

University of Minnesota

*Consolidated Financial Statements for the Years
Ended June 30, 2009 and 2008, Independent
Auditors' Report, and Management's Discussion
and Analysis*

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INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of net assets of the University of Minnesota (the University), as of and for the years ended June 30, 2009 and 2008, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, except for the Minnesota Medical Foundation for the year ended June 30, 2009. Those statements and the prior year comparative information were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based solely on the reports of such other auditors. Prior year summarized comparative information has been derived from the discretely presented component units' June 30, 2008 financial statements. We have audited the financial statements of Minnesota Medical Foundation as of and for the year ended June 30, 2009, and issued our report thereon dated October 2, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the University, as of June 30, 2009 and 2008, and the respective consolidated changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University changed its method of recognizing sponsored federal, state, other government, and nongovernmental exchange grants and contract revenue in 2009. As discussed in Note 12, the University also changed its method of accounting for environmental remediation obligations as required by GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
October 28, 2009



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, 2009, 2008, and 2007. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

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

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

The Twin Cities campus is the fourth largest campus in the country in terms of enrollment (approximately 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 \$600.1 million, \$564.9 million, and \$510.4 million in fiscal years 2009, 2008, and 2007, 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 activity that benefit students, scholars, and communities across the state, the nation, and the world.
- **Teaching and Learning**—To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and 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 agencies, and numerous private companies and foundations;
- reaches out to more than 1 million Minnesotans through various outreach and public service activities.

Consolidated Financial Statements

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

Consolidated Statements of Net Assets

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

- **Unrestricted**—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the institution and include resources that may be designated for specific purposes as determined by management, financial, or Board of Regents policies.
- **Restricted, which is divided into two categories—expendable and nonexpendable**—Expendable assets are available for expenditure by the institution, but only in accordance with restrictions placed on their use by donors and other external entities. Nonexpendable assets are also

externally restricted, but are required to be retained in perpetuity, including the University's true endowments and institutional contributions to refundable loan programs.

- **Invested in capital assets, net of related debt**—This category includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

Figure 1

The University's consolidated assets, liabilities, and net assets as of June 30, 2009, 2008, and 2007
(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Assets							
Current assets	\$ 605,219	\$ 708,217	\$ 519,507	\$ (102,998)	(14.5%)	\$ 188,710	36.3%
Other noncurrent assets	1,261,981	1,572,001	1,905,337	(310,020)	(19.7%)	(333,336)	(17.5%)
Capital assets, net	2,466,983	2,263,790	2,060,646	203,193	9.0%	203,144	9.9%
Total assets	4,334,183	4,544,008	4,485,490	(209,825)	(4.6%)	58,518	1.3%
Liabilities							
Current liabilities	460,181	523,386	494,212	(63,205)	(12.1%)	29,174	5.9%
Noncurrent liabilities	114,544	102,140	100,793	12,404	12.1%	1,347	1.3%
Long-term debt	934,225	824,753	796,200	109,472	13.3%	28,553	3.6%
Total liabilities	1,508,950	1,450,279	1,391,205	58,671	4.0%	59,074	4.2%
Net assets							
Unrestricted	162,156	218,680	325,304	(56,524)	(25.8%)	(106,624)	(32.8%)
Restricted—expendable	833,332	1,126,294	1,116,515	(292,962)	(26.0%)	9,779	0.9%
Restricted—nonexpendable	242,606	238,821	222,847	3,785	1.6%	15,974	7.2%
Invested in capital assets, net of related debt	1,587,139	1,509,934	1,429,619	77,205	5.1%	80,315	5.6%
Total net assets *	2,825,233	3,093,729	3,094,285	(268,496)	(8.7%)	(556)	(0.0%)
Total net assets and liabilities	\$ 4,334,183	\$ 4,544,008	\$ 4,485,490	\$ (209,825)	(4.6%)	\$ 58,518	1.3%

* FY 2008 and FY 2007 Net Assets were restated to reflect GASB 49 regarding Pollution Remediation Obligations.

Current assets consist primarily of cash and cash equivalents, securities lending collateral and net receivables. The change in current assets over the two fiscal years was due primarily to a combination of a decrease in securities lending collateral, partially offset by increases in receivable balances. 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 decrease in the securities lending program was partially offset by increases in receivables. The predominate 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.

