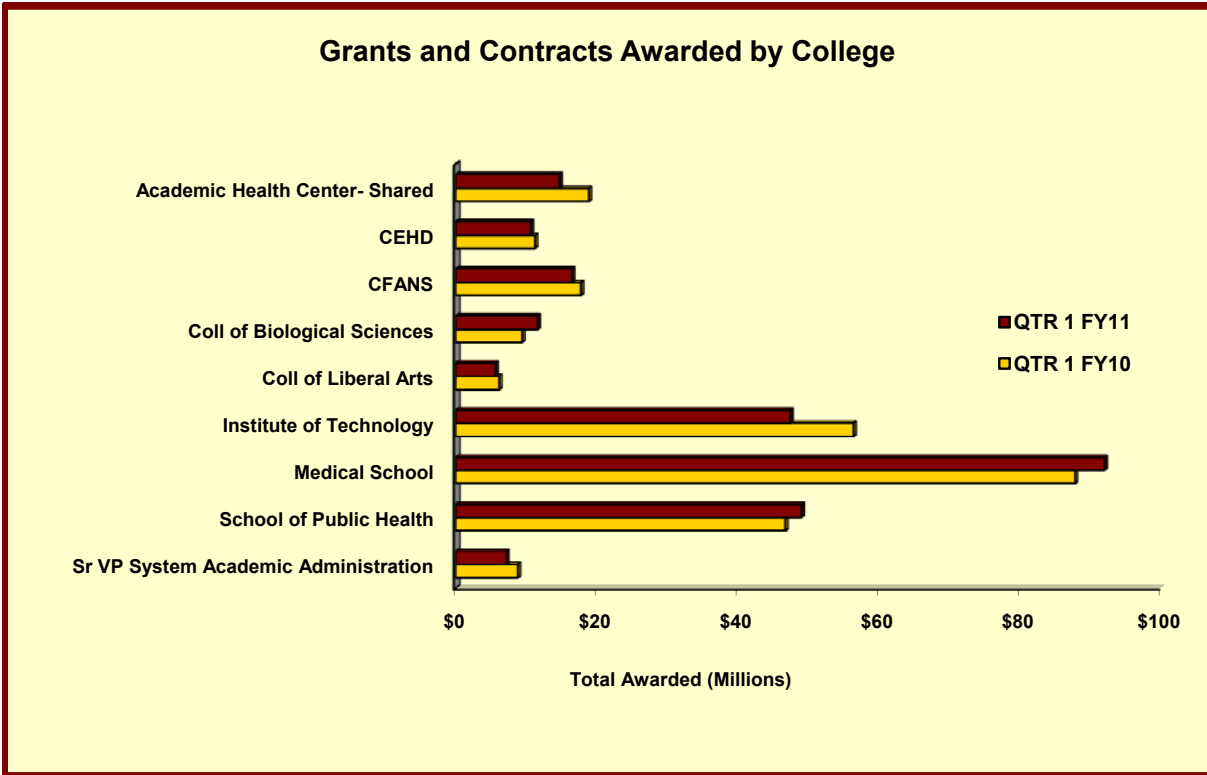


Figure 3: Grants and Contracts Awarded by Colleges: Units with Greater than \$15 Million Awarded Annually.

**University of Minnesota
 Quarterly Report of Grant and Contract Activity
 Award Summary by College
 Fiscal Year 2011 First Quarter: July - September, 2010**

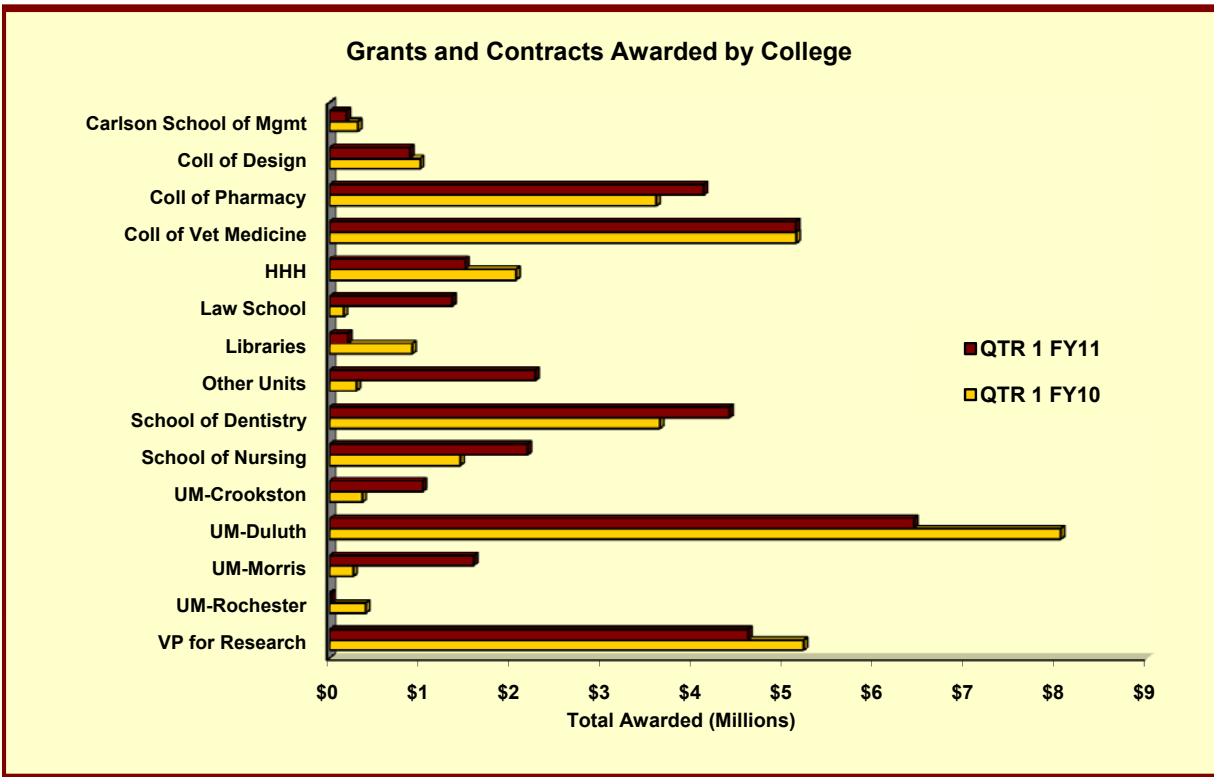


Figure 4: Grants and Contracts Awarded by Colleges: Units with Less than \$15 Million Awarded Annually.

Other units includes Auxiliary Services, Ag Experiment Station, Equity & Diversity, Office of Emergency Response, Student Affairs Adm, University Health & Safety, VP Scholarly & Cultural Affairs.

University of Minnesota

*Consolidated Financial Statements for the Years
Ended June 30, 2010 and 2009, Independent
Auditors' Report, and Management's Discussion
and Analysis*

Financial Report

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INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of net assets of the University of Minnesota (the "University") as of June 30, 2010, the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended and the financial statements of the discretely presented component units as of and for the year ended June 30, 2010. These consolidated financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements 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 discretely presented component units, is based solely on the reports of the other auditors. The consolidated financial statements of the University for the year ended June 30, 2009, before the effects of the change in accounting to retrospectively apply the adoption of new accounting standards applicable for the year ended June 30, 2010 discussed in Note 12 to the consolidated financial statements and before the adjustments to classification of net assets discussed in Note 1 to the consolidated financial statements, were audited by other auditors whose report, dated October 28, 2009, on those statements included an explanatory paragraph concerning a change in accounting for its method of recognizing sponsored federal, state, other government, and nongovernment exchange grants and contracts revenue in 2009 discussed in Note 1 to the consolidated financial statements and the change in accounting for environmental remediation obligations as required by Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting for Financial Reporting for Pollution Remediation Obligations* discussed in Note 12 to the consolidated financial statements.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit, and the reports of the other auditors, provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of the other auditors, such 2010 consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2010, and the results of its operations and its cash flows for the year then ended and the financial statements of the discretely presented component units as of and for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments to the 2009 consolidated financial statements to retrospectively apply the change in accounting for intangible assets and derivative instruments as required by GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, respectively, in 2010, as discussed in Note 12 to the consolidated financial statements. Our procedures included auditing the fair values of the intangible assets and derivative instruments retroactively applied to the 2009 consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. We also audited the net asset classification adjustments described in Note 1 to the consolidated financial statements that were applied to the 2009 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2009 financial statements of the University other than with respect to the retrospective and net asset classification adjustments noted above and, accordingly, we do not express an opinion or any other form of assurance on the 2009 consolidated financial statements taken as a whole.

The management's discussion and analysis and the schedules of funding progress, as listed in the table of contents, which are the responsibility of the University's management, are not a required part of the basic consolidated financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors noted above, 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.



October 28, 2010

Management's Discussion and Analysis (Unaudited)

Introduction

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2010, 2009, and 2008. 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 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, and 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 51,100 students) and among the top nine public research institutions nationally. The University is the state's major research institution with expenditures of approximately \$632.0 million, \$600.1 million, and \$564.9 million in fiscal years 2010, 2009, and 2008, 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 doctoral 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 activities 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 to 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 approximately 66,300 students;
- graduates approximately 14,000 students, 41 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, state, and governmental 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 or the Board of Regents.
- **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, 2010, 2009, and 2008

(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Assets							
Current assets	\$ 598,999	\$ 611,540	\$ 708,217	\$ (12,541)	(2.1%)	\$ (96,677)	(13.7%)
Other noncurrent assets	1,449,016	1,297,454	1,572,001	151,562	11.7%	(274,547)	(17.5%)
Capital assets, net	2,531,864	2,471,421	2,263,790	60,443	2.4%	207,631	9.2%
Total assets	4,579,879	4,380,415	4,544,008	199,464	4.6%	(163,593)	(3.6%)
Liabilities							
Current liabilities	488,549	480,678	523,386	7,871	1.6%	(42,708)	(8.2%)
Noncurrent liabilities	131,617	114,544	102,140	17,073	14.9%	12,404	12.1%
Long-term debt	956,364	953,372	824,753	2,992	0.3%	128,619	15.6%
Total liabilities	1,576,530	1,548,594	1,450,279	27,936	1.8%	98,315	6.8%
Net assets							
Unrestricted	626,307	562,994	218,680	63,313	11.2%	344,314	157.5%
Restricted—expendable	512,126	434,643	1,126,294	77,483	17.8%	(691,651)	(61.4%)
Restricted—nonexpendable	242,541	242,606	238,821	(65)	0.0%	3,785	1.6%
Invested in capital assets, net of related debt	1,622,375	1,591,578	1,509,934	30,797	1.9%	81,644	5.4%
Total net assets *	3,003,349	2,831,821	3,093,729	171,528	6.1%	(261,908)	(8.5%)
Total net assets and liabilities	\$4,579,879	\$ 4,380,415	\$ 4,544,008	\$ 199,464	4.6%	\$ (163,593)	(3.6%)

* FY 2009 and FY 2008 Net Assets were restated to reflect GASB 51 Intangible Assets and GASB 53 Derivatives.

* FY 2008 Net Assets were restated to reflect GASB 49 Pollution Remediation

Current assets consist primarily of cash and cash equivalents, securities lending collateral and net receivables. The change in current assets over the three fiscal years was due primarily to a combination of increases in receivable balances and other assets, partially offset by a decrease in securities lending collateral. In fiscal year 2010, the University implemented GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. The University has entered into interest rate swaps with several counterparties, which meet the definitions of GASB 53. As a result, the University was required to calculate and record other assets of \$3.4 million and \$6.3 million related to fiscal years ended June 30, 2010 and 2009, respectively. Refer to Notes 5 and 12 for additional information related to derivative instruments. The decrease in securities lending collateral was due to the elimination of the securities lending program. Early in fiscal year 2009, the University made the decision to terminate its securities lending program as part of a comprehensive program of activities designed to reduce elements of volatility and other risks in the face of capital markets that were becoming less stable. The primary factor impacting the increase in the receivable balance from 2008 to 2009 (shown in Figure 2) was the result of a process change for invoicing sponsored activity. In prior fiscal years, the receivable and revenue for sponsored activity was not recognized until the expense had been incurred. In fiscal year 2009, the financial recognition process was changed for certain sponsored activities. The recognition of certain sponsored receivables and revenue is now based on milestone billings. As a result, some receivables are recognized earlier in the process.

Assets (excluding capital)

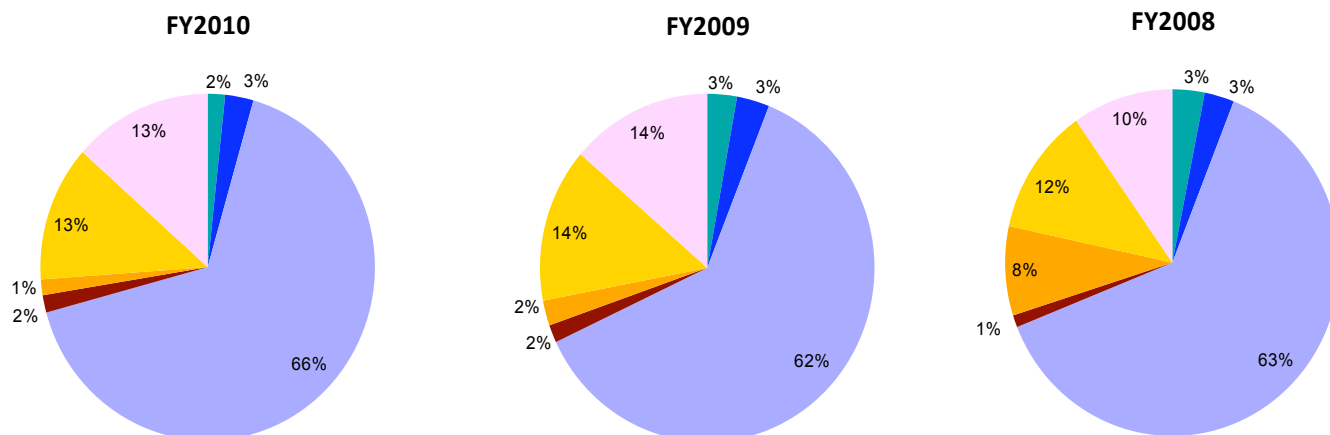


Figure 2
The University's current and noncurrent assets (excluding capital) on June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Current assets							
Receivables, net	\$ 276,104	\$ 260,386	\$ 222,200	\$ 15,718	6.0%	\$ 38,186	17.2%
Cash and cash equivalents	259,677	274,904	270,632	(15,227)	(5.5%)	4,272	1.6%
Securities lending collateral and investments	30,000	44,704	189,542	(14,704)	(32.9%)	(144,838)	(76.4%)
Other assets	33,218	31,546	25,843	1,672	5.3%	5,703	22.1%
Total current assets	598,999	611,540	708,217	(12,541)	(2.1%)	(96,677)	(13.7%)
Noncurrent assets							
Investments	1,358,586	1,183,005	1,435,584	175,581	14.8%	(252,579)	(17.6%)
Receivables, net	56,096	59,999	65,469	(3,903)	(6.5%)	(5,470)	(8.4%)
Cash and cash equivalents and other assets	34,334	54,450	70,948	(20,116)	(36.9%)	(16,498)	(23.3%)
Total noncurrent assets	1,449,016	1,297,454	1,572,001	151,562	11.7%	(274,547)	(17.5%)
Total assets (excluding capital)	\$2,048,015	\$ 1,908,994	\$ 2,280,218	\$ 139,021	7.3%	\$(371,224)	(16.3%)

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

Noncurrent assets (excluding capital) consisted mainly of long-term endowment and other investments. In fiscal years 2010 and 2009, the change in long-term endowment and other investments consisted of net unrealized gains of \$22.1 million and realized and unrealized losses of \$283.0 million, respectively; and decreases of \$48.4 million and \$46.8 million related to the annual distribution of endowment earnings to departments, partially offset by reinvested endowment earnings, respectively. 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, 2010 and 2009, TIP's investment in CEF had a market value of \$93.3 million and \$88.5 million, respectively, and GIP's investment in CEF had a market value of \$8.9 million and \$8.3 million, respectively.

In fiscal year 2010, the University implemented GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting of Intangible Assets*, which requires income-producing intangible assets to be recorded as an investment. As a result, the University recorded investments in intangible assets of \$3.6 million and \$1.6 million for fiscal years ended June 30, 2010 and 2009, respectively. Refer to Notes 2 and 12 for

additional information related to intangible assets. 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. As of June 30, 2010 and 2009 noncurrent restricted cash and cash equivalents included \$30.9 million and \$51.4 million, respectively, in unspent bond proceeds.

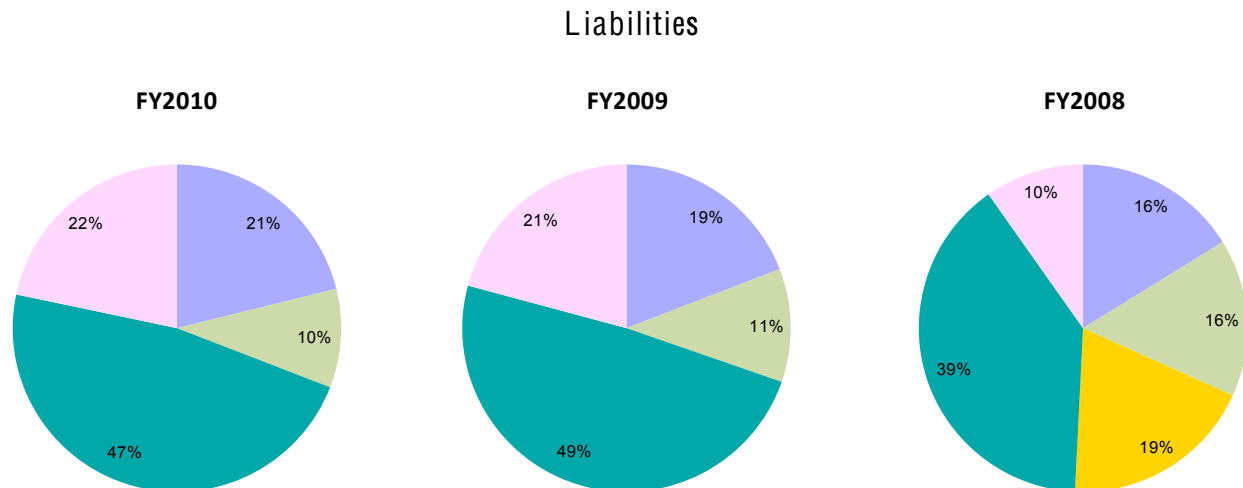


Figure 3
The University's non-debt-related current and noncurrent liabilities on June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	\$ 134,400	\$ 123,698	\$ 60,971	\$ 10,702	8.7%	\$ 62,727	102.9%
Accrued liabilities and other	293,774	290,429	246,337	3,345	1.2%	44,092	17.9%
Securities lending collateral	-	-	118,956	-	-	(118,956)	(100.0%)
Unearned income	60,375	66,551	97,122	(6,176)	(9.3%)	(30,571)	(31.5%)
Total current liabilities	488,549	480,678	523,386	7,871	1.6%	(42,708)	(8.2%)
Noncurrent liabilities							
Accrued liabilities and other	130,943	113,666	101,058	17,277	15.2%	12,608	12.5%
Unearned income	674*	878*	1,082*	(204)	(23.2%)	(204)	(18.9%)
Total noncurrent liabilities	131,617	114,544	102,140	17,073	14.9%	12,404	12.1%
Total non-debt-related liabilities	\$ 620,166	\$ 595,222	\$ 625,526	\$ 24,944	4.2%	\$ (30,304)	(4.8%)

* Total is less than 1 percent - not included in the graph.

The University's non-debt-related liabilities (shown in Figure 3) were 39 and 38 percent of total liabilities, or \$620.2 million and \$595.2 million, as of June 30, 2010 and 2009, respectively. Non-debt-related liabilities consist of accounts payable, securities lending collateral, accrued liabilities, and unearned income.

In preparation for the conversion to the new Enterprise Financial System (EFS) on July 1, 2008, the University intentionally paid down open accounts payable balances prior to June 30, 2008. As a result, the accounts payable balance had decreased significantly as of June 30, 2008. In fiscal year 2009, the increase in

the accounts payable balance was predominately due to increased spending on several capital projects including the TCF Bank Stadium, Medical Biosciences Building, and UMD Civil Engineering Building.

Current accrued liabilities and other consisted primarily of compensation and benefit accruals and the University's self-insurance reserves. In fiscal year 2010, the University implemented GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, as previously discussed. As a result, the University recorded accrued liabilities of \$10.3 million and \$20.3 million related to fiscal years ended June 30, 2010 and 2009, respectively. In fiscal year 2008, GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense and related liabilities. As a result of this implementation, the University recorded an OPEB liability of \$10.9 million in fiscal year 2010 and \$11.4 million in fiscal year 2009. As of June 30, 2010, the cumulative OPEB liability of \$33.5 million was recorded as a current liability of \$9.3 million and a noncurrent liability of \$24.2 million. As of June 30, 2009, the University had eliminated the loaned securities which were supported by collateral of \$119.0 million in fiscal year 2008 and included as securities lending collateral in the Consolidated Statements of Net Assets.

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. In previous years, unearned income included deferred revenue related to state appropriations for capital projects. As of June 30, 2010, all revenue from state appropriations had been earned. In fiscal year 2009, the revenue recognition methodology on certain sponsored awards changed as previously discussed. As a result, revenue is recognized earlier in the process, therefore reducing unearned income. The decrease in unearned income related to sponsored revenue is partially offset by additional deferred revenue related to the new TCF Bank Stadium seating plans.

In fiscal year 2009, the University implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which requires recognition of pollution remediation obligations once specified obligating events occur. The total pollution remediation liability for fiscal years 2010 and 2009 was \$2.7 million and \$4.7 million, respectively. Refer to Note 12 for additional information related to pollution remediation.

Subsequent to the issuance of the consolidated financial statements for the year ended June 30, 2009, the University identified adjustments which resulted in a net understatement of Unrestricted Net Assets and overstatement of Restricted – Expendable Net Assets. These items were not considered to be material either individually or in the aggregate, but they have been reported as a correction of errors in 2010 to improve comparability of the results of 2009. The net effect of these corrections for fiscal year 2009 is an increase in Unrestricted Net Assets of \$398.0 million and a decrease in Restricted-Expendable Net Assets of \$398.0 million with no net impact on consolidated Net Assets. Such adjustments are reflected in the accompanying Consolidated Statements of Net Assets (Excluding Component Units) for the year ended June 30, 2009.

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. The following tables depict the mix of operating and nonoperating revenues:

Operating and Nonoperating Revenue

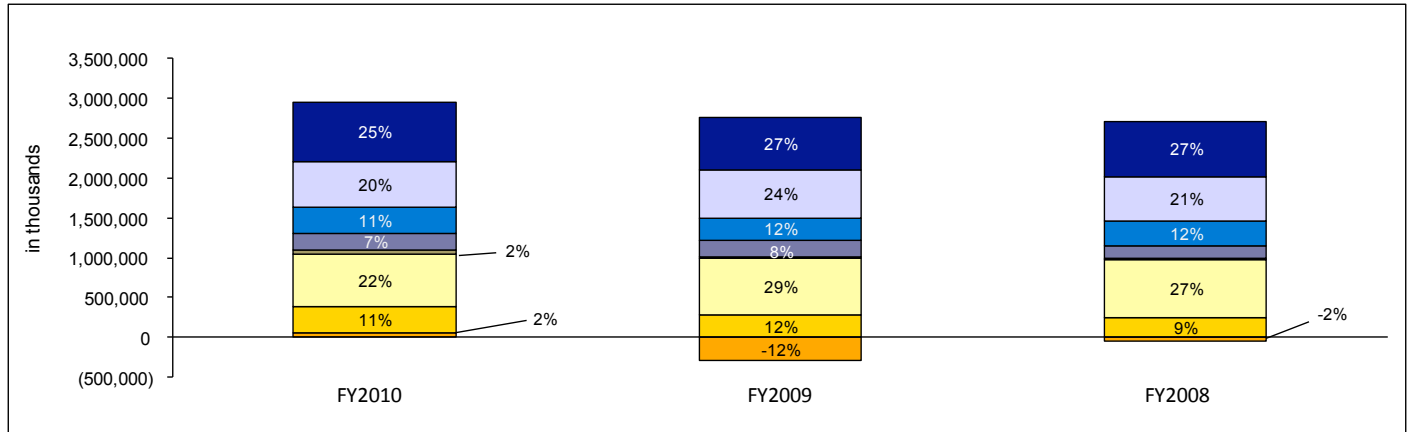


Figure 4
The University's operating and nonoperating revenue (noncapital) for the years ended June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	\$ 746,870	\$ 662,009	\$ 707,657	\$ 84,861	12.8%	\$ (45,648)	(6.5%)
Student tuition and fees, net	576,363	590,648	547,874	(14,285)	(2.4%)	42,774	7.8%
Auxiliary enterprises, net	324,068	289,408	307,975	34,660	12.0%	(18,567)	(6.0%)
Educational activities	200,751	199,254	163,190	1,497	0.8%	36,064	22.1%
Other operating revenue	2,304	1,968	2,900	336	17.1%	(932)	(32.1%)
Total operating revenues	1,850,356	1,743,287	1,729,596	107,069	6.1%	13,691	0.8%
Nonoperating revenues							
Federal appropriations	64,948	22,409	8,363	42,539	189.8%	14,046	168.0%
State appropriations	651,350	707,806	733,740	(56,456)	(8.0%)	(25,934)	(3.5%)
Grants, gifts, and other nonoperating, net	333,762	286,810	249,664	46,952	16.4%	37,146	14.9%
Net investment gain (loss)	54,801	(285,507)	(49,848)	340,308	(119.2%)	(235,659)	472.8%
Total nonoperating revenues	1,104,861	731,518	941,919	373,343	51.0%	(210,401)	(22.3%)
Total revenues (noncapital)	\$ 2,955,217	\$ 2,474,805	\$ 2,671,515	\$ 480,412	19.4%	\$ (196,710)	(7.4%)

Grants and contracts increased by \$84.9 million or 12.8 percent in fiscal year 2010. Federal grants and contracts increased \$49.5 million to \$448.3 million in fiscal year 2010 from \$398.8 million in fiscal year 2009. The increase in federal grants was due primarily to the American Recovery and Reinvestment Act (ARRA) awards. The University received 333 ARRA awards in fiscal year 2010. The decrease in net student tuition and fees revenue was due to an increase in scholarship allowances, partially offset by an increase in tuition and required fees that averaged approximately 7.3 percent and relatively stable enrollment. In fiscal year 2010, the process for calculating and allocating scholarship allowance was changed to provide

a more detailed and accurate reporting of the allowance. As a result of this change in estimation, more scholarship allowance was reported as a net offset to tuition revenue and fees instead of in scholarship and fellowship expense as in prior years. Scholarship allowances netted against student tuition and fees revenue were \$213.5 million, \$132.4 million, and \$122.4 million for fiscal years 2010, 2009 and 2008, respectively. Total scholarships provided to students for the years ended June 30, 2010, 2009 and 2008 were \$280.5 million, \$237.6 million and \$218.7 million, respectively. The increase in 2010 scholarship allowance is due to increased scholarship grants, partially due to stimulus funds. Refer to Note 1 for additional information related to scholarship allowances.

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. Revenues from sales and services of educational activities increased \$1.5 million and \$36.1 million in fiscal years 2010 and 2009, respectively, primarily due to increased royalty receipts from sales of products using University patents and technology.