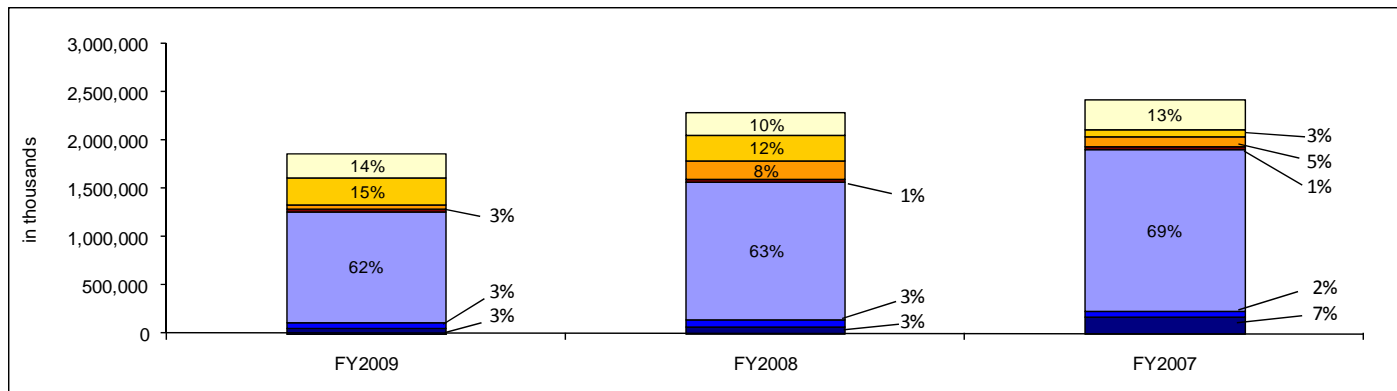


Figure 2

The University's current and noncurrent assets (excluding capital) on June 30, 2009, 2008, and 2007

(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Current assets							
Receivables, net	\$ 260,385	\$ 222,200	\$ 315,088	\$ 38,185	17.2%	\$ (92,888)	(29.5%)
Cash and cash equivalents	274,904	270,632	70,089	4,272	1.6%	200,543	286.1%
Securities lending collateral and investments	44,704	189,542	112,522	(144,838)	(76.4%)	77,020	68.4%
Other assets	25,226	25,843	21,808	(617)	(2.4%)	4,035	18.5%
Total current assets	605,219	708,217	519,507	(102,998)	(14.5%)	188,710	36.3%
Noncurrent assets							
Investments	1,147,533	1,435,584	1,680,013	(288,051)	(20.1%)	(244,429)	(14.5%)
Receivables, net	59,999	65,469	58,091	(5,470)	(8.4%)	7,378	12.7%
Cash and cash equivalents and other assets	54,449	70,948	167,233	(16,499)	(23.3%)	(96,285)	(57.6%)
Total noncurrent assets	1,261,981	1,572,001	1,905,337	(310,020)	(19.7%)	(333,336)	(17.5%)
Total assets (excluding capital)	\$ 1,867,200	\$ 2,280,218	\$ 2,424,844	\$ (413,018)	(18.1%)	\$ (144,626)	(6.0%)

Noncurrent assets (excluding capital) consisted mainly of long-term endowment and other investments. In fiscal years 2009 and 2008, the decrease in long-term endowment and other investments was made up of net realized and unrealized losses of \$283.0 million and \$292.9 million, respectively, and a decrease of \$46.8 million and \$45.5 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, 2009 and 2008, TIP's investment in CEF had a market value of \$88.5 million and \$119.3 million, respectively, and GIP's investment in CEF had a market value of \$8.3 million and \$18.6 million, respectively. 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, 2009 and 2008 noncurrent cash and cash equivalents included \$51.4 million and \$68.8 million, respectively in unspent bond proceeds.

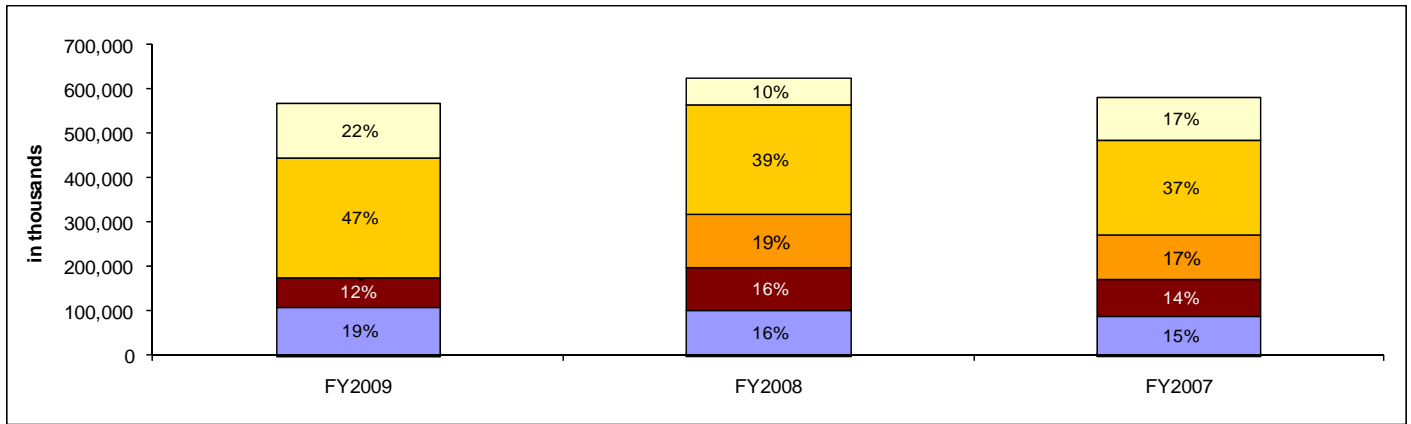


Figure 3

The University's non-debt-related current and noncurrent liabilities on June 30, 2009, 2008, and 2007

(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	\$ 123,698	\$ 60,971	\$ 97,129	\$ 62,727	102.9%	\$ (36,158)	(37.2%)
Accrued liabilities and other	269,932	246,337	213,678	23,595	9.6%	32,659	15.3%
Securities lending collateral	-	118,956	100,300	(118,956)	(100.0%)	18,656	18.6%
Unearned income	66,551	97,122	83,105	(30,571)	(31.5%)	14,017	16.9%
Total current liabilities	460,181	523,386	494,212	(63,205)	(12.1%)	29,174	5.9%
Noncurrent liabilities							
Accrued liabilities and other	113,666	101,058	99,007	12,608	12.5%	2,051	2.1%
Unearned income	878*	1,082*	1,786*	(204)	(18.9%)	(704)	(39.4%)
Total noncurrent liabilities	114,544	102,140	100,793	12,404	12.1%	1,347	1.3%
Total non-debt-related liabilities	\$ 574,725	\$ 625,526	\$ 595,005	\$ (50,801)	(8.1%)	\$ 30,521	5.1%

The University's non-debt-related liabilities (shown in Figure 3) were 38 and 43 percent of total liabilities, or \$574.7 million and \$625.5 million, as of June 30, 2009 and 2008, 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 on July 1, 2008, the University intentionally paid open accounts payable balances prior to June 30, 2008. As a result, the accounts payable balance had decreased significantly from 2007 to 2008. In fiscal year 2009, the increase in the accounts payable balance is 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. The increase was primarily due to higher payroll accruals that resulted from a salary increase between years. In fiscal year 2008, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) 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 \$11.4 million in fiscal year 2009 and \$11.2 million in fiscal year 2008. As of June 30, 2009, the cumulative OPEB liability of \$22.6 million was recorded as a current liability

of \$8.0 million and a noncurrent liability of \$14.6 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 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 revenue related to the new Gopher Stadium seating.

In fiscal year 2009, the University implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 addresses accounting and financial reporting for pollution remediation obligations once specified obligating events occur. The University was required to estimate the pollution remediation liability and apply this estimate to prior fiscal years. The total pollution remediation liability for fiscal years 2009, 2008 and 2007 was \$4.7 million, \$11.3 million and \$12.8 million, respectively. Refer to Note 12 for additional information related to pollution remediation.