State appropriations decreased to \$651.4 million in fiscal year 2010 from \$707.8 million in fiscal year 2009. The decrease of \$56.5 million or 8 percent was predominately due to a decrease in the appropriation base. 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 \$126.0 million, \$129.2 million, and \$124.4 million, and grants and gifts for capital purposes of \$41.0 million, \$39.2 million, and \$19.8 million in fiscal years 2010, 2009, and 2008, 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.

Total Operating Expenses

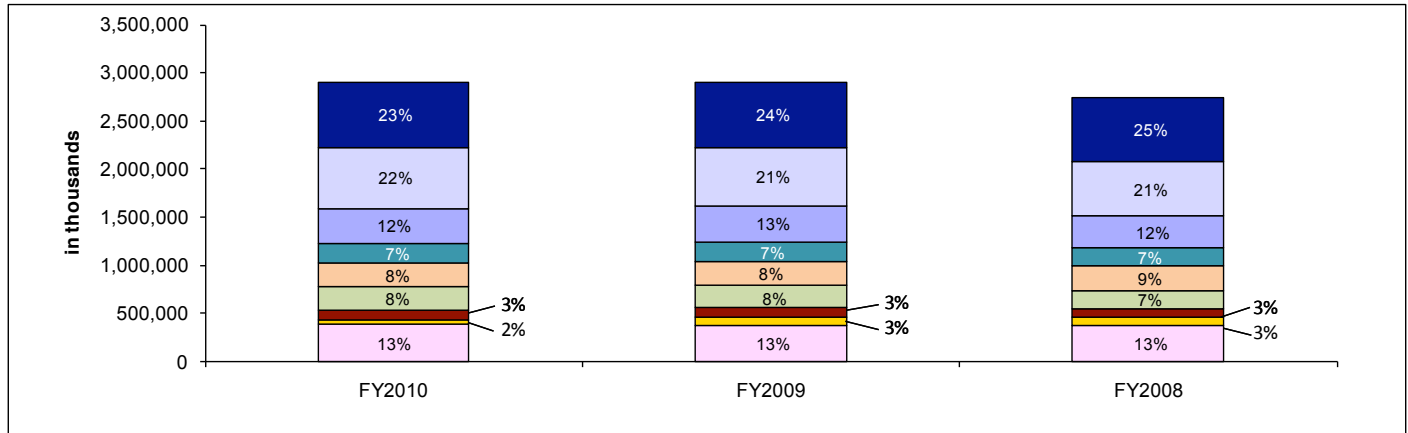


Figure 5
The University's total operating expenses by functional category for the years ended June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Education and general							
Instruction	\$680,469	\$684,940	\$676,125	(\$4,471)	(0.7%)	\$8,815	1.3%
Research	631,953	600,095	564,907	31,858	5.3%	35,188	6.2%
Academic support	362,163	379,980	331,105	(17,817)	(4.7%)	48,875	14.8%
Public service	213,012	203,107	190,933	9,905	4.9%	12,174	6.4%
Operation and maintenance of plant	243,121	244,538	246,787	(1,417)	(0.6%)	(2,249)	(0.9%)
Institutional support	234,308	228,337	196,648	5,971	2.6%	31,689	16.1%
Student services	101,371	99,436	89,437	1,935	1.9%	9,999	11.2%
Scholarships and fellowships	50,798	90,429	82,662	(39,631)	(43.8%)	7,767	9.4%
Total education and general	2,517,195	2,530,862	2,378,604	(13,667)	(0.5%)	152,258	6.4%
Other operating expenses							
Depreciation	169,524	155,534	145,251	13,990	9.0%	10,283	7.1%
Auxiliary enterprises	213,201	214,949	222,778	(1,748)	(0.8%)	(7,829)	(3.5%)
Other operating expenses, net	469	923	489	(454)	(49.2%)	434	88.8%
Total other operating expenses	383,194	371,406	368,518	11,788	3.2%	2,888	0.8%
Total operating expenses (noncapital)	\$2,900,389	\$2,902,268	\$2,747,122	(1,879)	(0.1%)	155,146	5.6%

Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at \$1.9 billion or 64.3 percent, \$1.9 billion or 64.9 percent, and \$1.8 billion or 64.6 percent of operating expenses in fiscal years 2010, 2009, and 2008, 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 decreased due to a salary freeze and reduction in work force during fiscal year 2010.

In fiscal year 2009, the University implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. In determining the University's liability, actual expenses

incurred, plus cost estimates, were used as the University's basis. The total pollution remediation liability for fiscal years 2010, 2009 and 2008 was \$2.7 million, \$4.7 million and \$11.3 million, respectively. The expense was recorded predominately in repairs and maintenance and is reflected in operations and maintenance. See Note 12 for additional information related to pollution remediation.

In fiscal year 2010, the process for calculating and allocating scholarship allowance was changed to provide a more detailed and accurate calculation of the allowance. As a result of this change in estimation, more scholarship allowance was reported as a net offset to tuition revenue and fees instead of in scholarship and fellowship expense as in prior years. Scholarship allowances reported as expense decreased \$39.7 million or 43.8 percent predominately due to the change in the estimation process. As mentioned previously, for the fiscal year ending June 30, 2010, total scholarships provided to students increased \$43.0 million or 18.1 percent, to \$280.5 million. The increase in total scholarship allowance is due to an increase in scholarship grants, primarily due to stimulus funds. Refer to Note 1 for additional information related to scholarship allowances.

Consolidated Statements of Cash Flows

Figure 6
The University's cash flows for the years ended June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	\$ (850,405)	\$ (964,481)	\$ (899,677)	\$ 114,076	(11.8%)	\$ (64,804)	7.2%
Noncapital financing activities	1,066,517	997,089	1,105,172	69,428	7.0%	(108,083)	(9.8%)
Capital and related financing activities	(148,008)	(142,439)	(245,493)	(5,569)	3.9%	103,054	(42.0%)
Investing activities	(103,844)	96,713	145,540	(200,557)	(207.4%)	(48,827)	(33.5%)
Net increase (decrease) in cash	(35,740)	(13,118)	105,542	(22,622)	172.5%	(118,660)	(112.4%)
Cash, beginning of year	326,320	339,438	233,896	(13,118)	(3.9%)	105,542	45.1%
Cash, end of year	\$ 290,580	\$ 326,320	\$ 339,438	\$ (35,740)	(11.0%)	\$ (13,118)	(3.9%)

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.

As illustrated in Figure 6, the University's cash and cash equivalents decreased \$35.7 million due to the use of funds for operating activities and capital and related financing activities, partially offset by the inflow of funds provided by noncapital financing activities and investing activities. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling \$646.8 million and \$726.6 million, grants totaling \$204.4 million and \$116.0 million, and gifts totaling \$124.2 million and \$124.2 million in fiscal years 2010 and 2009, respectively. Cash inflows for capital acquisitions from State appropriations, gifts and grants, and bonds issued during the year funded a portion of 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 benchmarked over three- to five-year periods.

During fiscal year 2010, the value of the University's endowment funds increased, as compared to significant decreases during fiscal year 2009. Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of \$22.1 million and decreases from net realized and unrealized losses of \$283.0 million, for 2010 and 2009, respectively; and decreases of \$48.4 million in 2010 and \$46.8 million in 2009 related to annual distributions of the endowment to departments, partially offset by reinvested endowment earnings.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on 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 4.5 percent in fiscal year 2010 and 4.6 percent in fiscal year 2009.

In fiscal year 2010, the University implemented two new GASB statements related to intangible assets and derivative instruments. GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, required income producing intangible assets to be recorded as investments. In accordance with GASB requirements, the University's intellectual property was recorded as an investment of \$3.6 million and \$1.6 million as of June 30, 2010 and 2009, respectively. GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, required the University to record information related to derivative instruments. As a result, \$1.8 million and \$19.8 million were recorded to investment income, which were partially offset by increases in interest expense of \$1.7 million and \$6 million for the years ended June 30, 2010 and 2009, respectively. In addition, the fair market value of the investments decreased \$.5 million in fiscal year 2010 with an increase of \$1.9 million in fiscal year 2009. Both GASB 51 and GASB 53 required retroactive reporting to prior periods. The cumulative effect of adopting the standards was recorded as a change in accounting principle, resulting in an increase of \$37.8 million and a decrease of \$15.9 million for GASB 51 and GASB 53, respectively. Refer to Notes 2, 4, and 12 for additional information related to intangible assets and derivative instruments.

Capital and Debt Activities

Gross capital assets increased over the past three fiscal years. The major building projects completed in fiscal year 2010 included UMM Community Services Building renovation, the Medical Biosciences Building, and the TCF Bank Stadium. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Capital additions totaled \$237.2 million in fiscal year 2010. Total additions decreased from the prior years' total additions of \$360.4 million and \$353.3 million for fiscal years 2009 and 2008, respectively. Fiscal year 2010 spending included the Science Teaching and Student Services Building, CMRR expansion and renovation, Collaborative Research and Development Building, and St. Paul Utility Building.

Due to the implementation of GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, as previously discussed, the net increase to capital assets was \$1.8 million and \$.5 million for fiscal years 2010 and 2009, respectively. Refer to Notes 4 and 12 for additional information related to intangible assets and derivative instruments.

Capital Assets

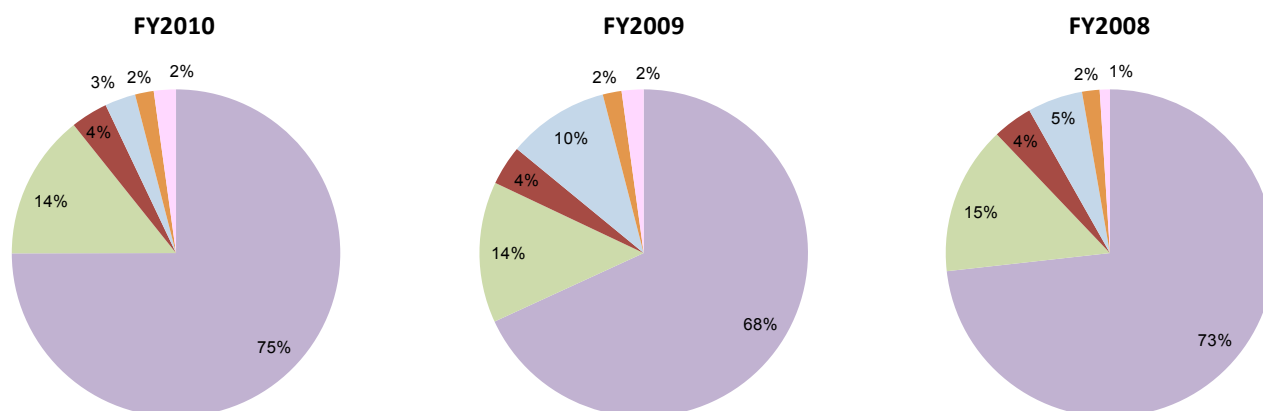


Figure 7

The University's capital asset categories (before depreciation) for the years ended June 30, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008	Increase (Decrease)			
				From 2009 to 2010		From 2008 to 2009	
				Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	\$3,471,517	\$ 3,029,471	\$ 2,970,949	\$ 442,046	14.6%	\$ 58,522	2.0%
Equipment	663,474	619,120	595,617	44,354	7.2%	23,503	3.9%
Library and other collections	169,334	174,439	159,087	(5,105)	(2.9%)	15,352	9.7%
Construction in progress	140,347	445,495	220,578	(305,148)	(68.5%)	224,917	102.0%
Land	85,218	82,365	70,115	2,853	3.5%	12,250	17.5%
Software and other intangibles	100,617	95,958	40,693	4,659	4.9%	55,265	135.8%
Total capital assets (gross)	\$4,630,507	\$ 4,446,848	\$ 4,057,039	\$ 183,659	4.1%	\$ 389,809	9.6%

Bonds and other debt payable totaled \$956.4 million, \$953.4 million, and \$824.8 million as of June 30, 2010, 2009, and 2008, respectively, and included proceeds from bonded debt, commercial paper and capital leases of \$1.0 million and \$147.2 million issued in fiscal years 2010 and 2009, respectively (see Note 5).

Four of the University's general obligation bond issuances are variable rate demand bonds (VRDBs) — Series 2003A, 2001B, 2001C, and 1999A. VRDBs have demand provisions that require the University to repurchase the bonds upon notice of tender from bondholders. Remarketing agreements for each series are in place to allow for the remarketing and sale of the tendered bonds to new bondholders. All bonds tendered through June 30, 2010 under the demand provisions had been successfully remarketed.

The University maintains standby bond purchase agreements (SBPAs) with separate banks to provide liquidity support for the Series 2001C and 1999A general obligation bonds. The agreements expire in March 2012 and June 2012, respectively. During fiscal year 2009, approximately \$26.7 million of the Series 2001C and Series 1999A bonds were tendered to the University and not remarketed. As a result, the University drew on its respective SBPAs for payment of the principal and accrued interest on the tendered bonds. Four days after the applicable draws, the bonds were successfully remarketed and the banks were reimbursed. Management believes that the unremarketed tenders were an extraordinary event due to market turmoil at that time and is unlikely to occur on a regular basis. 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. 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 University of Minnesota, like many other public and private institutions in America, has had to confront difficult economic circumstances due to the prolonged economic downturn. The budget pressures we face today are likely to last for the foreseeable future.

The challenges are real, substantial and broad in their impact on the University. However, the University has a long history of responding to difficult and challenging circumstances and we will manage through these turbulent times through additional bold action.

The University of Minnesota's response to the recent economic challenges has been wide ranging and aggressive. The University has balanced its budget via careful long-term planning and strategic reductions and reinvestment to protect academic quality. We continue to consolidate offices and functions, reduce the number of senior administrative staff, and launched a number of important cost cutting initiatives designed to address additional budgetary pressures in the next several years. For example, the University is taking a strategic approach to space and capital. We have strategically deferred or cancelled planning capital projects and begun an aggressive effort to reduce the overall square footage of the institution with the goal of reducing costs by up to \$10 million annually. Effective for fiscal year 2011, the University community took a temporary pay reduction equivalent to 1.15 percent of an employee's pay, and faculty and staff may also take voluntary furlough days.

Despite the difficult budget adjustments and temporary reductions in pay for all employees, the University continues to make important new investments. The University moved forward with essential capital investments such as the Biomedical Discovery District which will result in the investment of \$292 million in critically needed biomedical research facilities. The University has also maintained a strong commitment to affordability. The University of Minnesota Promise Scholarship helps roughly 13,000 Minnesota students from low and middle income families meet the cost of their college education. The University of Minnesota faculty continues to attract significant external research funds. For the fiscal year ended June 30, 2010 the University continued to attract sponsored research awards. The University of Minnesota now ranks in the top 10 public and private research universities in the country based upon this metric.

All of the important financial decisions of the last several years have been made with an eye on the deep state budget shortfalls for the coming biennium. The University is acutely aware of the likelihood of additional significant budget challenges in the coming years. 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. While we are very aware of the financial challenges facing the State of Minnesota, we intend to work diligently and with a focused determination to make the case for renewed investment in the University of Minnesota. An important component in making the case for renewed investment is the simple fact that higher education institutions act as a catalyst for economic growth. The University of Minnesota fuels the creation of new technologies and ideas, contributes knowledgeable and skilled workers and converts its discovery's into new products and businesses that generate jobs and income for its citizens. The University of Minnesota also contributes to the quality of life in Minnesota through libraries, arts and cultural activities, and sports.

The University of Minnesota continues to make substantial progress. The economic downturn has created meaningful challenges for the nation, the state of Minnesota and the University of Minnesota. Human capital and innovation are critical to economic growth, and the University of Minnesota is well positioned to contribute to and advance Minnesota's economy and quality of life.

University of Minnesota
Consolidated Statements of Net Assets (Excluding Component Units)
June 30, 2010 and 2009 (in thousands)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 259,677	\$ 274,904
Short-term investments	30,000	44,704
Receivables, net	266,055	252,334
Inventories	22,451	23,144
Student loans receivable, net	10,049	8,052
Prepaid expenses and deferred charges	10,583	1,412
Other assets	184	6,990
Total current assets	598,999	611,540
Noncurrent assets		
Restricted cash and cash equivalents	30,903	51,416
Investments	1,358,586	1,183,005
Receivables, net	476	598
Student loan receivables, net	55,620	59,401
Prepaid expenses and deferred charges	3,407	2,986
Other assets	24	48
Capital assets, net	2,531,864	2,471,421
Total noncurrent assets	3,980,880	3,768,875
Total assets	4,579,879	4,380,415
Liabilities		
Current liabilities		
Accounts payable	134,400	123,698
Accrued liabilities and other	293,774	290,429
Unearned income	60,375	66,551
Long-term debt-current portion	377,501	488,914
Total current liabilities	866,050	969,592
Noncurrent liabilities		
Accrued liabilities and other	130,943	113,666
Unearned income	674	878
Long-term debt	578,863	464,458
Total noncurrent liabilities	710,480	579,002
Total liabilities	1,576,530	1,548,594
Net Assets		
Unrestricted	626,307	562,994
Restricted	Expendable 512,126	434,643
	Nonexpendable 242,541	242,606
Invested in capital assets, net of related debt	1,622,375	1,591,578
Total net assets	\$ 3,003,349	\$ 2,831,821

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2010 and 2009 (in thousands)

	University of Minnesota Foundation		Minnesota Medical Foundation	
	2010	2009	2010	2009
Assets				
Cash and cash equivalents	\$14,653	\$6,481	\$257	\$89
Investments, substantially at fair market value	1,306,779	1,088,738	255,917	220,316
Investments held for unitrusts, annuity trusts, and gift annuities			9,718	9,340
Investments designated for endowments				
Investments loaned to broker		23,268	4,037	16,706
Investments collateral		22,251	2,196	14,511
Pledges receivable, net	60,955	68,140	106,215	111,544
Accounts and other receivables	28,660	31,426	1,931	1,928
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	49,870	42,871	26,168	25,678
Gift annuities	26,877	27,285		
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net	954	985	308	428
Prepays and other assets			115	145
Total assets	1,488,748	1,311,445	406,862	400,685
Liabilities				
Accounts payable and accrued liabilities	8,511	4,200	4,218	4,613
Deferred revenue and gains			263	281
Gift annuities payable	17,036	18,095		
Split-interest agreement liabilities			6,119	6,269
Unitrusts, pooled income, and annuity trusts payable	9,071	8,744		
Investments held for custody of others	184,319	51,449	1,425	1,538
Payable under investment loan agreement		23,764	4,120	17,193
Bonds and capital lease payable				
Total liabilities	218,937	106,252	16,145	29,894
Net Assets				
Unrestricted	34,049	34,110	10,692	10,776
Temporarily restricted	690,995	653,541	208,766	202,570
Permanently restricted	544,767	517,542	171,259	157,445
Total net assets	1,269,811	1,205,193	390,717	370,791
Total liabilities and net assets	\$1,488,748	\$1,311,445	\$406,862	\$400,685

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2010 and 2009 (in thousands)

	Minnesota Landscape Arboretum Foundation		Minnesota 4-H Foundation	
	2010	2009	2010	2009
Assets				
Cash and cash equivalents	\$263	\$795	\$445	\$443
Investments, substantially at fair market value	1,086	299	6,672	6,947
Investments held for unitrusts, annuity trusts, and gift annuities				
Investments designated for endowments	21,942	20,456		
Investments loaned to broker				
Investments collateral				
Pledges receivable, net	831	1,268	247	874
Accounts and other receivables	214	197	10	12
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	251	302	22	22
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net			6	12
Prepays and other assets	33	12	13	4
Total assets	24,620	23,329	7,415	8,314
Liabilities				
Accounts payable and accrued liabilities	3,461	3,373	43	580
Deferred revenue and gains	571	465		
Gift annuities payable				
Split-interest agreement liabilities				
Unitrusts, pooled income, and annuity trusts payable				
Investments held for custody of others			1,296	1,217
Payable under investment loan agreement				
Bonds and capital lease payable				
Total liabilities	4,032	3,838	1,339	1,797
Net Assets				
Unrestricted	510	415	239	197
Temporarily restricted	4,666	3,846	4,137	4,621
Permanently restricted	15,412	15,230	1,700	1,699
Total net assets	20,588	19,491	6,076	6,517
Total liabilities and net assets	\$24,620	\$23,329	\$7,415	\$8,314

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2010 and 2009 (in thousands)

	University of Minnesota Physicians		University of Minnesota Alumni Association	
	2010	2009	2010	2009
Assets				
Cash and cash equivalents	\$28,032	\$30,494	\$114	\$267
Investments, substantially at fair market value	26,043	14,496	20,958	20,145
Investments held for unitrusts, annuity trusts, and gift annuities				
Investments designated for endowments				
Investments loaned to broker				
Investments collateral				
Pledges receivable, net				
Accounts and other receivables	58,684	46,761	88	74
Interest in charitable lead trusts, unitrusts, pooled income, and trusts				
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties			76	132
Property and equipment, net	15,982	18,557	214	204
Prepays and other assets	2,944	3,393	327	322
Total assets	131,685	113,701	21,777	21,144
Liabilities				
Accounts payable and accrued liabilities	56,414	56,378	167	187
Deferred revenue and gains	13,556		3,803	3,556
Gift annuities payable				
Split-interest agreement liabilities				
Unitrusts, pooled income, and annuity trusts payable				
Investments held for custody of others				
Payable under investment loan agreement				
Bonds and capital lease payable				
Total liabilities	69,970	56,378	3,970	3,743
Net Assets				
Unrestricted	61,715	57,323	17,154	16,772
Temporarily restricted			472	449
Permanently restricted			181	180
Total net assets	61,715	57,323	17,807	17,401
Total liabilities and net assets	\$131,685	\$113,701	\$21,777	\$21,144

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2010 and 2009 (in thousands)

**University Gateway
Corporation**

2010 2009

Assets

Cash and cash equivalents	\$4,731	\$969
Investments, substantially at fair market value		
Investments held for unitrusts, annuity trusts, and gift annuities		
Investments designated for endowments		
Investments loaned to broker		
Investments collateral		
Pledges receivable, net		
Accounts and other receivables	181	143
Interest in charitable lead trusts, unitrusts, pooled income, and trusts		
Gift annuities		
Interest in the net assets of related parties	19,648	17,968
Due from affiliated parties		
Property and equipment, net	15,561	8,796
Prepays and other assets	32,102	32,445
Total assets	72,223	60,321

Liabilities

Accounts payable and accrued liabilities	3,157	2,430
Deferred revenue and gains		
Gift annuities payable		
Split-interest agreement liabilities		
Unitrusts, pooled income, and annuity trusts payable		
Investments held for custody of others		
Payable under investment loan agreement		
Bonds and capital lease payable	53,779	43,856
Total liabilities	56,936	46,286

Net Assets

Unrestricted	15,286	14,029
Temporarily restricted	1	6
Permanently restricted		
Total net assets	15,287	14,035

Total liabilities and net assets	\$72,223	\$60,321
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See notes to consolidated financial statements.

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

Years ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Revenues		
Operating revenues		
Student tuition and fees, net of scholarship allowances of \$213,540 in 2010; \$132,401 in 2009 (See Note 1)	\$ 576,363	\$ 590,648
Federal grants and contracts	448,308	398,803
State and other government grants	61,733	45,492
Nongovernmental grants and contracts	236,829	217,714
Student loan interest income	1,990	1,897
Sales and services of educational activities, net of scholarship allowances of \$1,827 in 2010; \$0 in 2009 (See Note 1)	198,761	197,357
Auxiliary enterprises, net of scholarship allowances of \$14,384 in 2010; \$14,761 in 2009 (See Note 1)	324,068	289,408
Other operating revenues	2,304	1,968
Total operating revenues	1,850,356	1,743,287
Expenses		
Operating expenses		
Education and general		
Instruction	680,469	684,940
Research	631,953	600,095
Public service	213,012	203,107
Academic support	362,163	379,980
Student services	101,371	99,436
Institutional support	234,308	228,337
Operation and maintenance of plant	243,121	244,538
Scholarships and fellow ships	50,798	90,429
Depreciation	169,524	155,534
Auxiliary enterprises	213,201	214,949
Other operating expenses, net	469	923
Total operating expenses	2,900,389	2,902,268
Operating Loss	(1,050,033)	(1,158,981)
Nonoperating Revenues (Expenses)		
Federal appropriations	64,948	22,409
State appropriations	651,350	707,806
Grants	205,294	157,708
Gifts	126,008	129,212
Investment income	36,611	(112,313)
Net increase (decrease) in the fair market value of investments	18,190	(173,194)
Interest on capital-asset related debt	(30,876)	(28,755)
Other nonoperating revenues, net	2,460	(110)
Net nonoperating revenues	1,073,985	702,763
Income (Loss) Before Other Revenues	23,952	(456,218)
Capital appropriations	98,555	65,913
Capital grants and gifts	40,953	39,198
Additions to permanent endowments	8,068	9,048
Total other revenues	147,576	114,159
Increase (Decrease) In Net Assets	171,528	(342,059)
Cumulative effect of change in accounting principle	-	80,151
Net assets at beginning of year	2,831,821	3,093,729
Net assets at end of year	\$ 3,003,349	\$ 2,831,821

See notes to consolidated financial statements.

University of Minnesota**Component Units - Statement of Activities**

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Revenues					
Contributions	\$831	\$63,278	\$24,259	\$88,368	\$97,193
Investment income, net	1,280	5,103	(4)	6,379	7,131
Net realized and unrealized gains (losses) on investments	4,534	77,557		82,091	(244,994)
Change in value of trusts	(413)	2,808	2,970	5,365	(16,884)
Support services revenue	2,458			2,458	2,606
Other revenue	1,388			1,388	796
Net assets released from restriction	111,292	(111,292)		-	-
Total revenues	121,370	37,454	27,225	186,049	(154,152)
Expenses					
Program services					
Distributions for educational purposes	99,208			99,208	119,760
Support services					
Management and general	7,539			7,539	8,028
Fund-raising	14,684			14,684	13,744
Total expenses	121,431	-	-	121,431	141,532
Increase (decrease) in net assets	(61)	37,454	27,225	64,618	(295,684)
Net assets at beginning of year	34,110	653,541	517,542	1,205,193	1,500,877
Net assets at end of year	\$34,049	\$690,995	\$544,767	\$1,269,811	\$1,205,193

See notes to consolidated financial statements.

University of Minnesota

Component Units - Statement of Activities

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

	Minnesota Medical Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Revenues					
Contributions	\$2,531	\$39,230	\$7,433	\$49,194	\$80,224
Investment income, net	463	6,147	13,743	20,353	(60,107)
Change in value of split-interest agreements		669	524	1,193	(5,462)
Service charges	3,536	(1,669)	(1,789)	78	85
Receipts from affiliated parties	5,725	(388)		5,337	5,279
Spending allocation	11	6,030	(6,041)	-	-
Change in donor restrictions		244	(244)	-	-
Net assets released from restriction	43,879	(44,067)	188	-	-
Total revenues	56,145	6,196	13,814	76,155	20,019
Expenses					
Program services					
Research and education grants	40,417			40,417	38,318
Communications	559			559	778
Student aid and scholarships	1,996			1,996	2,041
Honor and award grants	529			529	582
Alumni and sponsored events	1,014			1,014	918
Support services					
Management and general	4,006			4,006	3,713
Fund-raising	7,708			7,708	7,969
Total expenses	56,229	-	-	56,229	54,319
Increase (decrease) in net assets	(84)	6,196	13,814	19,926	(34,300)
Net assets at beginning of year	10,776	202,570	157,445	370,791	405,091
Net assets at end of year	\$10,692	\$208,766	\$171,259	\$390,717	\$370,791

See notes to consolidated financial statements.