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

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

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

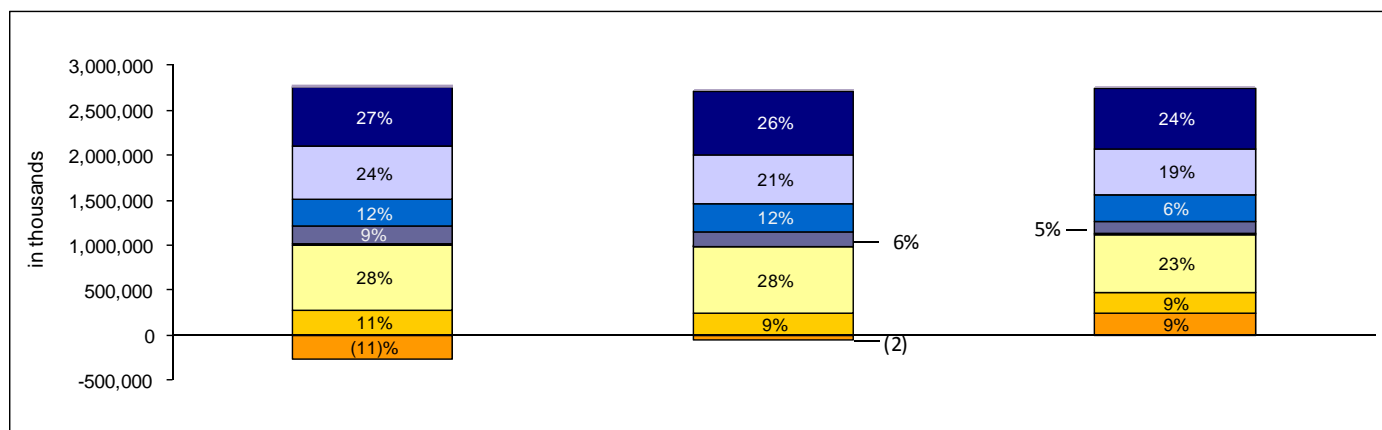


Figure 4

The University's operating and nonoperating revenue (noncapital) for the years ended June 30, 2009, 2008, and 2007*(in thousands)*

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	\$ 662,010	\$ 707,657	\$ 666,267	\$ (45,647)	(6.5%)	\$ 41,390	6.2%
Student tuition and fees, net	590,647	547,874	519,791	42,773	7.8%	28,083	5.4%
Auxiliary enterprises, net	289,408	307,975	288,757	(18,567)	(6.0%)	19,218	6.7%
Educational activities	199,254	163,190	138,622	36,064	22.1%	24,568	17.7%
Other operating revenue	1,968	2,900	2,837	(932)	(32.1%)	63	2.2%
Total operating revenues	1,743,287	1,729,596	1,616,274	13,691	0.8%	113,322	7.0%
Nonoperating revenues							
Federal appropriations	22,409	8,363	16,369	14,046	168.0%	(8,006)	(48.9%)
State appropriations	707,806	733,740	635,372	(25,934)	(3.5%)	98,368	15.5%
Grants, gifts, and other nonoperating, net	286,810	249,664	240,563	37,146	14.9%	9,101	3.8%
Net investment gain	(267,608)	(49,848)	239,730	(217,760)	436.8%	(289,578)	(120.8%)
Total nonoperating revenues	749,417	941,919	1,132,034	(192,502)	(20.4%)	(190,115)	(16.8%)
Total revenues (noncapital)	\$ 2,492,704	\$ 2,671,515	\$ 2,748,308	\$ (178,811)	(6.7%)	\$ (76,793)	(2.8%)

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

Grants and contracts decreased by \$45.6 million or 6.5 percent in fiscal year 2009. Federal grants and contracts decreased \$21.8 million to \$398.8 million in fiscal year 2009 from \$420.6 million in fiscal year 2008. The decrease in federal grants was due primarily to decreased spending on the Insight Award from the National Institutes of Health. Exchange grants are recorded as operating revenues, while nonexchange grants are recorded as nonoperating revenues. In fiscal year 2009, the University elected to change the revenue recognition methodology related to certain sponsored contracts. This change resulted in revenues being recognized earlier in the process.

The increase in student tuition and fees revenue was due to tuition and required fee increases that averaged approximately 7.3 percent; relatively stable enrollment; and scholarship allowances for the years ended June 30, 2009, 2008, and 2007, of \$132.4 million, \$122.4 million, and \$109.9 million, respectively.

Revenues from sales and services of educational activities include the Learning Abroad Center, royalty receipts from sales of products using University patents or technology, ticket sales to Northrop performances, and research work for outside businesses. Revenues from sales and services of educational activities increased \$36.1 million or 22.1 percent in fiscal year 2009 primarily due to increased royalty receipts from sales of products using University patents and technology.

State appropriations decreased to \$707.8 million in fiscal year 2009 from \$733.7 million in fiscal year 2008. The decrease of \$25.9 million or 3.5 percent was due to a decrease in the appropriation base, as well as a \$22.0 million decrease in funding for the U-Mayo partnership. 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 \$129.2 million, \$124.4 million, and \$119.8 million, and grants and gifts for capital purposes of \$39.2 million, \$19.8 million, and \$9.3 million in fiscal years 2009, 2008, and 2007, 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.

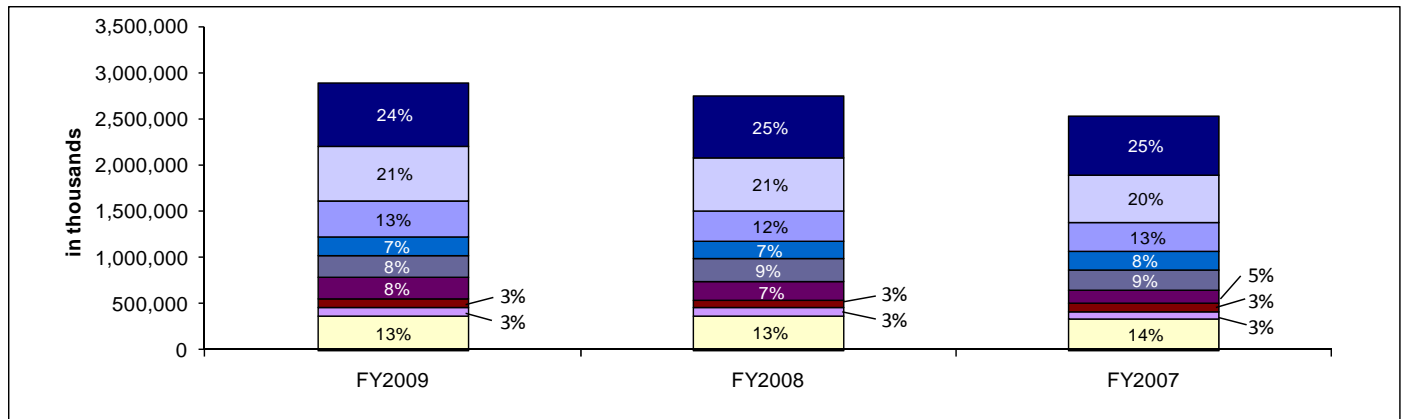


Figure 5
The University's total expenses by functional category for the years ended June 30, 2009, 2008, and 2007
(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Education and general							
Instruction	\$684,940	\$676,125	\$644,137	\$8,815	1.3%	\$31,988	5.0%
Research	600,096	564,907	510,380	35,189	6.2%	54,527	10.7%
Academic support	379,993	331,105	320,422	48,888	14.8%	10,683	3.3%
Public service	203,107	190,933	188,036	12,174	6.4%	2,897	1.5%
Operation and maintenance of plant	244,543	246,787	233,616	(2,244)	(0.9%)	13,171	5.6%
Institutional support	231,295	196,648	137,937	34,647	17.6%	58,711	42.6%
Student services	99,436	89,437	84,258	9,999	11.2%	5,179	6.1%
Scholarships and fellowships	90,429	82,662	76,087	7,767	9.4%	6,575	8.6%
Total education and general	2,533,839	2,378,604	2,194,873	155,235	6.5%	183,731	8.4%
Other operating expenses							
Depreciation	154,517	145,251	137,943	9,266	6.4%	7,308	5.3%
Auxiliary enterprises	214,949	222,778	209,872	(7,829)	(3.5%)	12,906	6.1%
Other operating expenses, net	923	489	22	434	88.8%	467	2122.7%
Total other operating expenses	370,389	368,518	347,837	1,871	0.5%	20,681	5.9%
Total operating expenses (noncapital)	\$2,904,228	\$2,747,122	\$2,542,710	\$157,106	5.7%	\$204,412	8.0%

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 64.9 percent, \$1.8 billion or 64.6 percent, and \$1.6 billion or 64.9 percent of operating expenses in fiscal years 2009, 2008, and 2007, respectively. The University's medical (health) and dental coverage for faculty and staff is a self-insured program, established to gain more control over the management of health care benefits, contain the rising cost of health care, and tailor benefits to meet the expressed needs of employees.

Details on the University's self-insurance programs can be found in Note 9 of the consolidated financial statements. In general, operating expenses increased due to salary and fringe increases given in July 2008.

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 2009, 2008 and 2007 was \$4.7 million, \$11.3 million and \$12.8 million, respectively. The expense was recorded predominately in repairs and maintenance and is reflected in operations and maintenance. See footnote 12 for additional information related to pollution remediation.

In fiscal year 2008, University departments were internally charged lower fringe rates than fiscal year 2007 due to a change in the method of calculating the rates. The change, which began in fiscal year 2007, requires rates to be based upon historical actual costs and recoveries rather than on cost projections. This change was made in order to comply with federal requirements. As a result, recoveries to the fringe pool, which are recorded in Institutional Support, were significantly less than in prior years. This resulted in more fringe expense being recorded in Institutional Support, versus in the functional categories where the salary expense is charged. This change, in addition to the \$11.2 million recorded as OPEB expense as required by GASB No. 45, were the primary reasons for the increase in Institutional Support expense.