University of Minnesota**Component Units - Statement of Activities**

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

	Minnesota Landscape Arboretum Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Revenues					
Contributions	\$1,777	\$1,622	\$166	\$3,565	\$3,345
Membership dues and fees	973			973	860
Investment income, net	14	35		49	(51)
Net realized and unrealized gains (losses) on investments	482	1,309		1,791	(4,974)
Change in value of annuity trust			16	16	18
Other revenue	214			214	193
Net assets released from restriction	2,146	(2,146)		-	-
Total revenues	5,606	820	182	6,608	(609)
Expenses					
Program services	4,409			4,409	7,828
Support services					
Management and general	177			177	111
Fund-raising	925			925	931
Total expenses	5,511	-	-	5,511	8,870
Increase (decrease) in net assets	95	820	182	1,097	(9,479)
Net assets at beginning of year	415	3,846	15,230	19,491	28,970
Net assets at end of year	\$510	\$4,666	\$15,412	\$20,588	\$19,491

See notes to consolidated financial statements.

University of Minnesota**Component Units - Statement of Activities**

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

	Minnesota 4-H Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Revenues					
Contributions	\$101	\$144	\$4	\$249	\$243
Investment income, net	11	328		339	(1,107)
Change in value of annuity trust			(1)	(1)	(21)
Other revenue	185	140		325	974
Net assets released from restriction	1,079	(1,079)		-	-
Total revenues	1,376	(467)	3	912	89
Expenses					
Program services	1,012			1,012	1,051
Support services					
Management and general	108			108	117
Fund-raising	234			234	183
Total expenses	1,354	-	-	1,354	1,351
Increase (decrease) in net assets	22	(467)	3	(442)	(1,262)
Net assets at beginning of year	197	4,621	1,699	6,517	7,779
Reclassification of net assets	20	(17)	(2)	1	-
Net assets at end of year	\$239	\$4,137	\$1,700	\$6,076	\$6,517

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

University of Minnesota Physicians

	Total (unrestricted)	
	2010	2009
Revenues		
Net patient service revenue	\$194,664	\$188,913
Investment income, net	456	818
Net realized and unrealized gains (losses) on investments	86	(630)
Other revenue	174,511	146,704
Total revenues	369,717	335,805
Expenses		
Program services		
Health care services	331,218	302,748
Support services		
Management and general	34,107	31,659
Total expenses	365,325	334,407
Increase in net assets	4,392	1,398
Net assets at beginning of year	57,323	55,925
Net assets at end of year	\$61,715	\$57,323

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

	University of Minnesota Alumni Association				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Revenues					
Contributions	\$195	\$0	\$1	\$196	\$79
Membership dues and fees	839			839	825
Investment income, net	44	1		45	(52)
Change in value of investments	1,677	54		1,731	(4,994)
Other revenue	1,991			1,991	2,256
Net assets released from restriction	32	(32)		-	-
Total revenues	4,778	23	1	4,802	(1,886)
Expenses					
Program services	3,731			3,731	4,098
Support services					
Management and general	631			631	549
Fund-raising	34			34	89
Total expenses	4,396	-	-	4,396	4,736
Increase (decrease) in net assets	382	23	1	406	(6,622)
Net assets at beginning of year	16,772	449	180	17,401	24,023
Net assets at end of year	\$17,154	\$472	\$181	\$17,807	\$17,401

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009) (in thousands)

University Gateway Corporation

	Unrestricted	Temporarily restricted	2010	Total 2009
Revenues				
Investment income, net	\$2		\$2	\$8
Direct financing lease revenue	2,964		2,964	3,260
Change in derivative financial instruments	(746)		(746)	(937)
Change in the interest in net assets of related parties	1,681		1,681	(4,299)
Other revenue	2,834		2,834	2,670
Net assets released from restriction	5	(\$5)	-	-
Total revenues	6,740	(5)	6,735	702
Expenses				
Program services	5,022		5,022	4,959
Support services				
Management and general	47		47	65
Payment to affiliated parties	414		414	402
Total expenses	5,483	-	5,483	5,426
Increase (decrease) in net assets	1,257	(5)	1,252	(4,724)
Net assets at beginning of year	14,029	6	14,035	18,759
Net assets at end of year	\$15,286	\$1	\$15,287	\$14,035

See notes to consolidated financial statements.

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)

Years Ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Cash Flows From Operating Activities		
Student tuition and fees	\$ 581,052	\$ 593,281
Grants and contracts (federal, state, nongovernmental, other)	713,964	631,048
Sales and services of educational activities	199,848	189,948
Auxiliary enterprises	325,380	291,962
Other operating revenues	2,304	1,776
Payments to employees for services	(1,389,703)	(1,411,841)
Payments for fringe benefits	(455,962)	(438,522)
Payments to suppliers for goods and services	(787,734)	(746,743)
Payments for scholarships and fellow ships	(42,383)	(82,309)
Loans issued to students	(8,583)	(4,211)
Collection of loans to students	11,412	11,130
Net cash used by operating activities	(850,405)	(964,481)
Cash Flows From Noncapital Financing Activities		
Federal appropriations	64,948	22,409
State appropriations	646,824	726,603
Grants for other than capital purposes	204,442	115,978
Gifts for other than capital purposes	124,212	124,213
Private gifts for endowment purposes	8,060	9,048
Other nonoperating revenues (expenses), net	10,694	1,247
Direct lending receipts	310,325	277,108
Direct lending disbursements	(310,979)	(277,900)
Agency transactions	7,991	(1,617)
Net cash provided by noncapital financing activities	1,066,517	997,089
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	105,741	49,545
Capital grants and gifts	38,206	37,410
Proceeds from capital debt	61,188	165,739
Proceeds from sale of capital assets	(2,700)	1,074
Purchases of capital assets	(264,708)	(329,310)
Principal paid on capital debt	(53,107)	(37,518)
Interest paid on capital debt	(32,628)	(29,379)
Net cash used by capital and related financing activities	(148,008)	(142,439)
Cash Flows From Investing Activities		
Investment income, net	28,861	52,004
Proceeds from sales and maturities of investments	928,999	2,332,693
Purchase of investments	(1,061,704)	(2,287,984)
Net cash (used) provided by investing activities	(103,844)	96,713
Net Decrease in Cash and Cash Equivalents	(35,740)	(13,118)
Cash and Cash Equivalents at Beginning of Year	326,320	339,438
Cash and Cash Equivalents at End of Year *	\$ 290,580	\$ 326,320

See notes to consolidated financial statements.

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years Ended June 30, 2010 and 2009 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities	2010	2009
Operating loss	\$ (1,050,033)	\$ (1,158,981)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	169,524	155,534
Changes in assets and liabilities		
Receivables, net	(24,381)	(63,726)
Inventories	693	(3,230)
Prepaid and other items	635	2,965
Accounts payable	35,712	40,429
Accrued liabilities	16,371	28,785
Deferred revenue	1,074	33,743
Net cash used by operating activities	\$ (850,405)	\$ (964,481)

Noncash Investing, Capital, and Financing Activities

Unrealized gains (losses) on investments	\$ 24,472	\$ (173,194)
Capital assets on account	28,318	60,135
Gain on retirement of debt	4,519	-
Contribution of capital assets	2,520	1,578
Capital assets borrowed under capital lease	1,044	1,203
Amortization of bond premium	1,614	806

***Cash and Cash Equivalents at End of Year**

Cash and cash equivalents	\$ 259,677	\$ 274,904
Restricted cash and cash equivalents	30,903	51,416
Total cash and cash equivalents at end of year	\$ 290,580	\$ 326,320

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2010 and 2009 (in thousands)

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

Organization

The University of Minnesota (the 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 Units—The University has two component units that provide services entirely for the University's own benefit. As a result, GASB 39 requires blended presentation—combining the component units and University financial information together, displayed as one entity.

RUMINCO, Ltd.

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.

UMore Development Limited Liability Company (LLC)

UMore Development Limited Liability Company (LLC), is a wholly owned company with a purpose of providing oversight and management for the planning and development for the University's UMore Park property. Although it is legally separate from the University, based on its purpose, it is reported as if it were part 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 it holds and invests, including income from its investments, is restricted by donors to the activities of the University.

During fiscal years 2010 and 2009, the UMF distributed \$112,534 and \$134,020, respectively, 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 by donors to the activities of the University.

During fiscal years 2010 and 2009, the MMF distributed \$41,267 and \$46,018, respectively, to the University. Complete financial statements for the Minnesota Medical Foundation can be obtained from the MMF office, McNamara Alumni Center, 200 Oak St 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. Although the Foundation is an independent organization, the majority of resources that the Foundation holds and invests, including income from its investments, is restricted by donors to the activities of the University.

During fiscal years 2010 and 2009, the Minnesota Landscape Arboretum Foundation distributed \$5,511 and \$8,523, respectively, 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 fiscal years 2010 and 2009, the Minnesota 4-H Foundation distributed \$1,062 and \$968, respectively, 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 geographic representatives (18) by the Association's general membership; and collegiate/professional representatives (18) by their respective societies.

During fiscal years 2010 and 2009, the Association distributed \$1,307 and \$1,330, respectively, 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 fiscal year 2010 and 2009, Gateway distributed \$647 and \$477, respectively, 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 Medical School (18 members), individuals from the community at-large (4 members), and 2 nonvoting directors.

During fiscal years 2010 and 2009, UMPhysicians distributed \$63,049 and \$53,989, respectively, to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Ave 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.

Component Units

The University's component units are nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. 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.

Joint Ventures and Jointly Governed Organizations

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. A jointly governed organization is similar to a joint venture, except it does not have ongoing financial interest or an ongoing financial responsibility.

Morris Regional Fitness Center

The University is a participant in a joint venture with the City of Morris, the County of Stevens, and the Independent School District Number 769, which operates and maintains the Morris Regional Fitness Center (RFC) on the Morris campus. The RFC operates under a joint powers agreement pursuant to Minnesota State Statute 471.59, *Joint Exercise of Powers*. It is governed by an eight-member board comprised of four members from the University, one member from each of the other participating organizations, and one individual at large. In accordance with the joint powers agreement, net earnings of the RFC are not distributable to the parties during the term of the agreement. The ownership of the RFC building addition remains the property of the University. During the course of construction, the University provided a loan to the RFC in fiscal year 2003 in the amount of \$100, which is expected to be repaid over 20 years. The notes receivable balance at fiscal year ended June 30, 2010 is \$70. To help fund the operating costs of the RFC, the University collects student fees in an Agency fund, which are distributed to the RFC. Complete financial statements can be obtained from the Regional Fitness Center, 600 E. 2nd St., Morris, MN 56267.

Broadband Optical Research, Education, and Sciences Network

The University, in collaboration with three other upper Midwest research institutions, Iowa State University, University of Iowa, and University of Wisconsin, built and currently operates a regional optical network to service the advanced network requirements with national network connection points in Chicago and Kansas City. This collaboration, Broadband Optical Research, Education, and Sciences Network (BOREAS Net), supports researchers and teachers across Minnesota and around the region by providing high-performance access to collaborators around the world. The network also enables the University to purchase commercial Internet in Chicago, as well as Minneapolis. The University serves as the fiscal agent with operating costs apportioned to each of the four institutions based on an agreed upon formula. For fiscal year ended June 30, 2010, the University incurred \$391 in expenses related to BOREAS Net.

Consortium of Minnesota Educational Telecommunications Network

The Consortium of Minnesota Educational Telecommunications Network (COMET) is a regional distance learning video network for the southeastern Minnesota higher education institutions. It is part of the Learning Network of Minnesota and partners with the Metropolitan Educational Telecommunications Network (METNET). The governing board is comprised of the member schools, which includes the University. Funding is provided by grants administered by the Minnesota Office of Higher Education, as well as matching funds provided by member institutions. The University currently serves as the fiscal agent. Total grant awarded for fiscal year ended June 30, 2010 was \$843, with total University expenses and capital related outlays of \$747.

Metropolitan Educational Telecommunications Network

The Metropolitan Educational Telecommunications Network (METNET) is a high-speed distance learning network between the University and Minnesota State Colleges and Universities. It is part of the Learning Network of Minnesota, which was an initiative of the State legislature in 1993 to connect post-secondary institutions. METNET has evolved to include Internet, data, voice, and video services to support academic programs and administrative services. Funding is provided by grants administered by the Minnesota Office of Higher Education, as well as matching funds provided by member institutions. The University serves as the fiscal agent. Total grant awarded for fiscal year ended June 30, 2010 was \$875, with total University expenses and capital related outlays of \$605.

Southwest/West Central Higher Education Organization

The Southwest/West Central Education Organization (SHOT) is a consortium of higher education schools established to provide telecommunications and technology in the southwest/western region of the state. The Morris campus and the University's Southwest Research and Outreach Center are members, along with Minnesota State Colleges and Universities' (MnSCU) schools, Southwest Minnesota State, Minnesota West Community and Technical College, and Ridgewater College. The consortium, similar to COMET, facilitates video and desktop conferencing for its members. The University's expenses for fiscal year ended June 30, 2010 were \$21.

Project for Automated Library Services

The Project for Automated Library Services (PALS) is a consortium of over 125 libraries and branches. Services are provided on a contractual basis to private colleges, Minnesota State Colleges and Universities, State agency libraries, public schools, special libraries, as well as the University, making all library systems available over the Internet. The University, being a member of the consortium, incurred \$72 in membership fees and charges for fiscal year ended June 30, 2010.

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 inter-fund 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, respectively.

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. Land and other real estate investments held in endowment are reported at market value as well. The values are determined using standardized industry practices, including a third party appraisal performed to validate internal valuations. 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. Certain alternative investments and intellectual property (e.g., income-producing patents) are reported on a cost basis. Purchases and sales of investments are recorded on a settlement-date basis. Investment income is reported on the accrual basis and includes interest income, realized gains, and endowment income (interest earned on endowments but allocated to other funds). 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 Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UPMIFA, 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.

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.

Receivables and Student Loan Receivables, Net—Receivables and student loan receivables are shown net of estimated allowance for uncollectible accounts.

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 is \$1,494 and \$1,853 for fiscal years 2010 and 2009, respectively.

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

<u>Asset category</u>	<u>Useful life (in years)</u>	<u>Capitalization threshold</u>
Capitalized software (intangible asset)	Shorter of legal life or 5 years	\$500,000
Licenses (intangible asset)	License term	500,000
Non income-producing intellectual property (intangible asset)	Legal life	500,000
All other intangible assets	5	500,000
Buildings and improvements	10-40	50,000
Infrastructure	10-40	50,000
Leasehold improvements	Lease term	50,000
Equipment	3-20	2,500
Land	Indefinite	-
Library and reference books	10	-
Permanent right-of-way easements (intangible asset)	Indefinite	-

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, other postemployment benefits, 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.

Reclassification of Prior Fiscal Years' Net Assets—Subsequent to the issuance of the consolidated financial statements for the year ended June 30, 2009, the University identified adjustments, which resulted in a net understatement of Unrestricted Net Assets and overstatement of Restricted – Expendable Net Assets. These items were not considered to be material either individually or in the aggregate, but they have been reported as a correction of errors in 2010 to improve comparability of the results of 2009. The net effect of these corrections for fiscal year 2009 is an increase in Unrestricted Net Assets of \$398 million and a decrease in Restricted-Expendable Net Assets of \$398 million with no net impact on consolidated Net Assets. Such adjustments are reflected in the accompanying Consolidated Statements of Net Assets (Excluding Component Units) for the year ended June 30, 2009.

Restatement of Net Assets—Net assets have been restated due to the implementation of new GASB pronouncements. For more information related to restatement of net assets, refer to Note 12.

Revenue Recognition—The University recognizes exchange revenue in accordance with GASB Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, when the University receives and gives up essentially equal values, and recognizes nonexchange revenue in accordance with GASB Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, when the University receives something of value without directly giving something of equal value in exchange.

In fiscal year 2009, the University changed its method for recognizing sponsored federal, state, other government, and nongovernmental exchange grants and contract revenue. For certain sponsored revenue, the point of recognition is based on certain milestones or deliverables being met per grantor agreement. This subsequently reduced the amount of unearned revenue being reported in fiscal year 2009. In prior fiscal years, this same sponsored revenue was not recognized until the expense was incurred, which typically resulted in more unearned revenue being reported.

Due to the change in revenue recognition, the University has recorded a change in accounting principle of \$58,263 in its Statements of Revenues, Expenses, and Changes in Net Assets for the impact of this change for fiscal year ended June 30, 2009.

Revenue and Expense Classifications—The University has classified revenues and expenses as operating or nonoperating based upon the following criteria:

- **Operating revenues:** Revenues that 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 (net of scholarship allowances) to be exchange transactions.
- **Nonoperating revenues:** Revenues that 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 University 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. Insurance recovery proceeds are also classified as nonoperating revenues as part of other nonoperating revenues, net, which total \$1,181 and \$645 for fiscal years 2010 and 2009, respectively.
- **Operating expenses:** Expenses that are paid to acquire or produce goods and services in return for operating revenues. The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 13.

During fiscal years 2010 and 2009, departmental research in nonsponsored accounts of \$163,657 and \$169,750, respectively, was recorded as research expense.

- **Nonoperating expenses:** Expenses incurred in the performance of activities that are not directly related to generating University operating revenues, such as interest on capital asset-related debt.

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

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, self-insurance reserves, scholarship discounts and allowances, arbitrage rebates, and vacation pay and pension accruals.

Scholarship allowance—Effective for fiscal year ended June 30, 2010, the University changed its process of calculating the scholarship allowance estimate. The change in process coincides with the Enterprise Financial System (EFS) implementation, resulting in a more detailed and accurate calculation of the allowance. Financial reporting requirements that govern changes in accounting estimates require the University to implement them prospectively. As a result, fiscal year ended June 30, 2009, is presented under the former allowance calculation methodology, which affects the comparability between fiscal years. If the University had presented both fiscal years using the new methodology, the following amounts would have been reported as follows:

	2010	2009
Operating Revenues		
Student tuition and fees, net of scholarship allowances of \$213,540 in 2010; \$176,103 in 2009	\$576,363	\$546,946
Sales and services of educational activities, net of scholarship allowances of \$1,827 in 2010; \$1,170 in 2009	198,761	196,187
Auxiliary enterprises, net of scholarship allowances of \$14,384 in 2010; \$10,731 in 2009	324,068	293,438
Nongovernmental grants and contracts	236,829	216,740
Operating Expenses		
Scholarships and fellowships	50,798	48,613

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 investment pools. Each investment pool has a specific set of objectives designed to maximize investment return within risk parameters established for that pool.

Investment securities are exposed to various types of risk, such as credit, interest rate, foreign currency, and broad capital market fluctuations. Although the objective of each investment pool is to control risk and preserve capital, changes in the values of investment securities may occur in the near term. 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. Guidelines to manage the investment pools are described below.

Temporary Investment Pool (TIP)—Short-Term Reserves—The TIP funds are intended 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 money market funds, corporate obligations, and U.S. government and agency securities within the credit quality and term constraints of the pool. In June 2006, the Board of Regents revised the Investments of Reserve policy to allow 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, 2010 and 2009, the market value of TIP assets invested in CEF was \$93,261 and \$88,480, respectively.

The TIP investment policy guidelines include the following: average duration of four years or less for the entire pool 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.

As of June 30, 2010 and June 30, 2009 TIP's average Standard & Poor's credit rating was AAA and AA and is further broken down as follows:

Standard & Poor's quality rating	Market value 2010	Market value 2009
AAA*	\$684,486	\$384,768
AA		
AA-		25,999
A+		
A		9,050
A-		18,814
A1		
A2		
BBB+		14,546
BBB	10,101	5,935
BB+		25,360
BB-		12,745
N/A**	1,361	96,550
Total	\$695,948	\$593,767

*Includes Cash and Cash Equivalents, JPMorgan and Wells Fargo Money Markets.

**Includes Common Fund cash and cash equivalents, Goldman Sachs, Carlson School of Management

Consolidated Endowment Fund (CEF)—The CEF 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 an inflation adjusted rate of return that exceeds the current payout rate of 4.5 percent over a five-year period on an annual basis. The allocation policy for this fund targets a range between 35 to 45 percent investment in public equities, 15 to 25 percent in fixed-income related investments, 15 to 25 percent investment in private capital (such as private equity, venture capital, and distressed debt), and 15 to 25 percent invested in real assets (such as real estate, timberlands, oil and gas, and other investable commodities).

The University's investments in private capital and real assets are generally structured as a limited partnership (LP) interest in a fund of investments. The University invests in these partnerships as a means of achieving different return characteristics from those of public stocks. LP interests are privately negotiated transactions and not actively exchanged. 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 its investments in partnership interests. The underlying investments of these partnerships are valued at fair market value as of June 30 of each fiscal year by the general partner in accordance with Financial Accounting Standards Board (FASB) valuation practices. The general partner may use, in the absence of publically traded market prices, models that employ inputs based on management estimates or assumptions. Private real estate funds are generally valued using third party appraisal firms while development projects are held at cost until completion. All of these limited partnership funds are required to conduct an external audit on an annual basis. As of June 30, 2010 and 2009, the University had outstanding commitments of \$295,063 and \$440,978, respectively, to private capital, real asset and private debt partnership investments that had not yet been drawn down by the general partners of these funds.

The ratable securities in CEF totaled 15.0 percent of the pool on June 30, 2010 compared to 16.7 percent on June 30, 2009. They consisted of debt securities that had an average Standard & Poor's rating of AA.

The University distributes funds from CEF to activities targeted by the endowment. The distribution rate for fiscal year 2010 was 4.5 percent of the average of the fund's month-end market values for the prior five years. 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, then the excess remains in the respective endowment funds.

Group Income Pool (GIP)—Long-Term Reserves—The GIP 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. As of June 30, 2010 and 2009, \$8,922 and \$8,347, respectively, of GIP assets were invested in CEF.

Separately Invested Funds and Other—Separately invested funds represent other restricted assets that, by the terms of the gift or by administrative decision, cannot be combined with the major investment pools. Other investments represent University investment in its own intellectual property, such as copyrights, patents, and trademarks, which are developed with the primary purpose of generating royalty income from its licensing to external customers. These investments are valued at cost, which is based on certain filing and legal expenses incurred to establish the University's legal ownership.

Invested Assets Related to Indebtedness—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 \$38,155 and \$58,456 on June 30, 2010 and 2009, 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 firm or 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. The University also has an established policy for Investments of Reserves which includes TIP. The policy places limits on concentrations to a single corporate issuer of no more than 5 percent and places other limits on term and credit quality of the individual investments. As of June 30, 2010, and 2009, all securities held in the pool were in compliance with policy guidelines.

Financial Institution Credit Risk

Deposits—Depository 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 such risk. As of June 30, 2010, \$2,917 of the University's bank balance of \$3,167 was uninsured and uncollateralized compared with the fiscal year ending June 30, 2009, when \$8,044 of the balance of \$8,294 was uninsured and uncollateralized.

Investments—Custodial credit risk is the risk that, in the event of the failure of the custodian, the University will not be able to recover the value of its investments held in custodial accounts.

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 Investment of Reserves 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, 2010, was as follows:

Investment type	Market value 2010	Average duration (years)
Governmental issues - agencies	\$365,591	1.95
Corporate bonds	10,101	0.99
Mortgage backed securities	25,215	2.33
Other (primarily mutual funds)	19,486	0.73
Cash and cash equivalents	275,555	0.04
Total	\$695,948	

The University's investment in securities subject to this risk as of June 30, 2009, was as follows:

Investment type	Market value 2009	Average duration (years)
Governmental issues - agencies	\$143,515	1.85
Corporate bonds	112,493	0.68
Mortgage backed securities	33,653	2.83
Other (primarily mutual funds)	278,873	0.003
Cash and cash equivalents	25,233	0.003
Total	\$593,767	

Foreign Currency Risk

The University's exposure to foreign currency risk results from its positions in foreign currency denominated investments. Changes in exchange rates can adversely affect the fair market value of an investment.

The University's exposure to foreign currency risk through public and private securities, stated in U.S. dollar equivalents, on June 30, 2010 was as follows:

Investment Type	Foreign Currency	Market Value 2010	Market Value 2009
Equity	Japanese yen	\$5,284	\$5,254
Equity/Debt/RE	Euro	17,471	3,690
Equity	British pound sterling	2,683	2,813
Equity	Australian dollar	691	924
Equity	Hong Kong dollar	2,006	761
Equity	Singapore dollar	944	588
Equity/Debt	Swiss franc	444	543
Equity	Canadian dollar	589	321
Equity	Thailand Baht	947	318
Equity	Swedish krona	830	226
Equity	Norwegian krone	210	167
Equity	New Taiwan dollar	201	161
Equity	Danish krone	82	148
Equity/Debt	South Korean won	2,385	141
Equity	Turkish lira	4	125
Equity	South African Rand	482	112
Equity	Malaysian Ringgit	381	89
Debt	Argentine Peso	174	
Equity	Kazakhstan Tenge	3	
Equity	Taiwan Dollar	390	
Debt	Russian Ruble	455	
Equity	Saudi Arabian Riyal	340	
Equity	Indian Rupee	644	
Debt	Indonesian Rupiah	779	
Equity/Debt	Mexican Peso	973	71
Equity	New Zealand dollar	8	66
Equity	Israeli Shekel	388	
Equity	Polish Zloty	47	65
Equity/Debt	Brazilian Real	1,027	37
Total		\$40,862	\$16,620

The following summarizes cash, securities lending and investments, including the University's insurance subsidiary at June 30, 2010:

	Temporary investment pool*	Invested assets related to indebtedness	Consolidated endowment fund	Group income pool	Separately invested funds and other	Insurance subsidiary	Total
Cash and cash equivalents	\$ 259,569	\$ 7,252	\$ (7,960)	\$ 562		\$ 254	\$ 259,677
Short-term investments	30,000						30,000
Total current assets	289,569	7,252	(7,960)	562	-	254	289,677
Restricted cash and cash equivalents		30,903					30,903
Investments—Securities	400,478		207,997	29,098	\$ 40		637,613
Investments—Other			638,927	11,892	39,082	31,073	720,974
Total noncurrent assets	400,478	30,903	846,924	40,990	39,122	31,073	1,389,490
	690,047	\$ 38,155	\$ 838,964	\$ 41,552	\$ 39,122	\$ 31,327	\$ 1,679,167
Unrestricted amounts included above	\$ 197,068	\$ -	\$ -	\$ -	\$ -	\$ 31,327	\$ 228,395

The following summarizes cash, securities lending and investments, including the University's insurance subsidiary at June 30, 2009:

	Temporary investment pool*	Invested assets related to indebtedness	Consolidated endowment fund	Group income pool	Separately invested funds and other	Insurance subsidiary	Total
Cash and cash equivalents	\$ 279,524	\$ 2,336	\$ (8,675)	\$ 500		\$ 1,219	\$ 274,904
Securities lending							-
Short-term investments	40,000	4,704					44,704
Total current assets	319,524	7,040	(8,675)	500	-	1,219	319,608
Restricted cash and cash equivalents		51,416					51,416
Investments—Securities	265,877		230,899	30,703	\$ 40	6,243	533,762
Investments—Other			592,641			21,130	613,771
Total noncurrent assets	265,877	51,416	823,540	30,703	40	27,373	1,198,949
	\$ 585,401	\$ 58,456	\$ 814,865	\$ 31,203	\$ 40	\$ 28,592	\$ 1,518,557
Unrestricted amounts included above	\$ 280,708	\$ -	\$ -	\$ -	\$ -	\$ 28,592	\$ 309,300

*Temporary investment pool includes cash-in-transit of \$(5,901) and \$(8,366) on June 30, 2010 and 2009 respectively.

Securities Lending

In accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions (GASB 28), the University records the market value of the collateral as an asset in the

balance sheet along with a corresponding liability. The University terminated its securities lending program during fiscal year 2009. The University had no loaned securities on June 30, 2010 or June 30, 2009.