Consolidated Statements of Cash Flows

Figure 6

The University's cash flows for the years ended June 30, 2009, 2008, and 2007

(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	\$ (967,269)	\$ (899,677)	\$ (758,819)	\$ (67,592)	7.5%	\$ (140,858)	18.6%
Noncapital financing activities	997,089	1,105,172	889,569	(108,083)	(9.8%)	215,603	24.2%
Capital and related financing activities	(161,055)	(245,493)	(4,034)	84,438	(34.4%)	(241,459)	5985.6%
Investing activities	118,117	145,540	(12,603)	(27,423)	(18.8%)	158,143	(1254.8%)
Net increase (decrease) in cash	(13,118)	105,542	114,113	(118,660)	(112.4%)	(8,571)	(7.5%)
Cash, beginning of year	339,438	233,896	119,783	105,542	45.1%	114,113	95.3%
Cash, end of year	\$ 326,320	\$ 339,438	\$ 233,896	\$ (13,118)	(3.9%)	\$ 105,542	45.1%

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 \$13.1 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 \$726.6 million and \$839.8 million, grants totaling \$116.0 million and \$129.7 million, and gifts totaling \$124.2 million and \$118.4 million in fiscal years 2009 and 2008, 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 meant to be achieved over three- to five-year periods.

During fiscal years 2009 and 2008, the value of the University's endowment funds decreased significantly. Long-term endowment and other investments included decreases from net realized and unrealized losses on the endowment and other investments of \$283.0 million and \$292.9 million, respectively; and a decrease of \$46.8 million and \$45.5 million, related to the annual distribution of the five-year, moving-average market value of the endowment to departments, partially offset by reinvested endowment earnings, respectively.

To provide a relatively stable level of support for endowed programs, a specified percentage of a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.6 percent in fiscal year 2009 and 4.7 percent in fiscal year 2008.

Capital and Debt Activities

Gross capital assets spending on capital projects increased over the past three fiscal years. The major building projects completed in fiscal year 2009 included Koltoff Hall renovation, TCF Bank Stadium, UMD Malosky Stadium renovation, University Square, and Magnetic Resonance Research Center. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Capital additions totaled \$360.4 million in fiscal year 2009. Total additions were up from the prior years' total additions of \$353.3 million and \$236.5 million for fiscal years 2008 and 2007, respectively. Fiscal year 2009 spending included the TCF Bank Stadium, Medical Biosciences building, Science Teaching and Student Services building, St. Paul Utility Building, UMD Civil Engineering Building, 8128 Bavaria Road land, and UMD Malosky Stadium renovation.

Figure 7

The University's capital asset categories (before depreciation) for the years ended June 30, 2009, 2008, and 2007
(in thousands)

	2009	2008	2007	Increase (Decrease)			
				From 2008 to 2009		From 2007 to 2008	
				Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	\$ 3,029,471	\$ 2,970,949	\$ 2,791,018	\$ 58,522	2.0%	\$ 179,931	6.4%
Equipment	619,120	595,617	579,564	23,503	3.9%	16,053	2.8%
Library and other collections	174,439	159,087	151,175	15,352	9.7%	7,912	5.2%
Construction in progress	445,495	220,578	161,271	224,917	102.0%	59,307	36.8%
Land	82,364	70,115	64,028	12,249	17.5%	6,087	9.5%
Capitalized software	40,701	40,693	16,188	8	0.0%	24,505	151.4%
Total capital assets (gross)	\$ 4,391,590	\$ 4,057,039	\$ 3,763,244	\$ 334,551	8.2%	\$ 293,795	7.8%

Bonds and other debt payable totaled \$934.2 million, \$824.8 million, and \$796.2 million as of June 30, 2009, 2008, and 2007, respectively, and included proceeds from bonded debt, commercial paper and capital leases of \$147.2 million and \$75.2 million issued in fiscal years 2009 and 2008, respectively (see Note 5).

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

Four of the University's bond issuances—Series 2003A, 2001B, 2001C, and 1999A—have demand provisions that require the University to repurchase the bonds upon notice from bondholders. As of June 30, 2009, any bonds exercised by bondholders to date under the put option had been successfully remarketed. The University maintains standby bond purchase agreements to provide liquidity support of the Series 1999A and 2001C general obligation bonds. The agreements expire in June 2012 and March 2010, respectively. During fiscal year 2009, approximately \$6.9 million of the Series 2001C and \$19.8 million of the Series 1999A bonds were tendered to the University and not remarketed. As a result, the University drew on its respective standby bond purchase agreements for payment of the principal and accrued interest. Within four days after the applicable draws, the University successfully remarketed the tendered bonds. Management believes that the tenders' being unremarketed was 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.

In June 2009, the Board of Regents authorized the issuance of additional commercial paper in the principal amount of up to \$33.0 million to provide funds to finance pledges related to TCF Bank Stadium. This commercial paper is expected to be issued prior to the end of the calendar year.

Factors Affecting Future Economic Conditions

The University of Minnesota's vision is clear: to transform this distinguished institution into one of the world's top three public research universities within a decade. The purpose of "top three" is to urge the University to live up to its proud heritage of achievement and public responsibility. We aspire, not to ranking, but to *stature* and *distinction*.

Our aspirations and ideals should be bright and distant—bright, so we do not lose sight of them, and distant, so we continue to track straight regardless of the obstacles in our way. For nearly 160 years, the University of Minnesota has sought "the bright horizon." In the past decade, we've made historic changes that have strengthened the University and the state:

- Four-year graduation rates have doubled, and retention has increased to nearly 90 percent. We produce 14,000 degrees a year—in the arts and humanities; science and engineering; agriculture and medicine; and many other academic and professional fields. Most of our graduates choose to live and work in Minnesota.
- Our research enterprise garnered \$666.3 million in sponsored funding in 2007, creating new knowledge, new products, new companies, and thousands of new jobs. The University's total R&D expenditures increased nearly 19 percent between 2004 and 2007—that's the second-largest growth rate among the top 20 public research universities. We currently rank 9th among U.S. public research universities and 14th among publics and privates.

- We've seen record levels of private support for the University's academic mission. The Promise of Tomorrow Scholarship Drive has generated more than \$275 million in just five years. And in the past year alone, we've garnered the three biggest gifts in the University's history—\$155 million total to support cancer and diabetes research and children's health care. These commitments demonstrate a high level of confidence in the University's capacity and potential.

Clearly, the value and impact of the University of Minnesota system extends well beyond our classrooms and laboratories. Yet despite tremendous progress, today we face historic challenges to our public mission. It is more important than ever that we elevate our gaze to encompass both our immediate challenges and the future we are shaping today.

The economic downturn we're experiencing is the culmination of decades of public policy and private decision-making. There has been a paradigm shift in the University's finances. The decline in state support and the increased reliance on tuition revenue are permanent changes that are unlikely to be reversed. The shift in revenues, rising costs, and increased competition are enormous challenges that require a paradigm reset in our academic and financial strategies for the future.

There has been a slow but steady shift from public funding to a more private model. This is not a transition we're making by choice—but with the current budget cuts from the State of Minnesota, FY2010 marks the first time in the University's history in which tuition revenue contributes substantially more to our operating budget than state support.

As an educational institution, we must continue to improve service and productivity, graduating more students in less time without sacrificing quality. As a research enterprise, we must be responsive and entrepreneurial, collaborating when appropriate, and competing effectively for available resources. As stewards of the public trust, we must reduce costs and increase revenues from other sources to support our public mission. But as Minnesota's only research and land-grant university, we must also fight to maintain and strengthen the state's investment.

We must continue to make the case for higher education. Today, when so many of our political leaders want to strengthen the middle class, we all know that the completion of a college degree is the best indicator of a person's ability to successfully transition from poverty to prosperity. We know that human capital and innovation are critical to economic growth in the global creative economy.

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. Funding for the majority of new academic buildings or renovations to existing academic buildings is sought from the state through capital budget appropriations, which the University requests in even-numbered years. In addition, the University uses its own debt authority to construct facilities and to meet any required share of costs related to state-authorized projects. The University will be requesting \$240,000,000 in new capital appropriations during the upcoming 2010 Minnesota legislative session. Of this amount, \$193,300,000 is requested from the State of Minnesota and the University will provide a total of \$46,700,000. The request is highly focused representing only 6 priorities. Of the \$193,300,000 requested from the State of Minnesota approximately 70% or \$133,400,000 is directly related to asset preservation.

The University of Minnesota is proud of the substantial progress that has been made since it launched strategic positioning in 2004—achieving higher graduation rates; improving student support; strengthening areas of academic priority; increasing research dollars and tech transfer; and implementing more effective and efficient administrative operations. But there are still key areas that require creative thinking and difficult decisions in order to achieve sustainable results and secure the University’s long-term future. While it’s tempting to recast our plans in light of the economic downturn, the truth is that the challenges we face today—including diminished public support, changing demographics and state spending priorities, intense competition, and increased demand for public accountability and demonstrable results have been on the horizon for some time. The economic downturn has not created these challenges, but it has accelerated the timeframe in which we must react to the “new normal.”