In general, since the value of collateral received exceeded the market value of the securities on loan, in part of fiscal year 2009, the University's credit risk was minimal. Income and cost from its participation in this securities lending program were \$185 and \$79 respectively for the year ended June 30, 2009.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2010, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$ 10,784		\$ 10,784
Sponsored grants and contracts	108,976		108,976
Notes receivable	464	\$ 476	940
Student receivables	38,994		38,994
Trade receivables	106,452		106,452
Accrued interest	1,636		1,636
Other	8,408		8,408
Allowance for uncollectible accounts	(9,659)		(9,659)
Total receivables, net	\$ 266,055	\$ 476	\$ 266,531
Student loans receivable	12,547	56,182	\$ 68,729
Allowance for uncollectible accounts	(2,498)	(562)	(3,060)
Student loans receivable, net	\$ 10,049	\$ 55,620	\$ 65,669

Accrued liabilities as of June 30, 2010, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 6,034	\$ 169	\$ 6,203
Compensation and benefits	182,643	61,418	244,061
Self-insurance reserves	27,700	11,445	39,145
Accrued interest	6,276		6,276
Refundable advances		56,056	56,056
Other	71,121	1,855	72,976
Total accrued liabilities	\$ 293,774	\$ 130,943	\$ 424,717

Activity for certain liabilities consisted of the following as of June 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, see Note 6)	\$ 218,527	\$ 189,136	\$ (169,685)	\$ 237,978	\$ 182,643
Self-insurance reserves (see Note 9)	40,309	248,768	(249,932)	39,145	27,700
Refundable advances	55,732	324		56,056	
Other	57,140	72,976	(57,140)	72,976	71,121

Receivables, net, and student loans receivable as of June 30, 2009, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$ 25,362		\$ 25,362
Sponsored grants and contracts	84,010		84,010
Notes receivable	758	\$ 598	1,356
Student receivables	39,995		39,995
Trade receivables	92,612		92,612
Accrued interest	2,044		2,044
Other	16,520		16,520
Allowance for uncollectible accounts	(8,967)		(8,967)
Total receivables, net	\$ 252,334	\$ 598	\$ 252,932
Student loans receivable	\$ 10,352	\$ 60,001	\$ 70,353
Allowance for uncollectible accounts	(2,300)	(600)	(2,900)
Student loans receivable, net	\$ 8,052	\$ 59,401	\$ 67,453

Accrued liabilities as of June 30, 2009, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 18,265	\$ 516	\$ 18,781
Compensation and benefits	181,710	43,890	225,600
Self-insurance reserves	27,230	13,079	40,309
Accrued interest	6,534		6,534
Refundable advances		55,732	55,732
Other	56,690	449	57,139
Total accrued liabilities	\$ 290,429	\$ 113,666	\$ 404,095

Activity for certain liabilities consisted of the following as of June 30, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, see Note 6)	\$ 182,255	\$ 234,790	\$ (198,518)	\$ 218,527	\$ 180,678
Self-insurance reserves (see Note 9)	33,293	231,906	(224,890)	40,309	27,229
Refundable advances	55,323	409		55,732	
Other	24,428	57,139	(24,428)	57,139	56,691

4. Capital Assets

Effective this fiscal year ended June 30, 2010, GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, was implemented. Due to the provisions of GASB 51 being retroactive to prior reporting periods, capital asset balances for fiscal year ended June 30, 2009 were restated, which subsequently changed the beginning balances reported for fiscal year ended June 30, 2010. For more information related to these changes, refer to Note 12.

Capital assets, net on June 30, 2010, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable/amortizable capital assets					
Buildings and improvements	\$ 2,653,960	\$ 29,237	\$ 372,390	\$ (109)	\$ 3,055,478
Leasehold improvements	8,394	5,960	346	(5,960)	8,740
Equipment	619,120	75,144	(3,352)	(27,438)	663,474
Infrastructure	367,117	24,016	16,166		407,299
Library and reference books	128,981	13,771		(20,990)	121,762
Capitalized software (intangible asset)	92,958	79		(8)	93,029
All other intangible assets	2,999	4,587			7,586
Total depreciable/amortizable capital assets	3,873,529	152,794	385,550	(54,505)	4,357,368
Nondepreciable/amortizable capital assets					
Land	82,364	2,858		(4)	85,218
Museums and collections	45,458	2,114			47,572
Construction in progress	445,495	80,402	(385,550)		140,347
Permanent right-of-way easements (intangible asset)	2	-			2
Total non-depreciable/amortizable capital assets	573,319	85,374	(385,550)	(4)	273,139
Accumulated depreciation/amortization					
Buildings and improvements	(1,245,649)	(83,983)		53	(1,329,579)
Leasehold improvements	(1,830)	(856)			(2,686)
Equipment	(430,460)	(48,233)		25,261	(453,432)
Infrastructure	(176,300)	(13,436)			(189,736)
Library and reference books	(66,299)	(12,091)		20,990	(57,400)
Capitalized software (intangible asset)	(53,937)	(8,795)		2	(62,730)
All other intangible assets	(952)	(2,129)			(3,081)
Total accumulated depreciation/amortization	(1,975,427)	(169,523)	-	46,306	(2,098,644)
Capital assets, net	\$ 2,471,421	\$ 68,645	\$ -	\$ (8,203)	\$ 2,531,863
Summary					
Depreciable/amortizable capital assets	\$ 3,873,529	\$ 152,794	\$ 385,550	\$ (54,505)	\$ 4,357,368
Non-depreciable/amortizable capital assets	573,319	85,374	(385,550)	(4)	273,139
Total capital assets	4,446,848	238,168	-	(54,509)	4,630,507
Total accumulated depreciation/amortization	(1,975,427)	(169,523)	-	46,306	(2,098,644)
Capital assets, net	\$ 2,471,421	\$ 68,645	\$ -	\$ (8,203)	\$ 2,531,863

Capital assets, net on June 30, 2009, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable/amortizable capital assets					
Buildings and improvements	\$ 2,617,970	\$ 1,398	\$ 35,030	\$ (438)	\$ 2,653,960
Leasehold improvements	2,431	1	5,962		8,394
Equipment	595,617	\$ 53,240	(4,403)	(25,334)	619,120
Infrastructure	350,548	(2)	16,571		367,117
Library and reference books	115,113	13,868			128,981
Capitalized software (intangible asset)	91,367	1,636		(45)	92,958
All other intangible assets	2,209	790			2,999
Total depreciable/amortizable capital assets	3,775,255	70,931	53,160	(25,817)	3,873,529
Nondepreciable/amortizable capital assets					
Land	70,115	12,296		(47)	82,364
Museums and collections	43,974	1,484			45,458
Construction in progress	220,578	278,077	(53,160)		445,495
Permanent right-of-way easements (intangible asset)	2	-			2
Total non-depreciable/amortizable capital assets	334,669	291,857	(53,160)	(47)	573,319
Accumulated depreciation/amortization					
Buildings and improvements	(1,171,183)	(74,466)			(1,245,649)
Leasehold improvements	(1,251)	(579)			(1,830)
Equipment	(401,996)	(51,623)		23,159	(430,460)
Infrastructure	(164,253)	(12,047)			(176,300)
Library and reference books	(54,567)	(11,732)			(66,299)
Capitalized software (intangible asset)	(49,370)	(4,567)			(53,937)
All other intangible assets	(431)	(521)			(952)
Total accumulated depreciation/amortization	(1,843,051)	(155,535)	-	23,159	(1,975,427)
Capital assets, net	\$ 2,266,873	\$ 207,253	\$ -	\$ (2,705)	\$ 2,471,421
Summary					
Depreciable/amortizable capital assets	\$ 3,775,255	\$ 70,931	\$ 53,160	\$ (25,817)	\$ 3,873,529
Non-depreciable/amortizable capital assets	334,669	291,857	(53,160)	(47)	573,319
Total capital assets	4,109,924	362,788	-	(25,864)	4,446,848
Total accumulated depreciation/amortization	(1,843,051)	(155,535)	-	23,159	(1,975,427)
Capital assets, net	\$ 2,266,873	\$ 207,253	\$ -	\$ (2,705)	\$ 2,471,421

5. Long-Term Debt

Long-term debt on June 30, 2010, consisted of the following:

	Interest rate	Due at various dates through fiscal year	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2010D	3.86%-5.77%	2030		\$ 27,200		\$ 27,200	
Series 2010C	2.0%-4.0%	2016		8,988	\$ 33	8,955	\$ 1,385
Series 2009D	6.30%	2029	\$ 37,330		315	37,015	(17)
Series 2009C	1.50%-5.00%	2022	49,001		2,752	46,249	3,077
Series 2009B	2.50%-6.00%	2029	17,035		445	16,590	585
Series 2009A	3.00%-5.25%	2034	42,505		756	41,749	1,076
Series 2004A	4.86%	2011	7,894		3,979	3,915	3,915
Series 2003A	3.81%	2010	64,100		1,400	62,700	62,700
Series 2001C	3.56%	2010	127,750		6,200	121,550	6,700
Series 2001B	0.24%	2010	1,245		395	850	850
Series 1999A	3.55%	2012	126,300		9,400	116,900	9,750
Commercial paper notes, Series A	3.15%-3.65%	2010	142,100		5,000	137,100	137,100
Commercial paper notes, Series B	3.15%-3.65%	2010	55,000		3,000	52,000	52,000
Commercial paper notes, Series C	3.15%-3.65%	2010	66,500		6,750	59,750	59,750
Commercial paper notes, Series D	3.15%-3.65%	2010		25,000		25,000	25,000
Obligations to the State of Minnesota pursuant to Infrastructure development bonds							
	3.55%-6.90%	2025	45,760		5,294	40,466	5,639
Auxiliary revenue bonds	3.00%	2014	4,450		1,140	3,310	1,095
Special purpose revenue bonds	4.00%-5.00%	2030	140,311		4,384	135,927	4,574
Capital leases and other	1.72%-8.00%	2017	6,944	1,044	1,777	6,211	1,459
Interest rate swaps borrowing	4.05%	2036	19,147	13,960	20,180	12,927	863
Total			\$ 953,372	\$ 76,192	\$ 73,200	\$ 956,364	\$ 377,501

Long-term debt on June 30, 2009, consisted of the following:

	Interest rate	Due at various dates through fiscal year	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2009D	6.30%	2029		\$ 37,330		\$ 37,330	\$ -
Series 2009C	1.50%-5.00%	2022		49,056	\$ 55	49,001	2,752
Series 2009B	2.50%-6.00%	2029		17,035		17,035	445
Series 2009A	3.00%-5.25%	2034		42,528	23	42,505	756
Series 2004A	4.86%	2011	\$ 11,698		3,804	7,894	3,979
Series 2003A	4.39%	2010	65,750		1,650	64,100	64,100
Series 2001C	4.40%	2010	133,650		5,900	127,750	127,750
Series 2001B	4.33%	2010	1,620		375	1,245	1,245
Series 2001A	3.08%	2009	2,670		2,670	-	-
Series 1999A	4.16%	2012	136,900		10,600	126,300	9,400
Commercial paper notes, Series A	3.15%-3.65%	2010	142,100			142,100	142,100
Commercial paper notes, Series B	3.15%-3.65%	2010	55,000			55,000	55,000
Commercial paper notes, Series C	3.15%-3.65%	2010	66,500			66,500	66,500
Obligations to the State of Minnesota pursuant to Infrastructure development bonds							
	3.55%-6.90%	2025	51,516		5,756	45,760	5,756
Auxiliary revenue bonds	3.00%	2014	5,530		1,080	4,450	1,140
Special purpose revenue bonds	4.00%-5.00%	2030	144,525		4,214	140,311	4,384
Capital leases and other	1.72%-8.00%	2017	7,294	1,204	1,554	6,944	1,692
Interest rate swaps borrowing	4.45-5.08%	2036		19,787	640	19,147	1,915
Total			\$ 824,753	\$ 166,940	\$ 38,321	\$ 953,372	\$ 488,914

General Obligation Bonds

On February 2, 2010, the University issued General Obligation Bonds, Series 2010C and General Obligation Taxable Bonds, Series 2010D in the amount of \$8,480 and \$27,200, respectively. The Series 2010D bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2010D bonds were issued at coupon rates of 3.86 – 5.77 percent. The 2010C bonds were issued at coupon rates of 2.0 – 4.0 percent with a premium of \$508.

On May 5, 2009, the University issued General Obligation Taxable Bonds, Series 2009D and General Obligation Bonds, Series 2009C in the amount of \$37,330 and \$44,625, respectively. The Series 2009D bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2009D bonds were issued at a coupon rate of 6.3 percent, with a discount of \$334. The 2009C bonds were issued at coupon rates of 1.5 – 5.0 percent with a premium of \$4,431.

On February 5, 2009, the University issued General Obligation Taxable Bonds, Series 2009B and General Obligation Bonds, Series 2009A in the amount of \$17,035 and \$41,000, respectively. The 2009B bonds were issued at coupon rates of 2.5 - 6.0 percent. The 2009A bonds were issued at coupon rates of 3.0 – 5.25 percent with a net premium of \$1,528.

On October 2, 2008, the University converted the outstanding balance of \$64,100 of the General Obligation Refunding Bonds, Series 2003A, from auction rate securities to variable rate demand bonds. The bonds are backed by the University's self-liquidity, which is supported by a line of credit with a major commercial bank. The credit agreement was originally entered into on October 2, 2008 for \$130,000 for a one-year period. In September 2010, the agreement was amended effective October 1, 2010, reducing the maximum line from \$130,000 to \$65,000, and extending the term for another one-year period with a current expiration of October 1, 2011. No amounts have been drawn under the line of credit.

In December 2003, the University entered into a standby bond purchase agreement (SBPA) with an expiration date of December 16, 2008 to provide liquidity support for the Series 2001C bonds. In September 2008, approximately \$6,855 of Series 2001C bonds were tendered to the University and not remarketed; thus the University drew on its respective SBPA for payment of principal and accrued interest on the tendered bonds. Within four days after the applicable draws, the tendered bonds were successfully remarketed by the University's remarketing agent. The SBPA has since been extended, with the current agreement expiring on March 15, 2012. Under this agreement the available principal commitment is equal to the amount of the Series 2001C bonds currently outstanding, and 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 the current agreement through June 30, 2010.

The University maintains a SBPA to provide liquidity support for the Series 1999A bonds. In September 2008, approximately \$19,795 of Series 1999A bonds were tendered to the University and not remarketed; thus the University drew on its respective SBPA for payment of principal and accrued interest on the tendered bonds. Within four days after the applicable draws, the tendered bonds were successfully remarketed by the University's remarketing agent. On June 12, 2009, the expiration date of the SBPA then in place, the University entered into a SBPA with a replacement bank to provide liquidity support for the Series 1999A bonds. Under this agreement the principal commitment available is equal to the amount of the Series 1999A bonds currently outstanding. The agreement, which expires on June 12, 2012, provides for annual payments in accordance with the mandatory bond redemption schedule, except that all principal and accrued interest will be due on the third

anniversary date of the purchase date. No amounts had been drawn under this agreement through June 30, 2010.

Also in September 2008, approximately \$155 of Series 2001B bonds were tendered to the University and not remarketed; thus the University drew on its self-liquidity for payment of principal and accrued interest on the tendered bonds. Four days after the applicable draw, the bonds purchased by the University were once again successfully remarketed by the University's remarketing agent.

Management believes that the unremarketed tenders of the Series 2001C, 2001B, and 1999A bonds was an extraordinary event due to the market turmoil at that time and such an event is unlikely to occur on a regular basis. 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.

Under generally accepted accounting principles, the Series 2003A, 2001C, 2001B, 2001A, 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. The demand bonds bear a variable rate of interest based on a weekly rate as determined by the remarketing agent in conjunction with prevailing market conditions. In the absence of SBPAs, the University has classified the entire obligation of the Series 2003A, 2001B, and 2001A bonds as current liabilities. 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 2010D, 2009D, 2009B, and 2001B bonds.

On September 16, 2010, the University issued General Obligation Taxable Bonds, Series 2010B in the amount of \$41,720 in accordance with resolutions of the Board of Regents adopted on November 14, 2008, November 13, 2009, and July 7, 2010, collectively. The Series 2010B bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2010B bonds are the first tranche of the University Supported Biomedical Science Research Facilities Funding Program that will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The 2010B bonds were issued at coupon rates of 0.74 – 5.02 percent.

Special Purpose Revenue Bonds

On December 14, 2006, the University issued \$137,250 in Special Purpose Revenue Bonds, Series 2006. The proceeds of the bonds were used to finance a portion of the cost of the TCF Bank 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 4.0 – 5.0 percent with a premium of \$10,721.

On September 16, 2010, the University issued \$111,400 in Special Purpose Revenue Bonds, Series 2010A in accordance with resolutions of the Board of Regents adopted on November 14, 2008, November 13, 2009, and July 7, 2010, collectively. The bonds were issued at coupon rates of 4.0 – 5.0 percent with a premium of \$12,827. The 2010A bonds are the first tranche of the State Supported Biomedical Science Research Facilities Funding Program that will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. In 2008, State of Minnesota legislation provided for an annual appropriation to reimburse the University for the annual debt service on these bonds.

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 & Company. In addition, the integrated fixed to floating interest-rate swap agreement on these bonds was also terminated.

On March 1, 2007 and November 28, 2007, the University issued \$61,000 and \$70,000, respectively, in tax-exempt Commercial Paper Notes, Series B and C, 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.

On December 22, 2009, the University issued \$25,000 in tax-exempt Commercial Paper Notes, Series D pursuant to Regents' authorization of the issuance of up to \$33,000 to finance the balance of the construction cost of the TCF Bank Stadium, and to pay costs of issuance.

Although commercial paper is short-term in nature and classified as current liabilities in the financial statements, the University intends to hold the commercial paper notes as a long-term financing vehicle.

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. Auxiliary enterprise revenues, net of expenses from student housing and food services of \$2,889 and \$2,953 were pledged as security to pay total principal and interest payments of \$1,401 and \$1,407 for auxiliary revenue bonds in fiscal years 2010 and 2009, respectively. Revenues are pledged until fiscal year 2014, at which time the debt obligation on these auxiliary revenue bonds will be satisfied.

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 \$1,370 on June 30, 2010 and \$1,318 on June 30, 2009, for future debt service. An additional \$5,882 and \$5,704 was set aside for building replacement reserves for June 30, 2010 and June 30, 2009, 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 service of infrastructure development bonds issued by the state for University capital projects. Debt was issued between July 1990 and October 2005, with the University's one third portion of debt obligation totaling \$109,391 with \$40,466 and \$45,760 due as of June 30, 2010 and 2009, respectively. The total amount of outstanding debt issued by the state on behalf of the University was \$121,396 as of June 30, 2010 and \$137,279 as of June 30, 2009.

Capital Leases and Other Debt

Capital lease and other commitments consist of capital leases and notes payable for fleet vehicle and a real estate contract for deed. Equipment acquired through capital leases totals \$14,432 and related

accumulated depreciation totals \$7,482. The leases bear interest rates between 1.72 percent and 8.0 percent, with none extending beyond fiscal year 2018. The real estate contract for deed bears interest at 8.0 percent and is due in fiscal year 2011. The note payable bears interest at 2.25 percent and does not extend beyond fiscal year 2011.

Interest Rate Swaps

Effective fiscal year ended June 30, 2010, the University implemented GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. The impact of the GASB 53 implementation related to the University's interest rate swaps resulted in restating fiscal year ended June 30, 2009 by the following increases: other assets by \$6,320, accrued liabilities by \$20,309, long-term debt by \$19,147, net increase in fair market value of investments by \$1,889, and cumulative effect of change in accounting principle of \$15,878. Decreases resulted in the following areas: investment income by \$19,787 and interest expense by \$640. The restatement subsequently impacted beginning balances reported in the Consolidated Statements of Net Assets for fiscal year ended June 30, 2010. Additional information related to these changes are referenced in Note 12.

The University has entered into six separate pay-fixed, receive-variable interest rate swaps to convert all or a portion of the associated variable rate debt to synthetic fixed rates to protect against future interest rate fluctuations—essentially hedging against the variability of cash flows for budgeting purposes. Three of the swaps are freestanding, which were originally entered into shortly after the issuance of the Series 1996A bonds, and three integrated swaps associated with the Series 2003A, 2001C, and 1999A bonds.

On September 16, 2008, Lehman Brothers Holdings Inc. (LBHI) filed a bankruptcy petition under Chapter 11 of the Bankruptcy Code. Lehman Brothers Commercial Bank (LBCB), an affiliate of LBHI, which was not a debtor in the current bankruptcy proceedings, was the counterparty to certain interest rate swaps related to the Series 2003A, 2001C, 2001B, 2001A, and 1999A bonds. Because LBHI was the guarantor and was identified as the credit support provider in all of the swaps, the University had a right to terminate them because of the bankruptcy of LBHI. On February 27, 2009, the University terminated the swaps with LBCB and replaced the swaps related to the Series 2003A, 2001C, and 1999A bonds with substantially similar instruments with a new counterparty at no net cash outlay for the University. The University was reimbursed for its termination payment to LBCB with an upfront payment from the new counterparty in the amount of \$19,787. Since the swap agreements contained off-market interest rate terms, this upfront payment was recorded as long-term debt to be amortized over the life of the swap with payments made to the counterparty. Off-market interest rates carry a higher rate of interest than at-market interest rates, which equated to a one percent rate differential between the off-market and at-market rates for the University's interest rate swaps. As the provisions of GASB 53 were applied, these swaps were considered ineffective hedges, where the changes in fair value are reflected in net increase (decrease) in fair market value of investments in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets.

Effective November 1, 2009, the University restructured its Series 1999A, 2001C, and 2003A swap agreements with its counterparty by lowering the fixed interest pay rate and receiving a variable interest rate based on the Securities Industry Financial Markets Association (SIFMA) Index, instead of the existing percentage of three-month London Interbank Offered Rate (LIBOR). According to GASB 53, the restructuring qualifies as another termination event, even though no termination payment was made. As a result of the new termination event, the existing outstanding long-term debt balance of \$18,479 related to these swaps was retired and a new long-term debt amount of \$13,960 was recorded, resulting in a net gain of \$4,519 being recognized on the restructuring of the swaps. The new long-term debt amount was based on off-market interest rate terms with less than one percent

differential compared to the at-market rates. The University treats the replacement swaps integrated with the Series 2003A, 2001C, and 1999A variable-rate bonds as qualified hedges with respect to these bonds with changes in fair value deferred and recorded in the Consolidated Statements of Net Assets.

The remaining three freestanding swaps are considered ineffective hedges, where the changes in fair value are included in net increase (decrease) in fair market value of investments reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets.

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2010, 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	\$ 62,700	11/1/2009	3.22%	SIFMA Index *	Pay fixed and receive variable	\$ (2,351)	8/15/2031
2001C	Integrated	121,550	11/1/2009	2.96%	SIFMA Index *	Pay fixed and receive variable	(4,029)	12/1/2036
1999A	Integrated	116,900	11/1/2009	2.69%	SIFMA Index *	Pay fixed and receive variable	(3,369)	1/1/2034
							\$ 301,150	\$ (9,749)
Other hedging activities								
	Freestanding	\$ 70,000	8/27/1997	4.98%	SIFMA Index*	Pay fixed and receive variable	\$ (13,833)	8/27/2017
	Freestanding	37,500	8/28/1997	4.88%	LIBOR Index**	Pay fixed and receive variable	(3,385)	8/28/2012
	Freestanding	37,500	9/1/1997	4.90%	LIBOR Index**	Pay fixed and receive variable	(3,622)	7/1/2012
							\$ 145,000	\$ (20,840)

* SIFMA (Securities Industry Financial Markets Association) Index, *previously known as the BMA (Bond Market Association) Index, is a 7-day high-grade market index comprised of tax-exempt variable demand obligations from the MMD (Municipal Market Data).*

** LIBOR Index is an *average yield of interbank offered rates for one-year US dollar-denominated deposits in the London Market.*

Credit Risk—Swap contracts with positive fair values are exposed to credit risk due to the counterparty not fulfilling its obligations. To minimize the University's exposure to loss related to credit risk, the swap counterparties are required to post collateral if the fair value of the swap reaches a minimum threshold. The thresholds are dependent on the counterparty's credit ratings, as assigned by Moody's Investors Service and Standard and Poor's. Eligible posted collateral is to be in the form of cash, U.S. Treasury securities, or agency notes. The University's counterparties have never been required to post collateral. The percentage of the notional amount of swaps outstanding on June 30, 2010, for each counterparty is 68, 24, and 8 percent, while these counterparties are rated Aa3, Aa1, and A1, respectively, by Moody's Investors Service.

The University faces maximum possible losses equivalent to the amount of the derivatives' fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of all the swaps being negative as of June 30, 2010, the University was not exposed to credit risk.

It is the University's practice to net payments to/from a counterparty required under the derivatives instrument as allowed under the terms of the Master Agreements.

Interest Rate Risk— The University is exposed to interest rate risk since the changes in interest rates may adversely affect the fair value of the University’s interest rate swaps and/or cash flows related to the net interest payments.

Basis Risk— The University is exposed to basis risk on its swaps when the variable-rate payments received by the University on the swaps are based on a rate or index other than interest rates the University pays to the holders of its variable rate bonds or commercial paper.

Termination Risk—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 were terminated, the associated variable-rate bonds and commercial paper 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 an amount equal to the fair value of the swap.

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 7.0 percent for any rolling consecutive 90-day period.

Variable-rate bond interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2010, debt service requirements of the University’s outstanding long-term debt obligations and net swap payments for the next five years and in subsequent five-year periods are as follows:

	Bonds and obligations	Commercial paper notes	Capital lease and other	Interest rate swap borrowing	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30								
2011	\$ 101,329	\$ 273,850	\$ 1,459	\$ 863	\$ 377,501	\$ 62,263	\$ 11,117	\$ 450,881
2012	238,718		1,374	774	240,866	30,175	8,072	279,113
2013	17,078		1,156	818	19,052	16,080	3,584	38,716
2014	16,835		883	845	18,563	15,262	3,300	37,125
2015	16,066		696	896	17,658	14,466	3,300	35,424
2016-2020	83,242		643	4,457	88,342	61,119	7,124	156,585
2021-2025	89,364			1,840	91,204	39,864		131,068
2026-2030	90,256			1,375	91,631	14,661		106,292
2031-2035	10,488			924	11,412	1,461		12,873
2036-2040				135	135	7		142
	\$ 663,376	\$ 273,850	\$ 6,211	\$ 12,927	\$ 956,364	\$ 255,358	\$ 36,497	\$1,248,219

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:

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2010	Bond call date
General obligation bonds 1982 Series A	4/23/1985	\$ 112,635	\$ 65,000	\$ 29,600	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	137,000	7/1/2021

The 1982 Series A bonds were issued December 1, 1982, to finance the construction and equipment for the University Hospital and Clinics. They were defeased in fiscal year 1985, resulting in a recognized loss of \$13,945. The 1996 Series A bonds were issued to provide funds for capital projects and to refund the general obligation variable rate demand bonds Series 1985F, 1985G, 1985H, and 1985I and the 1991 Series A and Series B Commercial Paper. A put option was exercised July 5, 2005, requiring the University to defease the 1996A bonds. There was no gain or loss incurred with the defeasance of the 1996 Series A bonds.

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

Arbitrage

University general obligation and special purpose debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on the invested gross proceeds of a bond issue exceed the issuer's tax-exempt borrowing rates. The University continues to monitor and report any arbitrage in accordance with the Internal Revenue Code. The University had no arbitrage liability at June 30, 2010.

6. Pension Plans

The University and its employees contribute to pension plans characterized as either a defined benefit (specifies the amount of pension benefits to be provided at a future date) or defined contribution (specifies how contributions are to be determined, rather than an amount) plan.

Defined Benefit Plans

Cost-sharing plans, multiple-employer plans

United States Government (Federal) Retirement Plans

All University employees with federal benefits work for the University of Minnesota Extension (Extension) or its partner colleges; College of Food, Agricultural and Natural Resources Science (CFANS), College of Design, and College of Education and Human Development. These employees were grandfathered in, allowing them to keep their federal benefits, which were formerly offered exclusively to Extension staff. No new participants are being accepted into the federal retirement plans listed below. An exception would be granted to allow for a new participant when an appointment transfers from another Extension service. Questions regarding the federal plans listed below, including requests for financial statements and required supplementary information can be directed to the United States Office of Personnel Management (OPM) Office, 1900 E Street N.W., Washington, DC 20415.

Civil Service Retirement System (CSRS)

The Civil Service Retirement System (CSRS) is a federal program that provides retirement benefits for approximately 48 employees who work for the University. Participation is limited to those who initially entered federal service prior to January 1, 1984, and have been continuously employed since December 31, 1983, or before, or have had a break in federal service of one year or less since 1984. It is closed to new members. Retirement benefits are based on years and months of service. CSRS provides full retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or

age 62 with 5 years of service. Deferred benefits are payable at age 62 with 5 years of service. The annuity formula provides 1.5 percent of average salary for the first five years of service, 1.75 percent for the next five years, and 2 percent for any remaining service, up to a maximum of 80 percent of average salary (based on the highest three consecutive years of salary).

Civil Service Retirement System Offset Retirement (CSRS Offset)

The Civil Service Retirement System Offset Retirement (CSRS Offset) is administered in conjunction with the standard CSRS by the OPM. It provides retirement benefits for five employees who work for the University. Participation is limited to federal employees who had at least five years of creditable civilian federal service prior to January 1, 1987, and had rejoined federal service since January 1, 1984, after a break of CSRS coverage of more than one year; or was hired before January 1, 1984, and acquired CSRS interim coverage (precursor to CSRS Offset coverage) between 1984 and 1987.

Federal Employees Retirement System (FERS)

The Federal Employees Retirement System (FERS) is a federal program that provides retirement benefits for approximately 128 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using Social Security as a base, FERS provides an additional defined benefit and a voluntary thrift savings plan. An employee who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. FERS provides full retirement benefits at the "Minimum Retirement Age" (MRA) with 30 years of service, at age 60 with 20 years of service, or at age 62 with 5 years of service. The MRA is 55 for those born before 1948, and incrementally increases to 57 for those born in or after 1970. Deferred retirement benefits are available at or after the MRA with 10 years of service at reduced benefit levels. The annuity formula generally provides 1 percent of the employee's average salary (based on the highest three consecutive years of salary) multiplied by the number of years of creditable service. If retirement is at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1 percent.

State of Minnesota Retirement Plans

Public Employee Police and Fire Fund (PEPFF)

The Public Employee Police and Fire Fund (PEPFF) covers approximately 60 active law enforcement staff; participation is mandatory and begins from the first day of employment. PEPFF, in total, provides coverage to approximately 500 local governmental subdivisions within the state of Minnesota. Each participant earns service credit for each month retirement deductions are withheld from the employee's salary. Retirement benefits are based on years and months of service. Normal retirement age is 55. The annuity formula for each member is 3 percent of average salary for each year of service in that plan. The fund covers all those hired since 1980. The University is liable for a portion of any unfunded accrued liability of this fund for its participants. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Public Employees Retirement Association (PERA) Office, 60 Empire Drive, Suite 200, St. Paul, MN 55103.

State Employees' Retirement Fund (SERF)

The State Employees' Retirement Fund (SERF) covers approximately 9,200 active Civil Service and non-faculty bargaining unit employees. SERF, in total, provides coverage to approximately thirty-three employers within the state of Minnesota. Participation is mandatory and begins from the first day of employment. Each participant earns service credit for each month retirement deductions are withheld from the employee's salary. Retirement benefits are based on years and months of service. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. Applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member's average salary, which is defined as the highest salary paid in five successive years of service. The University is liable for a portion of any unfunded accrued liability of this fund for its participants. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Minnesota State Retirement System (MSRS) Office, 60 Empire Drive, Suite 300, St. Paul, MN 55103.

Funding Policy

	CSRS	CSRS Offset	FERS	PEPFF	SERF
Statutory authority					
Minnesota chapter	N/A	N/A	N/A	353	352
United States code	Title 5, Chapter 83	Title 5, Chapter 83	Title 5, Chapter 84	N/A	N/A
Required contribution rates (%)					
Active plan members	7.00%	1.20%	0.80%	9.40%	4.75%
University	7.00%	8.51%	11.20%	14.10%	4.75%
Required contributions (\$)					
Employee					
2010	\$281	\$4	\$68	\$422	\$18,752
2009	296	7	75	400	19,297
2008	315	9	77	349	17,621
University					
2010	\$281	\$34	\$974	\$633	\$18,756
2009	296	37	1,031	601	19,321
2008	315	52	1,078	524	17,636

In the 2006 Legislative Session, a bill was passed to build up MSRS (affecting SERF) funding levels. As a result, the rates for employee and employer contributions will increase from 4 percent to 5 percent over four years beginning July 1, 2007. The PEPFF contribution rates increased on January 1, 2009, to 9.4 percent for the employee and 14.1 percent for the employer. Any rate adjustments after 2010 will depend upon actuarial valuations for two consecutive years.

Single-employer plan

Supplemental Benefits Plan (SBP)

The Supplemental Benefits Plan (SBP) is a plan sponsored by the University pursuant to the Board of Regents governing authority. This plan is in addition to the FRP, where faculty members employed prior to 1963 and female participants employed prior to July 1, 1982, may be eligible to receive additional benefits. SBP is designed to provide additional retirement benefits for certain groups of individuals who participated in the FRP, but who, due to plan design, have retirement income levels that are significantly lower than those of current participants. It accounts for 226 eligible participants. SBP is funded in an amount equal to or greater than the amount required under statute. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. The eligible population under the plan is a closed group. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

Statutory authority	
Minnesota chapter	356
Required contribution rates (%)	
Active plan members	N/A
University	N/A

Due to the plan being closed, required contribution rates do not apply. Contribution amounts are determined by funding status and actuarial value in compliance with state statutes. The University makes all contributions to the SBP using a variable rate.

Annual Pension Cost and Net Pension Obligation

Annual required contribution (ARC)	\$	319
Interest on net pension obligation (NPO)		168
Adjustment to ARC		(379)
Annual pension cost (expense)	\$	108
Less contributions made – fiscal year ended June 30, 2010		(339)
Decrease in NPO	\$	(231)
NPO—June 30, 2009		3,365
NPO—June 30, 2010	\$	3,134

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2010	\$108	\$339	313.89%	\$3,134
6/30/2009	134	394	294.03%	3,365
6/30/2008	199	391	196.48%	3,625

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2009	\$3,252	\$6,083	\$2,831	53.46%	\$1,345	210.48%
7/1/2008	3,890	7,074	3,184	54.99%	1,132	281.27%
7/1/2007	4,597	8,497	3,900	54.10%	1,096	355.84%

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Valuation date	7/1/2009
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	12 years
Asset valuation method	Fair market value, smoothed over 5 years
Actuarial assumptions	
Investment rate of return	5.00%
Projected salary increase	3.50%
Cost of living adjustment	2.50%

Defined Contribution Plans

The University's defined contribution plans represent benefits to be received. They are limited to the value of the participant's account balance, depending on the plan. Accordingly, there is no unfunded actuarial accrued liability (UAAL), or actuarial accrued liability (AAL), associated with the following plans.

Description of Plans and Contribution Information

Faculty Retirement Plan (FRP)

The Faculty Retirement Plan (FRP) is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University's Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute to the plan and governs the requirements of this plan. Eligibility requirements involve an employee appointment of at least nine months; employee appointments between 67 to 99 percent time are granted prorated participation. Other eligibility requirements may involve a waiting period based on salary class. The plan is funded through employee pre-tax contributions of 2.5 percent of covered salary, and the University contributes 13 percent. The FRP covers approximately 7,500 active faculty and professional and administrative (P&A) staff.

University of Minnesota Optional Retirement Plan (ORP)

The Optional Retirement Plan (ORP) is a voluntary retirement savings/investment plan covered under Section 403(b) of the Internal Revenue Code. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. The plan is funded mainly through employee pre-tax contributions. However, the University may make discretionary contributions for select staff based on employment contracts. Approximately 4,400 full- and part-time employees contribute to this plan.

University of Minnesota Section 457 Deferred Compensation Plan

The 457 Deferred Compensation Plan is a voluntary retirement savings plan authorized under Section 457 of the Internal Revenue Code. This plan is funded exclusively through employee pre-tax contributions. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. Approximately 840 full- and part-time employees contribute to this plan.

University of Minnesota 415(m) Retirement Plan

The 415(m) Retirement Plan is a qualified excess benefit plan authorized under Section 415(m) of the Internal Revenue Code. This plan is provided to select staff based on individual employment contracts negotiated. All contributions provided by the University are negotiated on an individual employee basis and are contingent on vesting requirements being satisfied. Ten University employees are part of this plan.

Contributions Made for Fiscal Year 2010

	FRP	ORP	457	415(m)
Employee	\$16,779	\$38,668	\$10,708	N/A
University	87,467	352	N/A	383

7. Related Organization

The University is responsible for appointing eight 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. The dean of the University of Minnesota Medical School and the head of the University's Department of Family Medicine and Community Health appoint six board members; two members are automatically appointed by virtue of the University positions that they hold.

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 \$21,473 and \$10,612 were billed to Fairview in fiscal years 2010 and 2009, respectively. Fairview billed the University \$138 and \$456 in fiscal years 2010 and 2009, respectively, for pharmaceuticals, medical professionals, and transcription services.

Construction projects in progress, principally buildings, approximated \$140,347 on June 30, 2010. The estimated cost to complete these facilities is \$189,643, which is to be funded from plant fund assets and \$119,818 in appropriations available from the State of Minnesota as of June 30, 2010.

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 original agreement was for five years and began May 17, 2004. In fiscal year 2009, the contract was extended for five years, with a contract end date of May 2014. 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, 2010 and 2009, were \$18,967 and \$19,242, respectively, of which \$15,574 and \$15,854 were for real property and \$3,393 and \$3,388 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2010, for the next five years and in subsequent five-year periods are as follows:

Fiscal year ending June 30	Steam plant	Operating leases	Total
2011	\$500	\$11,328	\$11,828
2012	500	13,215	13,715
2013	500	10,343	10,843
2014	500	7,667	8,167
2015		3,665	3,665
2016-2020		13,203	13,203
2021-2025		2,830	2,830
Total commitments	\$2,000	\$62,251	\$64,251

The University receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. Management is not aware of any disallowed claims at this time and any such disallowances that would be discovered would be immaterial.

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 estimates claim liabilities. 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 addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 1.5 percent.

The University is also self-insured for workers' compensation through an internally maintained fund, and excess claims 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 CVS Caremark 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 \$800,000 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 estimates claims liabilities. 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.

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 Health Partners. An estimated claims liability ensures that funds are available to cover claims up to the point where stop-loss coverage begins.

Reported liabilities as of June 30, 2010, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$7,920	\$2,263	(\$2,287)	(\$78)	\$7,818
Workers' compensation	14,132	4,427	(4,427)	(1,449)	12,683
UPlan medical	16,199	205,544	(203,435)	(1,559)	16,749
UPlan dental	501	16,297	(15,962)	(212)	624
Graduate assistant health plan	881	19,997	(19,997)	(526)	355
Student health plan	676			240	916

Reported liabilities as of June 30, 2009, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$9,757	\$923	(\$2,848)	\$88	\$7,920
Workers' compensation	7,374	3,875	(3,875)	6,758	14,132
UPlan medical	14,575	187,435	(184,991)	(820)	16,199
UPlan dental	537	15,434	(15,354)	(116)	501
Graduate assistant health plan	707	16,887	(16,887)	174	881
Student health plan	343			333	676

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* (GASB 47). University benefits that qualify and meet GASB 47 criteria include contract buyouts, retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation. Benefits that are otherwise offered in exchange for, or are considered conditional on, future employee services do not qualify under GASB 47; rather they qualify as a pension benefit or other postemployment benefits (OPEB) as referenced in Notes 6 and 11, respectively.

Contract Buyouts

University contract buyouts apply when an employee resigns his or her duty and the University has agreed to pay additional compensation based on the contractual employment agreement. Benefits outstanding as of June 30, 2010 and 2009 are paid in the subsequent fiscal year and affect only the Twin Cities campus. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

Retirement Incentives

These incentives provide medical and dental benefits to eligible employees as defined in the Retirement Incentive Option (RIO) Program. On May 9, 2008, the Board of Regents approved the reinstatement of the RIO Program, an opportunity for employees to elect voluntary retirement to minimize involuntary workforce reductions. The RIO Program covers Faculty, Professional and Administrative (P&A), Civil Service, and Radio and Television Broadcast Technician employees who were actively employed at 75 percent time or greater; hold an appointment term of nine months or greater on the last day of employment; meet the specific age and years of service requirements; and are currently receiving UPlan benefits. Eligible employees were able to enroll in the program during the time period of May 15 through September 26, 2008, or no later than the effective date of retirement, whichever occurs first. Effective June 2, 2008, represented bargaining unit staff consisting of Minnesota Teamsters Public and Law Enforcement Employees Union, Law Enforcement Labor Services, Inc., and AFSCME Units 4, 6, and 7 may elect to enroll in the RIO Program through September 26, 2008, or no later than the effective date of retirement, whichever occurs first. RIO will provide a maximum of 36 months of medical and dental subsidy following an employee's last day of employment. The subsidy and coverage is the same as if the retiree had remained employed. The University's contribution will be based on the employee's coverage level, work location, and permanent residence as of the last day of employment. The outstanding liability is calculated using the discounted present value of expected future benefit payments based on the projection of benefits, a healthcare cost trend rate of 7.5 percent and a discount rate of 4 percent. Benefits provided impact all University campuses.

Severance Lump-Sum Payouts and Continuing Healthcare Subsidies

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. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due. Severance lump-sum payouts and continuing healthcare subsidies impact all University campuses.

Vacation

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. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

Academic Professional and Administrative (P&A) Contracts

Benefits below reflect contract buyouts, retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

University contributions as of June 30	Number of staff members	Liability amount
2010	179	\$1,051
2009	166	1,589

Civil Service Contracts

Benefits below reflect retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

University contributions as of June 30	Number of staff members	Liability amount
2010	241	\$1,826
2009	290	2,385

Faculty Contracts

Benefits below reflect severance lump-sum payouts and continuing healthcare subsidies and vacation:

University contributions as of June 30	Number of staff members	Liability amount
2010	137	\$508
2009	118	833

Graduate Assistant Contracts

Benefits below reflect severance lump-sum payouts and continuing healthcare subsidies and vacation:

University contributions as of June 30	Number of staff members	Liability amount
2010	67	\$144
2009	8	14

Represented Bargaining Unit Staff Contracts

Benefits below reflect retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

University contributions as of June 30	Number of staff members	Liability amount
2010	404	\$2,623
2009	438	4,415

11. Other Postemployment Benefits

Description of Plan

The University administers the UPlan—a self-insured, single-employer, defined benefit healthcare plan. It is a partnership between the University and its employees to provide quality, cost-effective health benefits to employees, retirees, and their families. Pursuant to the University’s Board of Regents governing authority, non-Medicare retirees and former employees can purchase medical and dental insurance coverage. The University also provides a continuation of pay and benefits beyond active employment under the Academic Disability Plan (ADP) for faculty and academic professional and administrative (P&A) employees after three months of medical leave. The benefit provision process is initiated through the Benefits Advisory Committee (BAC). It comprises representatives from all employee groups who advise the University administration on health program benefit offerings. An

internal UPlan financial report is prepared on a calendar year basis. Questions regarding the UPlan may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

The University has established that a former employee must pay the entire premium for continuation coverage, except as otherwise provided in a collective bargaining agreement or personnel policy. Non-Medicare retirees can purchase medical and dental insurance coverage at the full premium rate applicable to active employees, and COBRA participants can purchase coverage at 102 percent of the full group rate. Eligible participants under the ADP receive full healthcare benefits at employee cost for up to two years from disability onset and beyond that point disabled participants would pay the full premium as if they were retirees. The self-insured portion of the ADP program also provides disability income and retirement contributions for up to 9 months—months 4 through 12 after disability onset. The following premium rates were in effect for fiscal year 2010:

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	\$5,717
COBRA	5,831
Disabilitant	5,717

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2010, the University paid \$8,041 on behalf of former employees and eligible disabilitants who participate in the UPlan.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). This amount is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each fiscal year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed 30 years. The University has elected to amortize the unfunded actuarial liability over 20 years.

The components of the University's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are as follows:

Annual required contribution (ARC)	\$19,692
Interest on net OPEB obligation	901
Adjustment to annual required contribution	(1,594)
Annual OPEB cost (expense)	18,999
Less contributions made – fiscal year ended June 30, 2010	(8,041)
Increase in net OPEB obligation	10,958
Net OPEB obligation—June 30, 2009	22,524
Net OPEB obligation—June 30, 2010	\$33,482

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Fiscal year ended	Annual OPEB cost	Employer contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2010	\$18,999	\$8,041	42.3%	\$33,482
6/30/2009	18,502	6,801	36.8%	22,524
6/30/2008	17,560	6,393	36.4%	11,167

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, is as follows:

Actuarial accrued liability (AAL)	\$88,936
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	88,936
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Increase in net OPEB obligation	\$10,958
Covered payroll (active plan members)	1,189,710
UAAL as a percentage of covered payroll	7.48%

The actuarial accrued liability (AAL) is the present value of projected future benefits earned by employees to date. Whereas, the unfunded actuarial accrued liability (UAAL) is the AAL less any cash, investments, and other resources the University is holding to specifically fund the AAL. Included in the AAL is a change of \$4,098 due to the impact of the RIO Program being reinstated during fiscal year 2008. The change in the liability is a result of eligible retirees electing retirement under the RIO Program and choosing to continue UPlan coverage after the RIO Program benefits are fulfilled.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Some of the specific assumptions that were taken into consideration when calculating the actuarial valuations were participant age, years of service, salary increases, benefit election patterns, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information following the notes to the financial statements, presents the results of the University's OPEB valuation as of June 30, 2010.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan, the plan as understood by the employer and plan members. This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial methods and assumptions incorporated in the UPlan's valuation are as follows:

Valuation date	7/1/2010
Actuarial cost method	Entry age
Amortization method	Level Dollar, Open Group
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	4.00%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	7.50%
Ultimate rate	5.50%
Year ultimate rate reached	2060

12. New Accounting Standards Implemented

GASB Statement No. 49 (GASB 49), Accounting and Financial Reporting for Pollution Remediation Obligations

GASB 49 was issued and was effective for the University fiscal year ended June 30, 2009. It addresses accounting and financial reporting for pollution (including contamination) remediation obligations once any one of five specified obligating events occurs. The impact of this standard requires the University to estimate a liability for these obligations.

The nature and source of the pollution remediation obligations includes the University compelling itself to take remediation action on projects, such as asbestos, mercury, lead, and mold abatement. The University also coordinates with the State of Minnesota's Pollution Control Agency on property that has air, soil, and/or groundwater contamination issues, whereby, obligating the University to ensure it is in compliance with environmental rules and regulations.

In determining the estimated liability, the University's basis was actual expenses incurred, plus cost estimates for projects that are pending completion by factoring in contractor bids and consultant estimates. Included in the estimated liability are both internal and external costs associated with remediating the pollution. Internal costs are based on services provided substantially by the University's Facilities Management staff. The liability could change over time due to variables, such as changes in cost of goods and services and applicable laws and regulations. Where the University can recover any expenses incurred, it actively pursues recovery when another party is potentially deemed or is responsible for remediation. However, there were no known (realized) or realizable recoveries as of fiscal years ended June 30, 2009 and June 30, 2010 to reduce the estimated liability.

As of June 30, 2010, and June 30, 2009, the total estimated pollution remediation liability totaled \$2,712 and \$4,737, respectively.

GASB Statement No. 51 (GASB 51), Accounting and Financial Reporting for Intangible Assets

GASB 51 was issued and is effective for the University this fiscal year ended June 30, 2010. It addresses the recognition of intangible assets, including, but not limited to, computer software (purchased or internally generated), licenses, permanent right-of-way easements, and non income-producing copyrights, patents, and trademarks. As a result of implementing this standard, in

accordance with the University's capitalization thresholds, an additional \$6,242 of capital assets, net of accumulated amortization, as of June 30, 2010, were recorded. The impact on net assets was an increase of the same amount.

Due to the provisions of GASB 51 being retroactive to prior reporting periods, intangible assets that existed prior to fiscal year ended June 30, 2010, are reported and reflected as such. The net impact on fiscal year ended June 30, 2009, was additional amortization expense of \$1,018 and an increase to capital assets of \$1,547, which resulted in a retroactive restatement representing an increase of \$529 in net assets. The cumulative (through fiscal year ended June 30, 2008) impact of GASB 51 resulted in a retroactive restatement representing an increase in net assets of \$3,910, which is reflected as a change in accounting principle in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets.

Due to a specific scope provision exception cited in GASB 51 regarding income-producing intangible assets, the University recorded its intellectual property managed by the Office of Technology Commercialization as an investment, consistent with provisions outlined in Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a result, the University recorded an additional \$39,082 in investments and net assets, of which \$3,609 and \$1,617 were related to fiscal years ended June 30, 2010 and 2009, respectively. The remaining \$33,855 is the cumulative impact through fiscal year ended June 30, 2008, which is reflected as a change in accounting principle in the Consolidated Statements of Revenues, Expenses, and Change in Net Assets.

For more information related to capital assets, refer to Note 4; for capitalization thresholds, refer to Note 1; and for investments, refer to Note 2.

GASB Statement No. 53 (GASB 53), Accounting and Financial Reporting for Derivative Instruments

GASB 53 was issued and is effective for the University this fiscal year ended June 30, 2010. It addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The impact of this standard, as it applies to the University, is related to the interest rate swaps the University has entered into with various counterparties. As a result of implementing this standard, the University was required to record total assets of \$9,749 and total liabilities of \$43,517, with a cumulative net decrease of \$33,768 in net assets for the fiscal year ended June 30, 2010. The fiscal year 2010 impact to total assets, total liabilities, and net assets include amounts related to prior reporting periods.

Due to the provisions of GASB 53 being retroactive, fiscal year ended June 30, 2009, was restated to reflect total assets of \$6,320, total liabilities of \$39,456, with a cumulative net decrease of \$33,136 in net assets, consistent with fiscal year ended June 30, 2010. In addition, revenues and expenses in fiscal year ended June 30, 2009 were restated, resulting in a net decrease in net assets of \$17,258, which is included in the cumulative fiscal year ended June 30, 2010, decrease of \$33,768. The remaining cumulative decrease in net assets (through fiscal year ended June 30, 2008), resulted in recording a \$15,878 change in accounting principle reflected in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets.

For more information related to long-term debt, refer to Note 5.

13. Operating Expenses by Natural Classification

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 582,468	\$98,001			\$ 680,469
Research	400,480	231,473			631,953
Public service	138,812	74,200			213,012
Academic support	289,280	72,883			362,163
Student services	81,678	19,693			101,371
Institutional support	172,929	61,379			234,308
Operation and maintenance of plant	105,003	138,118			243,121
Scholarships and fellowships	6,537	2,203	\$ 42,058		50,798
Depreciation				\$ 169,524	169,524
Auxiliary enterprises	87,261	125,940			213,201
Other operating expense		469			469
	\$ 1,864,448	\$ 824,359	\$ 42,058	\$ 169,524	\$ 2,900,389

Operating expenses by natural classification for June 30, 2009, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 583,517	\$101,423			\$ 684,940
Research	395,486	204,609			600,095
Public service	136,718	66,389			203,107
Academic support	289,101	90,879			379,980
Student services	81,204	18,232			99,436
Institutional support	197,554	30,783			228,337
Operation and maintenance of plant	107,706	136,832			244,538
Scholarships and fellowships	6,910	1,748	\$ 81,771		90,429
Depreciation				\$ 155,534	155,534
Auxiliary enterprises	84,737	130,212			214,949
Other operating expense		923			923
	\$ 1,882,933	\$ 782,030	\$ 81,771	\$ 155,534	\$ 2,902,268

14. Subsequent Event

On September 16, 2010, the University issued General Obligation Taxable Bonds, Series 2010B and Special Purpose Revenue Bonds, Series 2010A in the amounts of \$41,720 and \$111,400, respectively, in accordance with resolutions of the Board of Regents adopted on November 14, 2008, November 13, 2009, and July 7, 2010 collectively. The bond proceeds will fund the construction and/or renovation of one or more biomedical science research facilities.

For more information related to long-term debt, refer to Note 5.

15. 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 on an accrual basis. 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% – 5.15% 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.

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.

Beneficial Interest in Trusts

UMF has beneficial interests in charitable remainder, lead, and perpetual trusts that are held by other entities such as banks or charitable organizations. UMF records its interest in these trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust. Because of the complex issues related to collecting the data

for these transactions, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of UMF's rights, and determination of the valuation of future payments.

Minnesota Medical Foundation

Contributions

Contributions, which include pledges, are recognized as revenue 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 3.50% to 5.40%. 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 fundraising 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.

Split-Interest Agreements

The split-interest agreements include charitable remainder and lead trusts, charitable gift annuities and a perpetual trust. MMF recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed.

When MMF is the trustee, the contribution amount is the difference between the fair value of assets received and the present value of the future cash flows expected to be paid to the designated beneficiaries. MMF recognizes a liability calculated as the net present value of estimated future cash disbursements to be paid to other beneficiaries. This liability is included in split-interest agreement liabilities on the statement of financial position. These assets are invested primarily in equity and fixed income mutual funds.

When MMF is not the trustee, the contribution amount is the present value of expected future cash flows from split-interest agreements.

Interest in Charitable Trusts

MMF is the beneficiary of a perpetual trust. Under the terms of this trust agreement dated November 27, 1944, MMF will receive a continual stream of quarterly payments equal to 5% annually of the fair value of the trust. Two additional trusts are currently making distributions to other beneficiaries. After the lives of these beneficiaries, these trusts will discontinue as separate trusts and roll over into the perpetual trust dated November 27, 1944. MMF is not the trustee on any of these trusts. Using a discount rate of 4.8%, the present value of future benefits to be received by MMF was estimated to be \$22,372 at June 30, 2010. MMF received payments from the trust totaling \$95 for the year ended June 30, 2010.

Interest in Charitable Lead Trusts

MMF is the beneficiary of two charitable lead trusts established during fiscal year 2000. MMF is not the trustee on either of these trusts. The first trust distributes \$440 annually to MMF. Based on current market valuations, the final payment is estimated in 2014. The second trust distributes 9% of the fair value of the trust at the beginning of each year over a period of 20 years. Using a discount rate of 4.8%, the present value of future benefits to be received by MMF was estimated to be \$3,088 at June 30, 2010. MMF received payments from the trusts totaling \$661 for the year ended June 30, 2010.

Investments

University of Minnesota Foundation

Investments in cash equivalents, corporate bonds, other fixed income securities, equity securities, and Treasury inflation protected securities with readily determinable fair values are reported at fair value based on quoted market prices (traditional structures). Investments held in alternative structures are recorded at net asset values provided by external investment managers as a practical expedient in determining fair value. Because such investments are not readily marketable, the estimated value is subject to uncertainty and therefore may differ materially from the value that would have been used had a ready market for such investments existed.

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.

Receivables from pending liquidations represent sales of investments made prior to the end of the fiscal year, but settled after the fiscal year end.

The investments on June 30, 2010, are summarized as follows:

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	\$ 55,281		
Fixed income	118,222	\$ 38,469	
Global equity	34,185	150,545	
Hedge funds		346,585	
Natural resources		105,313	
Treasury inflation protected securities (TIPS)	115,683		
Real Estate		62,490	
Venture Capital		272,796	
Subtotal	323,371	976,198	1,299,569
Other investments not categorized above			32,384
Less charitable gift annuities reported separately			(25,174)
Total			\$ 1,306,779

Fixed income investments include high yield bonds, bank loans, mortgage, and related securitizations.

Investments held in traditional structures represent those held directly by 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.

Net asset values provided by external investment managers for alternative structures include estimates, appraisals, assumptions, and methods that are reviewed by management. It is possible that the redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of UMF's interests in the funds. UMF has \$976,198 of investments in alternative structures which are reported at net asset value. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Minnesota Medical Foundation

A substantial portion of the valuations included in the financial statements are provided to MMF by third parties and are not calculated by MMF. These third parties follow generally accepted accounting principles (GAAP). In accordance with these principles, investments are carried at fair value based on quoted market prices or are recorded at approximate fair value based on financial models of hypothetical transactions.

Some valuations may also be determined and approved by the managers or valuation committees of the funds in which MMF invests. The fair value assigned to a particular security by the fund does not necessarily reflect the amount that would be realized in the current illiquid market. In addition, in light of the judgment involved in fair value decisions, there can be no assurance that a fair value assigned to a particular security by the fund is accurate.

MMF invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments as of June 30, 2010, are summarized as follows:

	Total
Cash and cash equivalents	\$ 36,593
Treasury inflation protected securities (TIPS)	20,417
Fixed income corporate bonds	34,073
Municipal bonds	361
U.S. equity	65,202
Foreign equity	36,161
Hedge Funds	49,673
Global distressed debt	3,900
Private equity	1,266
Foreign private equity	1,720
Venture capital	956
Natural resources & commodities	9,632
Subtotal	259,954
Less investments loaned to broker	(4,037)
Total	\$ 255,917

Investments include funds held for the custody of others of \$1,425 as of June 30, 2010.

Net investment return for the year ended June 30, 2010, consisted of the following:

Interest and dividend income	\$ 4,969
Net realized and unrealized investment gains	15,811
Subtotal	20,780
Less external investment manager and consultant fees	(427)
Total	\$ 20,353

Fair Value Measurements

University of Minnesota Foundation

As of July 1, 2008 UMF adopted FASB ASC 820 which established a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value

measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table summarizes UMF's financial assets measured at value on a recurring basis at June 30, 2010:

	Fair value measurements using			Total fair value of assets at June 30, 2010
	Level 1	Level 2	Level 3	
Investments				
Cash and cash equivalents	\$ 55,280			\$ 55,280
Fixed income:				
Asset backed securities		\$ 13,630		13,630
Mortgages		14,523		14,523
Alternative structures			\$ 38,469	38,469
Corporate bonds		8,405		8,405
Government		80,188		80,188
Other		1,476		1,476
Global equity:				
Small cap	6,210		3,436	9,646
Large cap	27,666			27,666
International equities	309			309
Alternative structures			147,109	147,109
Hedge funds			346,586	346,586
Natural resources			105,313	105,313
Real estate			62,490	62,490
Treasury inflation protected securities (TIPS)		115,683		115,683
Venture capital			272,796	272,796
Other investments	2		32,382	32,384
Total investments	\$ 89,467	\$ 233,905	\$ 1,008,581	\$ 1,331,953
Gift annuities not categorized above	\$ 1,703			\$ 1,703
Receivables from pending liquidation		\$ 26,021		26,021
Beneficial interest in perpetual trusts			\$ 22,371	22,371
Beneficial interest in trusts			2,886	2,886

The changes in investments measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows:

	Beginning balance at July 1, 2009	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2010	Net change in unrealized gain (losses) included in change in net assets for the period relating to investments held at June 30, 2010
Fixed income	\$ 36,171		\$ 6,656	\$ 10,882	\$ (15,240)	\$ 38,469	\$ 6,656
Global equity	82,561	\$ 660	11,396	69,456	(13,528)	150,545	12,013
Hedge funds	284,109		26,168	98,663	(62,354)	346,586	26,030
Natural resources	89,519		12,158	10,816	(7,180)	105,313	12,158
Real estate	62,049		(10,458)	14,113	(3,214)	62,490	(10,457)
Private Equity	224,977		37,994	30,577	(20,753)	272,795	37,988
Other investments	31,560	6	(42)	896	(37)	32,383	1,540
Total	\$ 810,946	\$ 666	\$ 83,872	\$ 235,403	\$ (122,306)	\$ 1,008,581	\$ 85,928

The changes in other investments or financial assets measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows:

	Beginning balance at July 1, 2009	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2010	Net change in unrealized gain (losses) included in change in net assets for the period relating to investments held at June 30, 2010
Investment collateral	\$ 22,251				\$ (22,251)	\$ -	\$ -
Beneficial interest in trusts	23,638	\$ 1,619				25,257	1,619

Minnesota Medical Foundation

MMF follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. Level 1 includes common and preferred stock traded on active exchanges, such as the New York Stock Exchange, as well as overnight repurchase agreements, short term commercial paper, money market

mutual funds, and U.S. Treasury obligations that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued using quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes asset backed securities, corporate bonds, certificates of deposit, municipal bonds, and hedge funds as noted in the disclosure in MMF’s footnote 5, Fair Value of Financial Instruments.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes global distressed debt, private equity, venture capital, natural resources, real estate, interests in charitable trusts, interests in charitable lead trusts, and interests in commercial annuity contracts.

The carrying amount of cash, accounts payable and accrued liabilities, grants payable, and investments held for custody of others approximate fair value because of the short maturity of those instruments. Investments in equity and debt securities and equity mutual funds are carried at fair value based on quoted market prices. Investments in limited partnerships are carried at fair value determined by the partnerships’ general partner. Although the custodial bank stated the investment collateral would be valued at quoted market prices the investment collateral and amounts payable under investment loan agreement are reported at fair value based on quoted market prices of the underlying investment or, in the absence of quoted market prices, valuations provided by the securities lending agent.

Interests in charitable trusts, charitable lead trusts, commercial annuity contracts, and pledges receivable are recorded at fair value using the present value of the estimated expected future cash flows. Student loans receivable approximates fair value because the related interest rates are not significantly different than current market rates. Split-interest agreement liabilities are carried at the present value of the estimated expected future cash flows using discount rates assumptions established upon initial recognition of the liability.

The following table presents MMF’s financial assets that are measured at fair value on a recurring basis at June 30, 2010 consistent with the fair value hierarchy provisions of SFAS No. 157.

Assets	Level 1	Level 2	Level 3	Total
Investments	\$ 9,830	\$ 197,910	\$ 15,620	\$ 223,360
Investments collateral	866	722	608	2,196
Investment held for unitrusts, annuity trust, and gift annuities	9,596	122		9,718
Interest in charitable trusts			22,372	22,372
Interest in charitable lead trusts			3,088	3,088
Interest in commercial annuity contracts			708	708
Total financial assets	\$ 20,292	\$ 198,754	\$ 42,396	\$ 261,442

At June 30, 2010, MMF did not have any financial liabilities measured at fair value on a recurring basis.

The following table provides a summary of changes in fair value of MMF's Level 3 financial assets for the year ended June 30, 2010.

	Investments	Investment collateral	Interest in charitable trusts	Interest in charitable lead trusts	Interest in commercial annuities	Total Level 3 assets
Balance July 1, 2009	\$ 8,481	\$ 818	\$ 21,642	\$ 3,280	\$ 757	\$ 34,978
Net investment return	(2,496)	121	218			(2,157)
Change in value of SIA's			607	469	57	1,133
Net purchase and sales	9,635	(331)	(95)	(661)	(106)	8,442
Net transfers out						-
Balance June 30, 2010	\$ 15,620	\$ 608	\$ 22,372	\$ 3,088	\$ 708	\$ 42,396

Securities Lending

Minnesota Medical Foundation

MMF participates in securities lending through a program run by its custodial bank. Notice of exit from the program has been issued to the custodial bank. On September 18, 2008 the securities lending program informed MMF that they were taking action to move pro rata portions of the securities held in the collateral trusts into a separate segregated account for MMF. Additionally, on September 19, 2008 the securities lending program informed all clients that they would implement a disaggregation of the Business Trusts into separate client accounts.

Under the terms of its securities lending agreement, the program requires brokers who borrow securities from MMF to provide collateral of a value at least equal to 102% of the fair value of the loaned securities and accrued interest, if any. This collateral is then reinvested on behalf of MMF by the custodial bank.

The custodial bank has stated that the prime considerations of the collateral pools in which the collateral has been reinvested are "safety of principal and liquidity requirements," including "daily liquidity." Many of the securities in these collateral pools are illiquid, however, which means that there is no active market for them and they cannot be sold at current valuations. In addition, some of the securities in these collateral pools are subject to credit risk, including certain securities that are in receivership. Therefore, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Valuations of the collateral pools are provided to MMF by the custodial bank. For purposes of determining the values of collateral investments reflected on a balance sheet, the custodial bank uses financial models or other inputs where quoted prices in an active market are not available. Such valuations reflect hypothetical transactions, are subject to uncertainties, and accordingly do not reflect the amount that would be realized in a current sale. In addition, in light of the judgment involved in the fair value decisions by the custodial bank, and given the current market conditions, the illiquidity of many of the securities in the collateral pool, and the credit risk associated with securities in the collateral pools, there can be no assurance that a fair value assigned to a particular security by the custodial bank is accurate.

MMF had equity and fixed income securities with fair values of \$4,037 on loan at June 30, 2010. MMF reflects the collateral received for securities on loan as an asset and its obligation to return the

collateral as a liability on its statement of financial position. An asset of \$2,196 and the related liability representing the obligation to return collateral received of \$4,120 are reflected on the statement of financial position as of June 30, 2010.

In 2008, MMF, along with three other nonprofit organizations, filed suit against Wells Fargo Bank for a number of claims related to the bank's Securities Lending Program. In June 2010, a jury found the bank liable for breach of fiduciary duty and violation of the Minnesota Consumer Fraud Act. The court subsequently entered judgment for MMF for \$5,947. An estimate of a final amount to be paid to MMF is unknown due to post trial proceedings.

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 donor that 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 are available as of June 30, 2010, for the following purposes.

The portion of unexpended investment return generated from donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of:

Capital improvement/facilities	\$ 6,287
Faculty support	6,286
Scholarships and fellowships	59,507
Lectureships, professorships, and chairs	120,360
College program support	53,900
Research	6,991
Other	1,536
Subtotal	254,867

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	\$ 70,344
Faculty support	9,633
Scholarships and fellowships	102,860
Lectureships, professorships, and chairs	31,992
College program support	182,632
Research	23,383
Trusts	8,213
Other	7,071
Subtotal	436,128
Total temporarily restricted net assets	\$ 690,995

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances, and purposes the income are expendable to support, as of June 30, 2010, are as follows:

Capital improvement/facilities	\$ 3,623
Faculty support	14,087
Scholarships and fellowships	246,304
Lectureships, professorships, and chairs	178,501
College program support	58,142
Research	8,754
Trusts	33,728
Other	1,628
Total	\$ 544,767

Minnesota Medical Foundation

MMF follows an accounting standard that provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The standard also expands disclosures about an organization's endowment funds (both donor restricted and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Minnesota adopted UPMIFA effective August 1, 2008. The Foundation has adopted accounting for the year ending June 30, 2009. This adoption did not result in any reclassification of net assets to conform to the required presentation. The Foundation, on the advice of legal counsel, has concluded that the Foundation's past and current accounting practices are consistent with the legal

requirements of UPMIFA and result in a financial statement presentation that clearly reflects the net assets of the endowment. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of MMF and changes therein are classified and reported as follows:

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 are available as of June 30, 2010, for the following purposes:

Medical School - Twin Cities	\$ 75,192
Student scholarships and support	7,994
Academic Health Center	112,518
Faculty grants and awards	9,492
School of Public Health	2,186
Medical School - Duluth	1,384
Total	\$ 208,766

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% of the average market value over 20 trailing quarters) are reinvested and permanently restricted by MMF. The permanently restricted net asset balances, and purposes the income is expendable to support, as of June 30, 2010, are as follows:

Medical School - Twin Cities	\$ 106,530
Student scholarships and support	26,951
Academic Health Center	22,905
Faculty grants and awards	6,528
School of Public Health	6,977
Medical School - Duluth	1,368
Total	\$ 171,259

Guarantee Agreement and Financing Agreements

University Gateway Corporation

Guarantee Agreement

The University of Minnesota Foundation guarantees the Series 1997, 2002, 2006, and 2009 bonds. Gateway pays a credit enhancement fee equal to 0.5% (50 basis points) of the outstanding balance on Series 1997, 2002, and 2006 and 0.65% (65 basis points) on Series 2009. The fee is calculated and paid on a semi-annual basis.

Gateway recorded \$311 and \$220 of bond guarantee fee expense paid to the University of Minnesota Foundation for the years ended June 30, 2010 and 2009, respectively. The amount is 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 1997B, Series 2002, Series 2006, and Series 2009 are collateralized by substantially all the assets of Gateway Corporation, 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 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%. 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 years ended June 30, 2010 and 2009 is approximately \$438 and \$291, respectively, paid to the bank. 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 an unrealized loss of approximately \$746 and \$937 for the years ended June 30, 2010 and 2009, respectively.

Gateway Corporation holds these derivative instruments for the fixed interest rate certainty they provide, and therefore entered into interest rate swap agreement to fix the rate of interest on the bond as follows, as of June 30, 2010:

<u>Revenue Bonds</u>	<u>Notional Amounts</u>	<u>Maturity Date</u>	<u>Weighted Average Interest Rate</u>
Series 1997B	12,000	2025	3.93%

The swap agreement contains the same payment dates as the corresponding original or expected issue. The fair values of the swap agreements are included as a liability on the statement of financial position in the amounts of \$1,405 and \$659 at June 30, 2010 and 2009, respectively. The fair value of the interest rate swap agreement represents the estimated amount the Corporation would pay to terminate the agreement.

Approximate amounts payable under financing agreements at June 30, 2010 and 2009 consisted of the following:

	2010	2009
City of Minneapolis revenue bonds, Series 1997B, with interest at a variable rate, principal due December 2027	\$ 15,000	\$ 15,000
City of Minneapolis revenue bonds, Series 2002, with interest at a variable rate, principal due June 2032	7,350	7,350
City of Minneapolis revenue bonds, Series 2006, with interest ranging from 4.00% to 4.50%, maturing serially from December 2006 through December 2031	20,735	21,305
City of Minneapolis revenue bonds, Series 2009, with interest at a variable rate, principal due in December 2040	10,500	
Subtotal	53,585	43,655
Less discount on Series 2006 bond	(77)	(81)
Total	\$ 53,508	\$ 43,574

Fiscal years ending June 30

2011	\$ 590
2012	615
2013	640
2014	665
2015	695
Thereafter	50,380
Total	\$ 53,585

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

Required Supplementary Information

- 89 Schedules of Funding Progress for Supplemental
Benefits Plan and Other Postemployment Benefits

Required Supplementary Information (RSI) (Unaudited)

Years ended June 30, 2010 and 2009 (in thousands)

Schedule of Funding Progress for the SBP Plan

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2009	\$3,252	\$6,083	\$2,831	53.46%	\$1,345	210.48%
7/1/2008	3,890	7,074	3,184	54.99%	1,132	281.27%
7/1/2007	4,597	8,497	3,900	54.10%	1,096	355.84%

Additional information related to the SBP Plan is provided in Note 6.

Schedule of Funding Progress for OPEB

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2010	\$ -	\$88,936	\$88,936	0.00%	\$1,189,710	7.48%
7/1/2009	-	78,866	78,866	0.00%	1,159,736	6.80%
7/1/2008	-	77,408	77,408	0.00%	1,095,615	7.07%

Additional information related to OPEB is provided in Note 11.

Supplemental Schedules
for the Years Ended June 30, 2010 and 2009

- 91 Independent Auditors' Report on Additional Information

- 92 Statements of Net Assets by Campus

- 94 Statements of Revenues, Expenses, and Changes in Net Assets by Campus

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as of and for the year ended June 30, 2010 taken as a whole. The accompanying schedules of net assets by campus, and of revenues, expenses, and changes in net assets by campus as of and for the years ended June 30, 2010 and 2009 (unaudited), which are the responsibility of the University's management, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying schedules of net assets by campus, and of revenues, expenses, and changes in net assets by campus as of and for the year ended June 30, 2010 have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements as of and for the year ended June 30, 2010 and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The basic consolidated financial statements for the year ended June 30, 2009 were audited by other auditors. The accompanying schedules of net assets by campus, and of revenues, expenses, and changes in net assets by campus as of and for the years ended June 30, 2009 (unaudited) have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte + Touche LLP

October 28, 2010

Statements of Net Assets by Campus

June 30, 2010 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	\$ (1,100)	\$ 45,391	\$ 1,746	\$ 6,513	\$ 207,127	\$ 259,677
Short-term investments					30,000	30,000
Receivables, net	1,542	10,406	1,062	610	252,435	266,055
Inventories	138	2,097	238		19,978	22,451
Student loans receivable, net	130	1,722	241		7,956	10,049
Prepaid expenses and deferred charges					10,583	10,583
Other assets					184	184
Total current assets	710	59,616	3,287	7,123	528,263	598,999
Noncurrent assets						
Restricted cash and cash equivalents					30,903	30,903
Investments	3,266	78,934	3,934		1,272,452	1,358,586
Receivables, net			65		411	476
Student loan receivables	624	9,347	1,154		44,495	55,620
Prepaid expenses and deferred charges					3,407	3,407
Other assets					24	24
Capital assets, net	40,130	247,088	64,415	24,887	2,155,344	2,531,864
Total noncurrent assets	44,020	335,369	69,568	24,887	3,507,036	3,980,880
Total assets	44,730	394,985	72,855	32,010	4,035,299	4,579,879
Liabilities						
Current liabilities						
Accounts payable	573	5,044	926	207	127,650	134,400
Accrued liabilities and other	1,520	19,996	2,807	631	268,820	293,774
Unearned Income	72	1,281	18	32	58,972	60,375
Long term liabilities - current portion					377,501	377,501
Total current liabilities	2,165	26,321	3,751	870	832,943	866,050
Noncurrent liabilities						
Accrued liabilities and other	1,171	14,814	2,180	65	112,713	130,943
Unearned income					674	674
Long term liabilities					578,863	578,863
Total noncurrent liabilities	1,171	14,814	2,180	65	692,250	710,480
Total liabilities	3,336	41,135	5,931	935	1,525,193	1,576,530
Net Assets						
Unrestricted	(4,443)	24,203	(6,169)	(3,109)	615,825	626,307
Restricted						
Expendable	157	(898)	(1,879)	2,947	511,799	512,126
Nonexpendable	1,026	46,369	936		194,210	242,541
Invested in capital assets, net of related debt	44,654	284,176	74,036	31,237	1,188,272	1,622,375
Total net assets	\$ 41,394	\$ 353,850	\$ 66,924	\$ 31,075	\$ 2,510,106	\$ 3,003,349

Statements of Net Assets by Campus

June 30, 2009 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 2,940	\$ 28,735	\$ (481)	\$ 5,367	\$ 238,343	\$ 274,904
Short-term investments					44,704	44,704
Receivables, net	1,497	9,407	1,602	603	239,225	252,334
Inventories	154	1,974	451		20,565	23,144
Student loans receivable, net	99	1,437	217		6,299	8,052
Prepaid expenses and deferred charges			42		1,370	1,412
Other assets					6,990	6,990
Total current assets	4,690	41,553	1,831	5,970	557,496	611,540
Noncurrent assets						
Restricted cash and cash equivalents					51,416	51,416
Investments	4,068	82,390	4,229		1,092,318	1,183,005
Receivables, net					598	598
Student loan receivables	599	10,565	1,359		46,878	59,401
Prepaid expenses and deferred charges					2,986	2,986
Other assets					48	48
Capital assets, net	31,081	210,916	54,013	19,820	2,155,591	2,471,421
Total noncurrent assets	35,748	303,871	59,601	19,820	3,349,835	3,768,875
Total assets	40,438	345,424	61,432	25,790	3,907,331	4,380,415
Liabilities						
Current liabilities						
Accounts payable	79	3,974	515	216	118,914	123,698
Accrued liabilities and other	2,012	20,437	2,906	365	264,709	290,429
Unearned Income	85	832	5	3	65,626	66,551
Long term liabilities - current portion					488,914	488,914
Total current liabilities	2,176	25,243	3,426	584	938,163	969,592
Noncurrent liabilities						
Accrued liabilities and other	1,051	13,712	1,937	28	96,938	113,666
Unearned income					878	878
Long term liabilities					464,458	464,458
Total noncurrent liabilities	1,051	13,712	1,937	28	562,274	579,002
Total liabilities	3,227	38,955	5,363	612	1,500,437	1,548,594
Net Assets						
Unrestricted	3,843	48,972	167	(2,389)	512,401	562,994
Restricted						
Expendable	1,306	5,609	(2,514)	2,446	427,796	434,643
Nonexpendable	1,027	42,757	1,036		197,786	242,606
Invested in capital assets, net of related debt	31,035	209,131	57,380	25,121	1,268,911	1,591,578
Total net assets	\$ 37,211	\$ 306,469	\$ 56,069	\$ 25,178	\$ 2,406,894	\$ 2,831,821

Statements of Revenues, Expenses, and Changes in Net Assets by Campus
Year ended June 30, 2010 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	\$ 6,132	\$ 75,474	\$ 6,929	\$ 1,586	\$ 486,242	\$ 576,363
Federal grants and contracts	708	7,744	465		439,391	448,308
State and other government grants	113	3,431	88	397	57,704	61,733
Nongovernmental grants and contracts	691	3,675	289	(380)	232,554	236,829
Student loan interest income	29	272	53		1,636	1,990
Sales and services of educational activities	625	3,798	291	20	194,027	198,761
Auxiliary enterprises, net	3,024	33,920	5,110	42	281,972	324,068
Other operating revenues					2,304	2,304
Total operating revenues	11,322	128,314	13,225	1,665	1,695,830	1,850,356
Expenses						
Operating expenses						
Educational and general						
Instruction	7,243	56,544	11,311	619	604,752	680,469
Research	256	18,097	882	273	612,445	631,953
Public service	685	6,154	819	6	205,348	213,012
Academic support	2,306	19,283	4,460	3,707	332,407	362,163
Student services	2,405	12,225	3,529	1,057	82,155	101,371
Institutional support	2,006	11,983	2,406	55	217,858	234,308
Operation and maintenance of plant	2,422	17,017	4,815		218,867	243,121
Scholarships and fellow ships	378	1,815	865	265	47,475	50,798
Depreciation	1,471	10,199	2,560	1,512	153,782	169,524
Auxiliary enterprises	4,220	29,069	5,994		173,918	213,201
Other operating expenses, net	(11)	(3)	10		473	469
Total operating expenses	23,381	182,383	37,651	7,494	2,649,480	2,900,389
Operating Loss	(12,059)	(54,069)	(24,426)	(5,829)	(953,650)	(1,050,033)
Nonoperating Revenues (Expenses)						
Federal appropriations	650	7,912	1,065		55,321	64,948
State appropriations	10,981	42,554	19,896	7,961	569,958	651,350
Grants	3,678	22,183	5,658		173,775	205,294
Gifts	440	4,446	585	51	120,486	126,008
Investment income (losses)	197	4,121	250		32,043	36,611
Net increase (decrease) in the fair market value of investments		(7)			18,197	18,190
Interest on capital asset-related debt					(30,876)	(30,876)
Other nonoperating revenues, net	(2)	194	(15)		2,283	2,460
Net nonoperating revenues	15,944	81,403	27,439	8,012	941,187	1,073,985
Income (Loss) Before Other Revenues	3,885	27,334	3,013	2,183	(12,463)	23,952
Capital appropriations					98,555	98,555
Capital grants and gifts		793	117		40,043	40,953
Additions to permanent endowments		3,614	9		4,445	8,068
Transfers	3,518	33,981	11,060	5,365	(53,924)	-
Other internal charges	(3,220)	(18,341)	(3,344)	(1,651)	26,556	-
Total other revenues (expenses)	298	20,047	7,842	3,714	115,675	147,576
Increase (Decrease) in Net Assets	4,183	47,381	10,855	5,897	103,212	171,528
Cumulative effect of change in accounting principle						
Net assets at beginning of year	37,211	306,469	56,069	25,178	2,406,894	2,831,821
Net assets at end of year	\$ 41,394	\$ 353,850	\$ 66,924	\$ 31,075	\$ 2,510,106	\$ 3,003,349

Statements of Revenues, Expenses, and Changes in Net Assets by Campus

Year ended June 30, 2009 (in thousands)

(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	\$ 6,949	\$ 87,600	\$ 8,707	\$ 795	\$ 486,597	\$ 590,648
Federal grants and contracts	774	8,120	369		389,540	398,803
State and other government grants	103	2,361	15	(6)	43,019	45,492
Nongovernmental grants and contracts	161	3,151	241	10	214,151	217,714
Student loan interest income	28	254	41		1,574	1,897
Sales and services of educational activities	636	4,148	206	13	192,354	197,357
Auxiliary enterprises, net	2,906	31,470	4,216	19	250,797	289,408
Other operating revenues	9	96	15		1,848	1,968
Total operating revenues	11,566	137,200	13,810	831	1,579,880	1,743,287
Expenses						
Operating expenses						
Educational and general						
Instruction	6,951	56,534	11,504	584	609,367	684,940
Research	381	16,526	361	14	582,813	600,095
Public service	847	6,899	540	133	194,688	203,107
Academic support	2,318	18,079	5,201	4,286	350,096	379,980
Student services	2,196	12,185	3,046	128	81,881	99,436
Institutional support	2,172	11,748	2,657	225	211,535	228,337
Operation and maintenance of plant	2,846	20,773	3,755	74	217,090	244,538
Scholarships and fellow ships	1,372	10,267	1,527	149	77,114	90,429
Depreciation	1,246	10,414	2,125	1,337	140,412	155,534
Auxiliary enterprises	4,024	30,904	5,360	(27)	174,688	214,949
Other operating expenses, net	3	(44)	(16)		980	923
Total operating expenses	24,356	194,285	36,060	6,903	2,640,664	2,902,268
Operating Loss	(12,790)	(57,085)	(22,250)	(6,072)	(1,060,784)	(1,158,981)
Nonoperating Revenues (Expenses)						
Federal appropriations	12	44	40		22,313	22,409
State appropriations	12,405	52,894	20,547	8,308	613,652	707,806
Grants	2,702	15,191	4,199		135,616	157,708
Gifts	644	4,820	463	31	123,254	129,212
Investment income (losses)	195	3,845	242		(116,595)	(112,313)
Net increase (decrease) in the fair market value of investments		7			(173,201)	(173,194)
Interest on capital asset-related debt					(28,755)	(28,755)
Other nonoperating revenues, net	(5)	3	7		(115)	(110)
Net nonoperating revenues	15,953	76,804	25,498	8,339	576,169	702,763
Income (Loss) Before Other Revenues	3,163	19,719	3,248	2,267	(484,615)	(456,218)
Capital appropriations					65,913	65,913
Capital grants and gifts	5	890	1,090		37,213	39,198
Additions to permanent endowments		4,496	6		4,546	9,048
Transfers	(310)	2,547	(156)	(2,536)	455	-
Other internal charges	(3,338)	(18,407)	(3,434)	(1,564)	26,743	-
Total other revenues (expenses)	(3,643)	(10,474)	(2,494)	(4,100)	134,870	114,159
Increase (Decrease) in Net Assets	(480)	9,245	754	(1,833)	(349,745)	(342,059)
Cumulative effect of change in accounting principle	(48)	688	150	609	78,752	80,151
Net assets at beginning of year	37,739	296,536	55,165	26,402	2,677,887	3,093,729
Net assets at end of year	\$ 37,211	\$ 306,469	\$ 56,069	\$ 25,178	\$ 2,406,894	\$ 2,831,821



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

Agenda Item: Consent Report

review review/action action discussion

Presenters: Regent Clyde Allen

Purpose:

policy background/context oversight strategic positioning

To seek Board of Regents approval of items in the consent report, as required in Board of Regents Policy: *Reservation and Delegation of Authority*.

Outline of Key Points/Policy Issues:

Items for consideration:

- A. Report of the All-University Honors Committee
The President recommends approval of the All-U Honors recommendation forwarded to the Board of Regents in a letter dated November 30, 2010.
- B. Gifts
The President recommends approval of the Summary Report of Gifts to the University of Minnesota (attached).
- C. Summary of Expenditures
The President recommends approval of the Quarterly Summary of Expenditures reports (attached).

Background Information:

President's Recommendation for Action:

The President recommends approval of the Consent Report.

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

December 10, 2010 Regents Meeting

	<u>October</u>		<u>Year-to-Date</u>	
	<u>2010</u>	<u>2009</u>	<u>07/01/10 10/31/10</u>	<u>07/01/09 10/31/09</u>
U of M Gift Receiving	\$ 197,879	\$ 42,654	\$ 841,215	\$ 141,776
4-H Foundation	122,311	6,990	252,523	174,713
Arboretum Foundation	936,151	365,445	2,458,494	730,463
MN Medical Foundation	1,827,151	1,570,538	13,373,616	10,101,684
Univ of MN Foundation	<u>7,702,481</u>	<u>6,920,779</u>	<u>20,559,649</u>	<u>29,886,245</u>
Total Gift Activity	<u><u>\$ 10,785,973</u></u>	<u><u>\$ 8,906,406</u></u>	<u><u>\$ 37,485,497</u></u>	<u><u>\$ 41,034,881</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 2010

<u>Donor</u>	<u>Rec'd by</u>	<u>Gift/Pledge</u>	<u>Purpose of gift</u>
<u>\$1 Million and Over</u>			
Robert E. and Gail Buuck	UMF	Pledge	Northrop Revitalization Fund
<u>\$500,000 - \$1,000,000</u>			
3M Foundation Incorporated	UMF	Gift/Pledge	Various Colleges
<u>\$250,000 - \$500,000</u>			
Jennie H. Hsiao	UM	Pledge	Minnesota Landscape Arboretum
Mary S. Heiserman	MMF	Gift	Medicine
Dr. Robert W. Gore	UMF	Gift	College of Science and Engineering
The Mosaic Company	UMF	Pledge	Carlson School of Management
<u>\$100,000 - \$250,000</u>			
Shirley N. Mahowald Estate	UMF/UM	Gift	College of Education and Human Development, Minnesota Landscape Arboretum
Griselda Bee Hanlon Estate	UMF	Gift	College of Veterinary Medicine
Julia Neubart	MMF	Gift	Neurosurgery
Irene G. Steiner Estate	UM	Gift	Minnesota Landscape Arboretum
Scrooby Foundation	UM	Gift	Minnesota Landscape Arboretum
Theodore T. Wang Fund of Goldman Sachs Gives	UMF	Gift	College of Science and Engineering
<u>\$50,000 - \$100,000</u>			
The McKnight Foundation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Medtronic Foundation	UMF/MMF	Gift/Pledge	Various Colleges
Blue Cross Blue Shield of Minnesota Incorporated	UMF	Gift/Pledge	Scholarships, Carlson School of Management
Grace S. Overton	MMF	Gift	Ophthalmology
3M Company	UMF	Gift	Carlson School of Management, School of Dentistry
Independent School District 709	UMF	Gift	University of Minnesota, Duluth
Martin G. Weinstein	UM	Gift	University of Minnesota, Duluth
Otto Bremer Foundation	UM	Gift	4H Foundation
Sara G. Hogan and Randall J. Hogan III	UMF	Pledge	College of Veterinary Medicine

\$50,000 - \$100,000

The Institute for Basic and Applied Research in Surgery	MMF	Gift	Surgery
Curtis L. Carlson Family Foundation	UMF	Pledge	Carlson School of Management
Karen Sternal	UMF	Gift	College of Education and Human Development
Douglas W. and Louise Leatherdale	UMF	Gift	College of Veterinary Medicine
Anne M. Carey Estate	UMF	Gift	Unrestricted
Nitto Denko Corporation	UMF	Gift	College of Science and Engineering
SunChemical Corporation	UMF	Gift	College of Science and Engineering
United States Steel Foundation Incorporated	UMF	Gift	University of Minnesota, Duluth
William Van Dyke-Schwab Charitable Fund	UMF	Gift	Carlson School of Management

\$25,000 - \$50,000

Donald Helgeson and Sue Shepard	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Land O' Lakes Incorporated	UMF/UM	Gift	Carlson School of Management, College of Science and Engineering
Alan Weissman	UM	Gift	Weisman Art Museum
Danisco	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Kopp Family Foundation	UMF	Gift	Carlson School of Management
Colleen Kempenich Estate	UMF	Gift	College of Veterinary Medicine
F. R. Bigelow Foundation	UMF	Gift	College of Education and Human Development
John and Catherine Hill Education Fund-St. Paul Foundation	UMF	Gift	College of Education and Human Development
Katherine R. Lillehei Charitable Lead Annuity/Unitrust	UMF	Gift	School of Nursing
Ane Gerda Zahl Eriksson and Aled Rhys Jones	UMF	Gift	College of Education and Human Development
BP International	UMF	Gift	College of Science and Engineering
C. W. and Sharon Anderson	UMF	Pledge	University of Minnesota, Duluth
eBioscience Incorporated	MMF	Gift	Laboratory Medicine and Pathology
Institute for Integrative Health	UMF	Gift	Center for Spirituality and Healing
Boehringer Ingelheim Vetmedica Incorporated	UMF	Gift	College of Veterinary Medicine
Gary M. and Maureen C. Petrucci	UM	Gift	Minnesota Landscape Arboretum

\$25,000 - \$50,000

Pfizer Incorporated	UMF/UM	Gift	College of Veterinary Medicine, Minnesota Landscape Arboretum
Torsti P. Salo Estate	UMF	Gift	College of Biological Sciences
Richard A. Hargrave	UMF	Pledge	University of Minnesota, Morris
Adrian K. Almquist	MMF	Pledge	Medicine
Benjamin Y. H. and Helen Cheng Liu	UMF	Pledge	College of Liberal Arts
Brian E. Anderson Estate	UMF	Gift	College of Liberal Arts
James H. Michael	UMF	Gift	Law School
John B. Grotting	MMF	Gift	Scholarship Funds
Jon R. and Sharon M. Andresen	UMF	Pledge	Department of Intercollegiate Athletics
National MPS Society Incorporated	MMF	Gift	Pediatrics
Noveko International Incorporated	UMF	Gift	College of Veterinary Medicine
Robert A. Helvig	UMF	Gift	Carlson School of Management, College of Science and Engineering
Terence Fruth and Mary McEvoy Family Fund-Minneapolis Foundation	UMF	Gift	Law School
The Balcony Club	UMF	Gift	Department of Intercollegiate Athletics
Thomas M. Smith and Carol A. Shudlick-Smith	UMF	Pledge	Department of Intercollegiate Athletics
West Metro Learning Connections Incorporated	UMF	Pledge	College of Education and Human Development

\$10,000 - \$25,000

National Institutes of Health	MMF	Gift	Pediatrics
AVL Test Systems Incorporated	UMF	Gift	College of Science and Engineering
Ernestine Rathbun Pittelkow Estate	UM/MMF	Gift	Minnesota Landscape Arboretum, Medicine
Wisconsin Evangelical Lutheran Synod	UM	Gift	4H Foundation
Alice Warren Gaarden Fund- Minneapolis Foundation	UMF	Gift	College of Science and Engineering
Linda and Neil Schmidgall Charitable Foundation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Mardag Foundation	UMF	Gift	College of Education and Human Development
Narus Incorporated	UMF	Gift	College of Science and Engineering
Richard L. Brennan	MMF	Gift	Masonic Cancer Center, Raptor Center
Center for Computer-Assisted Legal Instruction	UMF	Gift	Law School

\$10,000 - \$25,000

Dr. Eva C. Keuls	UM	Gift	College of Liberal Arts
Bernard P. and Cindy L. Aldrich	UMF	Gift	College of Veterinary Medicine
George W. Taylor Charitable Trust	UMF	Gift	College of Science and Engineering
Microsoft Corporation	UMF	Gift	College of Science and Engineering
St. Jude Medical Incorporated	UMF	Gift	College of Science and Engineering
Anonymous	MMF	Gift	Neurology
Anonymous	MMF	Gift	OB/Gyn
Patrick and Aimee Butler Family Foundation	UMF	Pledge	Bell Museum of Natural History
Dow AgroSciences LLC	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Dakota County	UM	Gift	4H Foundation
Hazel P. Perkins Revocable Trust	UM	Gift	Minnesota Landscape Arboretum
McDonald's of Crookston	UMF	Pledge	University of Minnesota, Crookston
Frances M. Gillquist Estate	UMF	Gift	Carlson School of Management
Newport Laboratories Incorporated	UMF	Gift	College of Veterinary Medicine
Bedford Industries	UMF	Gift	College of Science and Engineering
Emily J. Oberlander	UMF	Gift	Department of Intercollegiate Athletics
Dr. Clifford D. and Carol Stiles	UMF	Gift	Office of International Programs
Ecolab Foundation	UMF	Pledge	Department of Intercollegiate Athletics
Dr. Alvin Zelickson	MMF	Gift	Dermatology
Dale L. and Becky Fredell	UMF	Pledge	Department of Intercollegiate Athletics
Andrew Cecere	UMF	Gift	Carlson School of Management
Bergren Family Foundation of the Minneapolis Foundation	UM	Gift	Minnesota Landscape Arboretum
Boker's Incorporated	UMF	Gift	Carlson School of Management
Calvin J. Roetzel	UMF	Gift	College of Liberal Arts
Community Leadership Fund-Minneapolis Foundation	UMF	Gift	Humphrey Institute of Public Affairs
David A. and Sheila F. Lein	UMF	Gift	School of Nursing
Dorsey and Whitney LLP	UMF	Gift	Humphrey Institute of Public Affairs
Drs. Wendy L. and John V. St. Peter	UMF	Gift	College of Pharmacy
Graham Foundation for Advanced Studies in Fine Arts	UMF	Gift	Graduate School
Honeywell International Incorporated	UMF	Gift	College of Science and Engineering
Ivan E. Reyes-Moraga	UMF	Gift	College of Science and Engineering
June B. Hendrickson	UMF	Gift	University of Minnesota, Duluth
Lorraine P. Jamar	MMF	Gift	OB/Gyn
Marilyn J. Salovich	MMF	Gift	Medicine

\$10,000 - \$25,000

MSP Corporation	UMF	Gift	College of Biological Sciences
P. and D. Kahn Philanthropic Fund- Jewish Community Fund	UMF	Gift	College of Science and Engineering
Polaris Industries Incorporated	UMF	Gift	Carlson School of Management
Richard P. Burke	UMF	Pledge	Department of Intercollegiate Athletics
W. M. Foundation	UMF	Gift	Center for Spirituality and Healing

\$5,000 - \$10,000

Bayer Incorporated	UMF	Gift	College of Veterinary Medicine
Justin M. Zavadil	UMF	Gift	Department of Intercollegiate Athletics
IBM International Foundation	UMF	Pledge	Various Colleges
Biomin America Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Lucius L. and Rhonda N. Fowler	UM	Gift	Minnesota Landscape Arboretum
Emerson Charitable Trust	UMF	Gift	Carlson School of Management
BASF Corporation	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Donald Weesner Foundation/US Bank Charitable Fund	UM	Gift	Minnesota Landscape Arboretum
Dr. Harrison G. Gough	UMF	Gift	College of Liberal Arts
Gold Country Incorporated	UMF	Gift	Department of Intercollegiate Athletics
Augustana Care Services	MMF	Gift	SPH Health Policy and Management
ConAgra Foods Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
NPD Group Incorporated	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Segetis Incorporated	UMF	Gift	College of Science and Engineering
H. William Walter	UMF	Gift	Department of Intercollegiate Athletics
Jane T. Adams	UMF	Gift	Department of Intercollegiate Athletics
Wound Ostomy and Continence Nurses Society Foundation	UMF	Gift	School of Nursing
Dennis L. Senneseth	UMF	Gift	Carlson School of Management
David L. Cole	UM	Gift	Minnesota Landscape Arboretum
Dr. Michael A. Strobel	UMF	Gift	College of Veterinary Medicine
Monsanto Fund	UM	Gift	4H Foundation
Next Generation Fund-Hugh J. Andersen Foundation	UMF	Gift	Raptor Center
Teambackers	UMF	Gift	University of Minnesota, Crookston
The Steven L. and Jan L. Kirchner Family Foundation	MMF	Gift	Masonic Cancer Center
Ronald S. Leafblad	UMF	Gift	Department of Intercollegiate Athletics
Agnes W. Strege	MMF	Gift	Masonic Cancer Center

\$5,000 - \$10,000

Bay State Milling Company	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Ben and Jeanne Overman Charitable Trust	MMF	Gift	Scholarship Funds
Ben's Buddies Incorporated	MMF	Gift	Pediatrics
Bonita M. Kozub-Frels	UMF	Gift	College of Liberal Arts
Catherine E. and G. David Tilman	UMF	Gift	College of Biological Sciences
CVS Caremark Charitable Trust Incorporated	UMF	Gift	College of Pharmacy
D. Stanton Korista	UM	Gift	Minnesota Landscape Arboretum
Daniel J. Gifford	UMF	Pledge	Law School
Dick and Joyce H. McFarland Family Fund-Minneapolis Foundation	UMF	Gift	Office of International Programs
Dorsey and Whitney Foundation	UMF	Gift	Weisman Art Museum
Dr. Paul N. Pazandak	UMF	Gift	Office of International Programs
Dr. Stanley C. Skadron	UMF	Gift	College of Veterinary Medicine
DSM Nutrition Organization	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
ExxonMobil Corporation	UMF	Gift	Carlson School of Management
GeoDigm Corporation	UMF	Gift	School of Dentistry
Gretchen L. F. Starks	UMF	Gift	College of Liberal Arts
Howard D. Mooers	UMF	Pledge	University of Minnesota, Duluth
James E. Johnson	UM	Gift	Minnesota Landscape Arboretum
Joel D. Maturi	UMF	Gift	Department of Intercollegiate Athletics
John A. and Pauline A. Stojevich	UMF	Pledge	University of Minnesota, Duluth
Life Management and Planning Institute	MMF	Gift	Family Medicine and Community Health
Lillian P. Lovelace	MMF	Gift	Neurosciences
Maurices Incorporated	UMF	Gift	University of Minnesota, Duluth
Meghann A. and Pat Harker	UMF	Gift	College of Veterinary Medicine
Minnesota Gastroenterology, PA	MMF	Gift	Medicine
MLAEA Charitable Fund-Sioux Falls Area Community Foundation	UMF	Gift	Department of Intercollegiate Athletics
New Pioneers	UMF	Gift	College of Liberal Arts
Patricia D. Buschette	UMF	Gift	College of Food, Agricultural and Natural Resource Sciences
Peter F. Pierce	MMF	Gift	Masonic Cancer Center
Prudential Rubloff Properties	UMF	Pledge	Department of Intercollegiate Athletics
Robert K. K. Pang	UMF	Gift	College of Science and Engineering
Rock County 4-H Federation	UM	Gift	4H Foundation
Rockwell Collins	UMF	Pledge	Office of International Programs

\$5,000 - \$10,000

Thomas L. Bergseth	UMF	Pledge	Department of Intercollegiate Athletics
Wesley R. and Sonja M. Swanson	UMF	Gift	College of Science and Engineering
William J. McGinnis	UMF	Gift	Law School
Zenas W. and Susanne L . Hutcheson	UMF	Gift	College of Liberal Arts

III

UNIVERSITY OF MINNESOTA
 BOARD OF REGENTS
 SUMMARY OF EXPENDITURES
 GENERAL OPERATIONS AND MAINTENANCE FUND
 THREE MONTHS ENDING SEPTEMBER 30, 2010

	FIRST QUARTER CURRENT YEAR		FIRST QUARTER PRIOR YEAR	
	CURRENT BUDGET 2010/11	REVENUES/ EXPENDITURES YTD 2010/11	CURRENT BUDGET 2009/10	REVENUES/ EXPENDITURES YTD 2009/10
		PERCENT EXPENDED		PERCENT EXPENDED
Beginning Balance (Prior Year Carryforward)				
Revenues				
Total Current Year Allocation	\$130,000	\$163,799	\$85,996	\$85,996
Net Transfers *	\$848,464	\$0	\$890,455	\$850,455
Total Resources	<u>\$1,128,027</u>	<u>\$1,012,263</u>	<u>\$976,451</u>	<u>\$936,451</u>
Expenditures				
Salaries	\$603,777	\$153,475	\$474,721	\$121,002
Fringe Benefits	\$212,277	\$52,175	\$150,227	\$39,187
Supplies, Expenses, Equipment	\$220,882	\$39,215	\$205,412	\$50,916
Total Expenditures	<u>\$1,036,936</u>	<u>\$244,865</u>	<u>\$830,360</u>	<u>\$211,105</u>
Ending Balance	<u>\$91,091</u>	<u>\$767,398</u>	<u>\$146,091</u>	<u>\$725,346</u>

*Funding for approved personnel expenditures.

UNIVERSITY OF MINNESOTA
 PRESIDENT'S OFFICE
 SUMMARY OF EXPENDITURES
 GENERAL OPERATIONS AND MAINTENANCE FUND
 THREE MONTHS ENDING SEPTEMBER 30TH, 2010 (1ST Quarter)
 (Unaudited)

	CURRENT YEAR			PRIOR YEAR		
	CURRENT BUDGET 2010/11	REVENUES/ EXPENDITURES YTD 2010/11	PERCENT EXPENDED	CURRENT BUDGET 2009/10	REVENUES/ EXPENDITURES YTD 2009/10	PERCENT EXPENDED
Beginning Balance (Prior Year Carry forward)	\$1,529,911	\$1,529,911		\$1,401,168	\$1,401,168	
Revenues						
Total Year Allocation	\$3,395,743	\$3,145,743		\$3,323,320	\$3,223,320	
Total Resources	<u>\$4,925,654</u>	<u>\$4,675,654</u>		<u>\$4,724,488</u>	<u>\$4,624,488</u>	
Expenditures						
President's Office Salaries	\$1,385,723	\$356,786	25.7%	\$1,340,869	\$370,038	27.6%
President's Office Fringe Benefits	\$779,902	\$122,208	15.7%	\$594,156	\$121,897	20.5%
Supplies, Expense, Equipment Ofc of the President-General Operations	\$200,322	\$35,887	17.9%	\$199,261	\$45,954	23.1%
Eastcliff Management Office Salaries	\$104,710	\$29,522	28.2%	\$100,677	\$25,250	25.1%
Eastcliff Management Office Fringe Benefits	\$41,989	\$9,087	21.6%	\$37,251	\$7,905	21.2%
Supplies, Expense, Equipment Eastcliff Management Ofc-General Operations	\$39,199	\$5,483	14.0%	\$39,223	\$5,881	15.0%
President's Travel&External Relations	\$14,100	\$2,848	20.2%	\$7,116	\$741	10.4%
Fund Transfers	\$24,808	\$40	0.0%			0.0%
President's Discretionary	\$1,049,680	\$276,934	26.4%	\$727,242	\$90,876	12.5%
University Wide Memberships	\$334,212	\$136,468	40.8%	\$334,212	\$188,350	56.4%
Total Expenditures	<u>\$3,974,645</u>	<u>\$975,264</u>	24.5%	<u>\$3,380,007</u>	<u>\$856,890</u>	25.4%
Ending Balance	<u>\$951,009</u>	<u>\$3,700,389</u>		<u>\$1,344,481</u>	<u>\$3,767,598</u>	

**UNIVERSITY OF MINNESOTA
EASTCLIFF OPERATIONS
SUMMARY OF EXPENDITURES
GENERAL OPERATIONS AND MAINTENANCE FUND
THREE MONTHS ENDING SEPTEMBER 30, 2010
(UNAUDITED)**

	CURRENT YEAR			PRIOR YEAR		
	CURRENT BUDGET 2010-11	REVENUES/ EXPENDITURES YTD 2010-11	PERCENT EXPENDED	PRIOR BUDGET 2009-10	REVENUES/ EXPENDITURES YTD 2009-10	PERCENT EXPENDED
Revenues						
Total Current Year Allocation	\$228,962	\$228,962		\$227,319	\$227,319	
Transfer from the General Contingency						
Total Resources	<u>\$228,962</u>	<u>\$228,962</u>		<u>\$227,319</u>	<u>\$227,319</u>	
Expenditures						
Household Maintenance						
Salaries, Fringes	\$20,481	\$5,886	28.7%	\$19,021	\$5,694	29.9%
Supplies, Expense, Equipment	<u>\$208,481</u>	<u>\$50,258</u>	<u>24.1%</u>	<u>\$208,298</u>	<u>\$45,847</u>	<u>22.0%</u>
Household Maintenance Total	\$228,962	\$56,144	24.5%	\$227,319	\$51,541	22.7%
Transfer to/(from) the Project Reserve		\$5,001 *				
Ending Balance	<u><u>\$0</u></u>	<u><u>\$167,817</u></u>		<u><u>\$0</u></u>	<u><u>\$175,778</u></u>	

* \$1,667 per month is transferred to Eastcliff reserve to build up a maintenance reserve. This transfer does not appear on the report for this quarter in the prior year, because 6 month's worth of reserves were recorded in December 2009.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

Agenda Item: Report of the Faculty Consultative Committee

review review/action action discussion

Presenters: Professor Kathryn VandenBosch

Purpose:

policy background/context oversight strategic positioning

To provide the Board of Regents with an update on the goals and accomplishments of the Faculty Consultative Committee throughout the year.

Outline of Key Points/Policy Issues:

Background Information:

It is customary for the chair of the Faculty Consultative Committee to provide quarterly updates to the Board of Regents.

FACULTY CONSULTATIVE COMMITTEE REPORT TO THE BOARD OF REGENTS December 10, 2010

Chair Allen, Vice Chair Cohen, Members of the Board, and President Bruininks, I am pleased to report on the activities of the Faculty Consultative Committee this fall. This has been a busy semester, and we expect the spring to continue in the same vein.

The FCC and other governance committees continue to work on revisions to policy. The Individual Conflict of Interest Policy was passed by the Senate in its meeting in late September. In December, the Policy on Appointments to Graduate Committees was brought to the Senate for action. We anticipate that many policies related to graduate education will pass through the Faculty Senate in the spring, on their way to the President's Policy Committee and eventually to the University's Policy Library. We also anticipate bringing forward changes to the Senate Policy on Reorganization, the Conflict Resolution Policy, and the Policy on Floating Holidays, among others, in due course.

As is our custom, the FCC has met frequently with President Bruininks, Provost Sullivan, and their chiefs of staff, both in committee and in separate meetings involving myself and Vice-Chair Chris Cramer. Our discussions have ranged over a wide variety of topics, but three themes have predominated: the compact process and strategic planning; University decisions concerning the film "Troubled Waters"; and the Enterprise Financial System (EFS).

The Compact Process: This year is widely seen as a pivotal year for the University's strategic planning, in large part due to fiscal challenges. A recurring theme for the FCC is to strive for clear understanding of the annual compact process as well as this year's planning by college Blue Ribbon Committees, and for transparency in budgetary decisions. We have discussed the Blue Ribbon Committee objectives with President Bruininks, and also have discussed metrics with Regents Allen and Cohen. Provost Sullivan has given us a short course in 'Compact 101' and apprised us of the decisions based on last year's compact process. He has issued an invitation to shadow him in compact meetings, and to date I have done so in meetings with the Office of the Vice President for Research and the Library. I plan to sit in on one or two compact meetings with academic units in the spring.

Troubled Waters: As the situation regarding the Bell Museum film "Troubled Waters" unfolded in September, we welcomed Provost Sullivan to an FCC meeting, where he affirmed support for academic freedom and communicated the decision to release the film as originally scheduled. The FCC subsequently visited with President Bruininks to convey faculty viewpoints concerning the handling of the film and identified questions for further study, in order to aid future actions. The Academic Freedom and Tenure Committee is working with the Provost to address questions dealing with procedures concerning academic freedom that currently require greater clarity.

EFS: Through routine meetings with department heads and chairs, the FCC learned of widespread concern over continued problems with the implementation of the new financial system, which we have communicated to the President. The FCC and the Senate Committee on Finance and Planning continue to gather information from academic units concerning specific difficulties and proposed solutions. This information is being shared with the Controller's Office.

The FCC has welcomed additional senior administrative officers to committee meetings.

- Vice President Kathy O'Brien and General Counsel Mark Rotenberg met with us in October to summarize the history and progress of planning for Light Rail transit through campus, with an emphasis on lessons learned from external negotiations.
- Vice President Karen Himle and others from University Relations joined us in October to discuss their plans for enhancing internal communications within the University. These ideas are of great interest to the Committee, which is working on a proposal for a new governance committee on University Relations.
- Senior Vice President Cerra made his last visit to the Committee in October. He took the occasion to look ahead to challenges and opportunities for the Academic Health Center in coming years. We are now looking forward to welcoming Dr. Friedman in January to discuss transitions in the AHC.
- In November, we welcomed Channing Riggs, from Federal Relations, to discuss her post-election perspective on federal issues that may affect the University.

Interactions with the coordinate campuses have involved visits in both directions. We visited the Morris campus in August, and recently welcomed Chancellor Johnson for an update on campus concerns at a meeting of the FCC. Members of the FCC have visited the Rochester campus in December to talk with faculty about governance, and we will also welcome Chancellor Lehmkuhle for a report on his campus later this month.

Finally, the FCC was very pleased to be involved in the public phase of the selection of the next President of the University. In October, we appreciated the chance to talk with Chair Allen and Vice Chair Cohen about the anticipated visit of a finalist(s) to campus, and we were pleased to note our shared values concerning leadership qualities sought in the next president. Subsequently, the FCC had an open and engaging discussion with Dr. Eric Kaler during his visit to campus, and we subsequently wrote to you to offer our strong support for his appointment. Among his many positive attributes, the Committee was pleased to note Dr. Kaler's commitment to consultation and his interest in our governance processes. I would like to thank Chair Allen and Vice Chair Cohen for their leadership, and all of the members of the Board for their roles in recruiting President-elect Kaler. In particular, I would like to thank Regent Simmons for her excellent work leading the Presidential Search Advisory Committee. The FCC stands ready to work with President-elect Kaler during his transition and beyond.

Respectfully submitted,

Kathryn A. VandenBosch
2010-2011 Chair, Faculty Consultative Committee
Professor and Head, Plant Biology



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

Agenda Item: Student Representatives Report to the Board of Regents

review review/action action discussion

Presenters: Matt Privratsky, 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:

- Shared Governance
- Student Needs (Learning Outcomes/Non-Financial Needs/Career Services)

A report from the campus student governance organizations is also 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.

Shared Governance

Shared Governance in practice across the University

Across the University of Minnesota system, shared governance already exists on various levels. On different campuses and in different contexts we have bits and pieces of a university wide policy in place, but it lacks cohesion. During our time as Student Representatives to the Board of Regents, we have seen our complicated organization held up by certain principles. We are reminded by President Bruininks, Provost Sullivan, and others that a great organization measures what it values and values what it measures.

As a group that represents students across the University of Minnesota, we would like to take this opportunity to formally state that we whole heartedly value our opportunities for shared governance at the U. Accordingly, we have come with a measurement of how our University is performing against the standards we have come to value. Policies across the University at the present are the following:

(*all data based on University and campus constitutions, bylaws, and other governing documents)

Board of Regents: To start we will tell you all what you already know. Because of our University's work to incorporate elements of shared governance, we have seven Student Representatives to the Board of Regents and a student Regent. Students sit on every committee during Board meetings and have a formal vote through our student Regent. Though there are no faculty or staff representatives on committees, the Faculty Consultative Committee reports to the Board regularly and offers representation in its own way.

University Senate: The University Senate is comprised of 17 University wide committees. Of the 17 committees, 13 have designated student seats and 16 have designated staff seats (either P&A or civil service seats). So while this representation is not at one hundred percent for every constituency, it is certainly showing that the University values the opinions of its constituencies.

University of Minnesota, Crookston: Of the 7 committees that function under Crookston's Faculty Assembly, 3 have designated student seats and none have designated staff seats. Though Crookston shows elements of shared governance, their current standards for involvement across constituencies is sub-standard.

University of Minnesota, Duluth: Of the 6 committees that function under Duluth's Campus Assembly, 6 have designated student seats and 6 have designated staff seats. This is a great example of how shared governance has already been embraced fully within an large unit of the University.

University of Minnesota, Morris: Of the 15 committees that function under Morris's Campus Assembly, 15 have designated student seats and 15 have designated staff seats.

The Morris campus constitution also speaks directly to the principles of shared governance that they value so highly. Morris is another solid example of how shared governance has been implemented fully on a smaller scale within the University.

University of Minnesota, Rochester: The Rochester campus is too young to be fully analyzed, but students have already been in contact with us in hopes of expanding the Student Representatives to incorporate a student from U of M Rochester.

What these results show is that while not every unit within the University of Minnesota has completely incorporated the values of shared governance, it has been addressed in some way at almost every level of the U's governance structure. For this we should be proud, but we should not be satisfied. Though we have already made strides towards incorporating shared governance fully, more work needs to be done if we are to continue to be a leader amongst our peers. Some further work has already been done by students and administrators to fully codify a shared governance policy.

Background of what has been done so far.

Over the last two years, student leaders in campus associations and student senate have engaged in a discourse with staff members and administrators about the adequacies and inadequacies of the current Shared Governance system at the University of Minnesota. Although the bulk of the debate has occurred on the Twin Cities campus, it has also been brought to the coordinate campuses through their own student associations. This discussion came to the attention of student leaders after reading past Student Senate documents, which indicated the passage of a Shared Governance Resolution that went without Administrative and Board of Regents action. Students and Administrators from both President's Office and Office for Students Affairs are currently working on signing a Shared Governance Memorandum of Understanding.

Reasons for Board Policy

The current model for engagement in University decision-making has many authentic and thoughtful ways of engaging students and staff in the process of developing policies. The most significant lapses in inclusion of student representation in decision making are in the arenas of budget planning, capitol planning, program discontinuations, strategic planning, tuition increases, University fee increases, and some other minor instances; with perhaps the most concrete example being the closing of the graduate school. Student consultation on these issues has generally been done after a decision has been finalized and at times does not involve students in the development of the policies themselves. A policy on shared governance could help to codify the need for staff involvement in the governing process as well; certain campuses and units allow for only very poor staff representation currently.

Student Opinion

The University of Wisconsin system passed a Board of Regents policy concerning Shared Governance only after the state legislature signed into law Wisconsin Statute, § 36.09(5)

¹. The Wisconsin statute and Wisconsin Board of Regents policy language empowers students to be intimately involved in the governance of the University, but the eventual result of shared governance at the University of Wisconsin was bittersweet due to the need for legislative intervention. We encourage the Board and current Administration, with consultation with University President-Designate Kaler, to work with students and staff to create a well-rounded policy that fully incorporates the values of the University of Minnesota. It's clear that we, as a University, value shared governance. But until we create a standard for our University units to live up to, we will never be able to fully measure the success of our current shared governance system. The Student Representatives urge the Board of Regents to embrace a policy for shared governance that codifies the values that have already been put into practice in so many units within the University of Minnesota.

Appendix: for Information

1. Wisconsin Statute

(5) STUDENTS. The students of each institution or campus subject to the responsibilities and powers of the board, the president, the chancellor and the faculty shall be active participants in the immediate governance of and policy development for such institutions. As such, students shall have primary responsibility for the formulation and review of policies concerning student life, services and interests. Students in consultation with the chancellor and subject to the final confirmation of the board shall have the responsibility for the disposition of those student fees, which constitute substantial support for campus student activities. The students of each institution or campus shall have the right to organize themselves in a manner they determine and to select their representatives to participate in institutional governance.

Student Needs

Learning Outcomes:

Knowledge and experience gained during a student's time at the University of Minnesota needs to adequately prepare them for future success by meeting our learning outcomes in their entirety. The purpose of setting learning outcomes is to give students guidelines and expectations for themselves. Articulating to them, as an institution, what they should take away from their experience here and that the university is dedicated to supporting opportunities that assist them in reaching these measures of learning. The university must guarantee visibility of the measures it uses to assess students. Decisions made for the university and its constituents regarding resources should harmonize with its learning objectives and the Board of Regents should always strive to uphold these standards.

Making our learning outcomes more visible to the university community demonstrates the value we place on these objectives. Through visibility it is possible to foster curiosity and excitement across our system and center on developing our students. Community consciousness of these goals allows for a better opportunity to provide valuable feedback that is essential for growth.

Most students are only exposed to the learning outcomes set for them very briefly during their orientation process. By the time they are actually here as a current student they have forgotten these goals. If you asked the average undergraduate student to name the learning outcomes that the university has for them, most would not be able to name even one or two. If students do not know how they are being measured, how can they work to develop themselves further and more efficiently allocate their intellectual focus? How can they make informed decisions about educational activities that would be individually beneficial for them?

Increased familiarity of what our learning outcomes are and why they are important would lead to an improvement-oriented culture among not only students, but faculty and staff. Students would be able to recognize what they need to work harder on and would place a higher value on making educational progress. It is true that not every student would take the initiative to use the learning outcomes to their advantage, but we believe many students would if more emphasis was placed on them, essentially if there was a greater effort to operate by them.

Across the university system, learning outcomes vary as each campus has their own. With that comes added responsibility and a greater need to know what we are asking of our students. Of course there are some overlapping themes of the different campus outcomes, but there are differences that must be acknowledged.

The Morris campus is the only one that explicitly states environmental stewardship as a component to their student outcomes. The Crookston campus is the only one to outline shared governance as an objective for their campus community. While we as student representatives to the board know that all of these things are important, the general

student population does not receive these messages. With these differences it is imperative that the university is sensitive to providing students with the aligning resources to achieve each campus' separate outcomes. So what does that mean? It means looking critically at the physical environment we build for our students and if that environment is productively contributing to students' paths to success.

Ensuring that the Board of Regents maintains an understanding of what the learning outcomes are, how they are measured, and where we need improvement is incredibly important for student development and success. It is through the learning outcomes that the board communicates the universities' goals and they are the best way to keep everyone on the same page. It is the board that protects the university's bottom line and the University of Minnesota has two bottom lines, one is financial and the other is academic.

In tough economic times it is understandably harder to keep discussions balanced between those two important business matters, but they must work in union with one another or we cannot reach our mission as a world class university. In summary, we must measure that which we value and value that which we measure. When we begin to use our learning outcomes to better guide students, we will see our achievements grow. The board sets the tone for what we value as an institution and there is disconnect between students and these learning outcomes. Imagine the return on investment students would see if they could tell you the ways their performance is measured and how they measure up.

Non- Financial Needs:

Health and wellness of students, especially emotional and mental support, is a significant indicator of student success. The challenge is reaching out to students, and making sure that those programs and services that help maintain wellness are easily located if or when students need them. Students come to the University of Minnesota with complex issues that can have a major impact on their lives as students. The stress typically associated with the college years may be compounded by social, health, financial, family, and work issues. As a result, some students may experience a decline in academic performance, engage in harmful behaviors such as substance abuse and attempts at suicide, or exhibit other symptoms of distress. Actions that faculty advisors take to help these students may be a critical factor in saving students' academic careers - or even their lives. Some crucial programs that need to be prevalent in students' lives are:

- Diversity programs are available and provide further for involvement and academic advising for students of color or the GLBT community.
- Alcohol and drug counseling

Academic advising is another crucial part of the success of any student. Freshman students go through a brief advisement during orientation, but after this, the variety of advisement one student might obtain fluctuates greatly. Some students may never speak with their advisor, and others may meet with their advisor on a regular basis. As students,

we feel that advisors should be like academic mentors, as well as instill a sense of community within students. An advisor is an educator who can offer advice to students in academic matters. But the University's goal is to provide students with an advisor that can not only help in matters of academics, but also help them reach their personal and professional goals.

Career Services:

Providing consistently high quality career services is imperative for student success and ultimately the long-run future of the university. However, students tend not to use these services often enough, and when they do use them, it is often too late. There is significant variability in the emphasis that collegiate units place on their career services functions, largely due to differences in their missions. For example: the Carlson School of Management does an excellent job of ensuring that students are keeping up with their career search. The school has its own proprietary "edge" website that helps students find jobs directly related to their fields of study, continually reminds students of recruitment deadlines and company information sessions, runs a mentorship program, and draws upon its alumni relationships in an effective way to ensure students know about available opportunities and where they should be in the career search process. This has an immensely positive impact on the student experience. However, this is not the case at every collegiate unit. The process becomes far more complex when considering a unit like the College of Liberal Arts, where a far greater number of students go into a field unrelated to their majors or to graduate school. These complicating factors, combined with a relatively smaller investment in career services, increase variability in the student experience with career services.

As is the case with many of the services the University offers, a great deal of the problems have to do with visibility. We have put such an intense focus on graduating in four years that, at the expense of career preparation, many students focus solely on school and often summer/full-year employment that will not necessarily lead to a career that that student would prefer to pursue upon graduation. The University must make a strategic investment in career preparation with a focus on increasing and accelerating utilization of these services by students. A possible solution would be to require a meeting with career advisors each year. This would allow the career office responsible for the student to compile a file on their interests and use their expertise to educate students on the recruitment timelines and procedures for the paths in which each are interested for after graduation. Students would then be updated and guided towards resources for graduate schools, careers and internships in whatever field they are interested, volunteer opportunities, etc. Improvement and utilization of these services will increase 4-year graduation rates, student satisfaction, and later success (and therefore alumni donations) by demonstrating the direct link between the skills and knowledge they obtain and their usefulness for their future beyond the university.

Student Organization Reports

Crookston Student Association (CSA)

Sustainability The UMC community continues to exert their efforts in sustainability, and the campus took a huge step in the fall of 2009 when the new recycling program was implemented. Crookston Students for Sustainable Development (CSSD) has been meeting weekly and formulating great ideas to improve sustainability on campus. The group recently toured the Morris campus to learn about their sustainability efforts and converse with students.

International Relations To insure that international students have a satisfying experience at UMC, CSA feels that strengthening the relations with these students is vital. CSA has a dinner banquet with the Multicultural International club, and we also host international week.

CSA Blog The members of CSA regularly update an online blog to inform the students of upcoming events, and other information pertaining to executive and full board meetings.

Community Service It is very important to CSA to be involved in the community, and to reach out to the Crookston population. The executive board is involved with the Adopt-a-Highway program. All members help and volunteer during the week, as well as during their weekends. The group hosts an event in December called "Winter Wonderland" for the children in the community. This event involves arts and crafts, food, activities, and even CSA members dressed up as Santa and the elves. This event is always well received by children and their families.

Morris Campus Student Association (MCSA)

The Morris Campus Student Association has been working hard to address both campus and student needs. Specifically, MCSA has been working to create a system for Book Exchange on campus that will be more sustainable and affordable for students. MCSA has also worked to create an online Ride Board that will facilitate travel to and from campus for students. With more ridesharing and carpooling, we can cut carbon use and create an environmentally beneficial program that is low cost and easy to use. MCSA continues to play a vital role in distributing funds for campus technology, shaping policy on the Morris campus, and help student address various needs during their time at UMM.

After more than 5 years of working on the document with faculty, staff, students, and administrators, the Morris campus made changes to improve the system of shared governance it has flourishes under by passing a new constitution.

MCSA has also been involved in the review of the new living and learning center on campus. Morris students are excited about the opportunity to have a new residence hall

that can serve as a hot spot for environmental research, community engagement, and sustainable living.

University of Minnesota, Duluth Student Association (UMDSA)

This year the University of Minnesota Duluth Student Association (UMDSA) has transitioned very well with both a new campus Chancellor and with many new additions to the UMDSA leadership team. UMDSA has had a very promising fall semester and has really begun to connect deeper with the students of the Duluth campus.

Academic Affairs Committee The Academic Affairs committee has been working diligently on an outreach campaign called the Online Course Guide Drive. Our goal is to increase the amount of course information that instructors and faculty post about their teaching styles and materials used.

Student Affairs Committee Student Affairs this year has taken on many initiatives to aid UMD student life. These include food quality, parking/transportation issues, school pride, and sustainability.

Better Neighbors Program The Better Neighbors Program focused on fostering better relationships between students and the permanent residents of Duluth.

Campus Outreach Campus Outreach has worked on a Student Organization Representation program that provides each of the 200+ registered student organizations on campus a Student Association member to represent their group.

Budget, Loans & Grants (BLG) Budget Loans and Grants has funded 72 student groups this year which is a great jump from spring semester of 2010 funding 66 groups.

UMDSA is pleased with the initiatives undertaken by Chancellor Black to improve the campus climate and his work to provide UMD with a strategic plan. Also, we would like to thank the Campus Assembly for passing the 9 proposed changes related to academic policies at UMD including excused absences, final exams, syllabus, degrees with distinction, and the teaching & learning responsibilities.

Minnesota Student Association (Twin Cities Undergraduate)

The Minnesota Student Association created a new Operating Budget Grant (OBG) to help finance newly formed and unfunded student groups that need startup resources. There has been significant interest and positive feedback from student groups; we have received 14 grant applications and approved five so far. The Volunteer Tax Assistant Program (VTAP) is in its third year and hopes to expand the free tax preparation service to more students this year. This program has been one of the most cost-effective and useful services that MSA provides to students and additionally cooperates with the IRS to certify student volunteers in IRS tax preparation. The Academics and Services Director is working to incorporate teacher evaluation information into the OneStop 'Class Search' registration tool, information that has long been lacking from the OneStop site and the incorporation of this material would be beneficial and informative to students. The Legislative Certificate Program (LCP), which is the student-lobbying arm of MSA, is also in its third year and has recently finished its last legislative training session with discussions focusing on specific advocacy goals and objectives for the development of the 2011 Legislative Platform. This set of legislative goals will be brought to the final MSA Forum in December for discussion and approval in order to begin a successful year of advocacy on behalf of the University of Minnesota- Twin Cities student community.

Graduate and Professional Student Association (Twin Cities Graduate)

The Graduate and Professional Student Assembly (GAPSA) has been busy on many items this year - including developing a lobbying plan at the Legislature, organizing social events for our constituency, and offering numerous grants to students and organizations - but we wish to highlight three main points. First, GAPSA is working very hard to improve and expand our relationship with the constituent councils among the various schools and colleges. To achieve this, each GAPSA executive has been appointed as liaison to an individual council, which will hopefully provide a more intimate connection from the council level to GAPSA and permit GAPSA to better advocate on behalf of all graduate and professional students at the University of Minnesota. Additionally, Abdul Omari and Matt McGeachy, Student Representatives to the Board of Regents, have been meeting with individual council presidents to better learn their constituent concerns and advocate effectively at the Board level. Second, GAPSA has been working to improve its financial transparency by instituting several changes to the annual budget and monthly financial reports that make them easier for the Assembly and members of the public to read and understand. This effort has been led by our Vice President for Finance, Tyler Preston Price, and a reinvigorated Finance Committee. Third, GAPSA is working closely with MSA and the Office for Student Affairs, along with the President and other administrators, to institute a University-wide shared governance policy, which we hope will be in place at the end of the academic year.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Board of Regents

December 10, 2010

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 accountability 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 FY10 annual research report includes the following major sections:

- Research Statistics for Fiscal Year 2010
- Trend Analysis for the University of Minnesota
- Comparative Analyses with other Public Research Institutions
- The far reaching impact of faculty research and scholarly work

Background Information:

Continuing a positive trajectory started 5 years ago with its strategic positioning initiative, the University of Minnesota once again posted significant gains in key research performance metrics in FY2010, reflecting its status among the nation's elite research universities. Grants and contracts awarded to University faculty topped \$823 million in FY2010, marking a 36% increase over the FY2009 award total. Even after excluding the contribution of American Recovery and Reinvestment Act (ARRA) funding, the FY2010 sponsored awards total increased 23%. Impressively, every unit across the University posted an increase, reflecting the breadth of the University's successful efforts to improve overall research productivity.

Faculty and staff mounted strong responses to new funding opportunities associated with the America Recovery and Reinvestment Act. Since it was announced in 2009, faculty and staff have submitted 962 applications for funding and have been successful in securing 330 awards. These awards have provided over \$194 million to support research at the University, much of which will

establish key research facilities, initiatives, and programs that will provide important competitive advantages for University researchers in the post-ARRA era. The impressive success to date will undoubtedly place the University among the ARRA leaders nationally.

According to the 2009 national R&D expenditures published recently by the National Science Foundation, the University ranked 10th among the nation's top public and private research universities. The reported R&D expenditure total of \$741 million represents an impressive increase of 8.5% over the 2008 total. This growth in volume improved the University's ranking among its public research peers from 9th to 8th, continuing an impressive climb in the rankings from a 10th place position among public universities as recently as 2005. This notable improvement reflects a 41% increase in total R&D expenditures since 2004, the third-largest growth rate among the top 20 universities in the country and the second-largest among public universities. Over this same time period, total R&D expenditures at all U.S. universities increased 21% while expenditures at the top 20 universities increased 19% on average, signifying that the University significantly outperformed its peers on a percentage basis during this interval. Other ranking systems which are detailed out in the full version of this annual report demonstrate that the University retained its position of prominence among its academic peers in 2010.

The Office for Technology Commercialization (OTC) reported an increase in several key metrics that are used to track the performance of the U's technology transfer program. More importantly, OTC has established stronger relationships with faculty and potential licensees of University technology. Improved responsiveness and a new entrepreneurial approach to invention protection and marketing have resulted not only in an increased *number* of disclosures, filings, and licenses, but also to an increase in their *quality* and *value* to the University. The current technology pipeline is strong and growing. In FY2010 University-based technologies were at the core of 8 startup companies, the most start-ups since 2000. Revenue from technology commercialization activities has been reinvested in support of the University's core mission, supporting fellowships, faculty development, research programs, and infrastructure.

While the metrics included in this Annual Report provide quantitative measures that can be used to gauge relative research performance, no system of metrics can accurately portray the true impact that the University's research and scholarship have on the world. To paraphrase Einstein, it is just these things that cannot be "counted" that should "count" most to us. Although "measures" of impact remain elusive, impact can often be appreciated through the description of the research itself. This Annual Report therefore provides a sampling from many examples of faculty work that underscores the local, national, and global impacts of the University of Minnesota - impacts that currently defy easy measure but are worthy of recognition and pride.

FY2010 was clearly a great year for the University of Minnesota and its journey toward its goal to be one of the best public research universities in the world. While it is most appropriate to pause and reflect with satisfaction on a year of productive research growth and accomplishment, the University must set its sights forward in anticipation of major challenges looming on the immediate horizon. Anticipated state budget cuts, the abrupt end of ARRA funding, and a congressional agenda that will likely dash hopes for increased federal support for university-based research are all realities that will impact future performance and could threaten the health and well-being of research universities and the society that benefits from their activities.

The University of Minnesota must succeed, not merely survive, in the uncertain years ahead. This will require perseverance, diligence, innovation, and continued adherence to sound strategic decision making practice that aligns with and supports the research mission.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Board of Regents

December 10, 2010

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 2010 Annual Financial Report to the Board of Regents.

Outline of Key Points/Policy Issues:

The annual financial report presents the financial position and results of operations for the University of Minnesota and its component units for FY 2010 and FY 2009. This presentation will provide the Board of Regents with an overview of the report.

A copy of the FY 2010 audited consolidated financial statements, with management's discussion and analysis, is included in the 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 Board of Regents Policy: *Board Operations and Agenda Guidelines*.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Board of Regents

December 10, 2010

Agenda Item: 2011 State Capital Budget Request

review review/action action discussion

Presenters: President Robert H. Bruininks
Richard Pfitzenreuter, Vice President and CFO
Kathleen O'Brien, Vice President

Purpose:

policy background/context oversight strategic positioning

Board of Regents policy requires the Board to approve the University's legislative capital request before it is submitted for consideration by the Governor and the Legislature.

Outline of Key Points/Policy Issues:

The 2011 capital request is built around the University's previously expressed priorities. The 2011 request includes funding for the required Light Rail Transit mitigation projects, Physics & Nanotechnology construction (Physics & Nanotechnology received design funding in the 2010 session) and projects vetoed at the end of the 2010 legislative session.

The 2011 capital request continues to conform to the principles used in the development of the most recent six-year capital plan.

- Align capital plan with the established academic strategic positioning goals:
 - Recruit and educate outstanding students,
 - Recruit and support innovative, energetic world-class faculty and staff,
 - Inspire innovation, exploration, and discovery.
- Maintain continuity of priorities from previous legislative requests, including the restoration of funding for vetoed projects included in the University's long-term capital plan.
- Protect the University's financial position by keeping capital expenditures within projected debt capacity limits and controlling operating costs.
 - Be responsible stewards of resources.
- Invest in facilities and infrastructure that:
 - Advance the University's life safety, renewal, and preservation objectives and sustainability policies,
 - Create flexible space, promote collaborative interdisciplinary activities, optimize space utilization, and reduce operational costs.

The 2011 capital request is built upon a combination of funds appropriated by the State of Minnesota (\$107.2 million) and resources committed by the University of Minnesota (\$42.3 million). The total cost of the capital plan is \$149.5 million.

The administration will outline individual project costs, highlight required University contributions to each project, identify the scope of debt financing to meet the required share of each capital project, and outline the incremental facility operating costs associated with each project.

Background Information:

The Board of Regents approved Capital Requests for the Physics & Nanotechnology project, American Indian Learning Resource Center, Itasca Facility Improvements, and HEAPR in October 2009.

The Board of Regents approved the schematic design and capital budget amendment for the Mayo Garage Renovation - Nuclear Magnetic Resonance Facility Relocation Project in November 2010.

President's Recommendation for Action:

The President recommends approval of the University's State Capital Request for the 2011 legislative session.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO
2011 STATE CAPITAL REQUEST

WHEREAS, the Board of Regents has directed the administration to annually submit a capital improvement budget and a six-year capital improvement plan in support of the University's strategic priorities; and

WHEREAS, the Board of Regents recognizes the importance of sustaining and improving the University's facilities in support of teaching, research, and outreach; and

WHEREAS, the administration has developed a capital planning framework designed to focus its capital planning efforts toward projects that support the University's institutional priorities within a financial strategy that is realistic;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Regents approves the University's 2011 State Capital Request to the Minnesota Legislature in the amount of \$149,500,000 consisting of \$107,167,000 from the State of Minnesota and \$42,333,000 from the University of Minnesota.

2011 STATE CAPITAL REQUEST

Project List:

Campus	Project	Total	State	U of M
UMTC	LRT: Laboratory Mitigations	\$25,000	\$12,500	\$12,500
UMTC	Physics and Nanotechnology	\$74,000	\$49,333	\$24,667
UMD	American Indian Learning Research Center	\$10,000	\$6,667	\$3,333
STATE	ROC: Itasca Facilities Improvements	\$5,500	\$3,667	\$1,833
SYSTEM	Higher Education Asset Preservation & Replacement (HEAPR)	\$35,000	\$35,000	--
	Total:	\$149,500	\$107,167	\$42,333

Project Summaries:

UMTC: LRT – Laboratory Mitigations

The Central Corridor Light Rail Transit construction in the University’s research corridor is scheduled to begin in May 2011. Construction vibration and electromagnetic interference from train operations will disrupt the Hasselmo Hall NMR facility and other important campus research along Washington Avenue. As part of the negotiations with the Met Council in 2010, the University identified approximately \$25 million in laboratory mitigations that fall outside of what the Met Council agreed to fund. The Met Council agreed to jointly request a state bonding appropriation for up to \$12.5 million to pay for 50% of the relocation of such research facilities, the largest of which is the design and construction of a replacement Nuclear Magnetic Resonance (NMR) facility in the former Mayo parking garage. The current NMR facility houses seven magnets used for solution and solid-state NMR experiments. Funds will also be used for other smaller renovation and relocation projects required to mitigate electromagnetic and vibration impacts from LRT construction and operation.

UMTC: Physics and Nanotechnology

The physics program in the School of Physics and Astronomy is a core department of the Institute of Technology. Many current discoveries in physics inform research in nanotechnology, a highly multidisciplinary field. This request is to design and construct a new building to house the research branch of the physics program and the Center for Nanostructure Applications, thereby fostering connections and related research. The facility will include flexible, state-of-the-art research laboratories; a 5,000 square foot clean room dedicated to nanotechnology; and student meeting space. The building, to be located directly north of the Scholars Walk, will house 200 faculty, postdoctoral, graduate, and visiting researchers.

UMD: American Indian Learning Resource Center (AILRC)

This request is for funds to construct an American Indian Learning Resource Center at the University of Minnesota, Duluth. Seventeen programs, scattered throughout campus, will be co-

located in this new facility. American Indians comprise the largest minority population at UMD and UMD's program is one of the largest American Indian programs in the country. The campus's strong support system has resulted in graduation rates significantly higher than national norms. This new center will house both academic and student service programs, classrooms, a computer lab, conference rooms, a Great Room for large gatherings, and support offices for both faculty and students.

ROC: Itasca Facilities Improvements

The Itasca Biological Station is dedicated to studying ecosystems, appreciating their value, and preserving them for future generations. Located in Itasca State Park, the University of Minnesota has conducted instruction, research, and outreach activities at the Itasca Station since 1909. This request will provide for the construction of a new technology-rich biological lab/classroom facility to replace obsolete laboratories that can no longer support current research activities. The new lab/classroom will allow the University to continue to offer classes and research in field biology, neuroscience, molecular biology and life science courses to all incoming Biology freshmen. To reflect the values of the Biological Station, the design of the facilities will incorporate strategies to minimize energy usage.

Higher Education Asset Preservation and Replacement (HEAPR)

The Higher Education Asset Preservation and Rehabilitation (HEAPR) funds included in this request will be used to make code required improvements to elevators system-wide and to address water infiltration issues system-wide.

The State of Minnesota made changes to the State Elevator Code (MN Rule 1307) governing the design, installation, maintenance, repair, replacement, modernization and demolition of vertical transportation equipment. The changes adopted by the state require that all elevators comply with the amended law by January 2012. These changes include such items as:

- replacement of specific components deemed unsafe by the code
- a new minimum level of safety equipment for all existing units
- replacement / modification of all single Bottom Hydraulic Cylinders
- a new requirement for restricted openings of car and hoistway doors on passenger elevators, and
- new fireman's service operation requirements.

Water infiltration projects includes projects such as plaza/roof repair/replacement, roof repair / replacement, tuckpointing and exterior wall repair. Specific examples include:

- West Bank Plaza/Roof, Weaver Densford Plaza/Roof (TC Campus)
- Roof Replacements & Tuckpointing (UMD Campus)
- Roof Replacements (UMM Campus)
- Roof Replacements (ROCs & Field Stations)