University of Minnesota
Consolidated Statements of Net Assets (Excluding Component Units)
June 30, 2009 and 2008 (in thousands)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 274,904	\$ 270,632
Securities lending collateral	-	118,956
Short-term investments	44,704	70,586
Receivables, net	252,333	213,777
Inventories	23,144	19,914
Student loans receivable, net	8,052	8,423
Prepaid expenses and deferred charges	1,412	5,729
Other assets	670	200
Total current assets	605,219	708,217
Noncurrent assets		
Restricted cash and cash equivalents	51,416	68,806
Investments	1,147,533	1,435,584
Receivables, net	598	691
Student loan receivables, net	59,401	64,778
Prepaid expenses and deferred charges	2,986	2,105
Other assets	47	37
Capital assets, net	2,466,983	2,263,790
Total noncurrent assets	3,728,964	3,835,791
Total assets	4,334,183	4,544,008
Liabilities		
Current liabilities		
Accounts payable	123,698	60,971
Accrued liabilities and other	269,932	246,337
Securities lending collateral	-	118,956
Unearned income	66,551	97,122
Long-term debt-current portion	486,999	556,222
Total current liabilities	947,180	1,079,608
Noncurrent liabilities		
Accrued liabilities and other	113,666	101,058
Unearned income	878	1,082
Long-term debt	447,226	268,531
Total noncurrent liabilities	561,770	370,671
Total liabilities	1,508,950	1,450,279
Net Assets		
Unrestricted	162,156	218,680
Restricted		
Expendable	833,332	1,126,294
Nonexpendable	242,606	238,821
Invested in capital assets, net of related debt	1,587,139	1,509,934
Total net assets	\$ 2,825,233	\$ 3,093,729

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position

June 30, 2009 and 2008 (in thousands)

	University of Minnesota Foundation		Minnesota Medical Foundation	
	2009	2008	2009	2008
Assets				
Cash and cash equivalents	\$ 6,481	\$ 7,498	\$ 89	\$ 442
Investments, substantially at fair market value	1,088,739	1,291,169	220,315	252,423
Investments held for unitrusts, annuity trusts, and gift annuities			9,340	12,435
Investments designated for endowments				
Investments loaned to broker	23,268	137,135	16,706	41,840
Investments collateral	22,251	140,166	14,511	42,096
Pledges receivable, net	68,140	71,604	111,544	77,678
Accounts and other receivables	31,426	2,388	1,928	2,029
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	42,871	59,146	25,679	31,667
Gift annuities	27,284	32,556		
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net	985	951	428	430
Prepays and other assets			145	237
Total assets	1,311,445	1,742,613	400,685	461,277
Liabilities				
Accounts payable and accrued liabilities	4,200	6,892	4,613	3,659
Deferred revenue			281	281
Gift annuities payable	18,095	16,813		
Split-interest agreement liabilities			6,269	7,271
Unitrusts, pooled income, and annuity trusts payable	8,744	11,748		
Investments held for custody of others	51,449	66,116	1,538	1,900
Payable under investment loan agreement	23,764	140,166	17,193	43,075
Bonds and capital lease payable				
Total liabilities	106,252	241,735	29,894	56,186
Net Assets				
Unrestricted	34,110	73,032	10,776	11,161
Temporarily restricted	653,541	923,367	202,570	191,143
Permanently restricted	517,542	504,479	157,445	202,787
Total net assets	1,205,193	1,500,878	370,791	405,091
Total liabilities and net assets	\$ 1,311,445	\$ 1,742,613	\$ 400,685	\$ 461,277

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position

June 30, 2009 and 2008 (in thousands)

	Minnesota Landscape Arboretum Foundation		Minnesota 4-H Foundation	
	2009	2008	2009	2008
Assets				
Cash and cash equivalents	\$ 795	\$ 810	\$ 443	\$ 376
Investments, substantially at fair market value	299	491	6,947	7,868
Investments held for unitrusts, annuity trusts, and gift annuities				
Investments designated for endowments	20,456	25,633		
Investments loaned to broker				
Investments collateral				
Pledges receivable, net	1,268	2,065	874	1,190
Accounts and other receivables	197	51	12	23
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	302	349	22	44
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net			12	14
Prepays and other assets	12	12	4	4
Total assets	23,329	29,411	8,314	9,519
Liabilities				
Accounts payable and accrued liabilities	3,373	21	580	200
Deferred revenue	465	420		
Gift annuities payable				
Split-interest agreement liabilities				
Unitrusts, pooled income, and annuity trusts payable				
Investments held for custody of others			1,217	1,540
Payable under investment loan agreement				
Bonds and capital lease payable				
Total liabilities	3,838	441	1,797	1,740
Net Assets				
Unrestricted	415	4,967	197	290
Temporarily restricted	3,846	9,211	4,621	4,709
Permanently restricted	15,230	14,792	1,699	2,780
Total net assets	19,491	28,970	6,517	7,779
Total liabilities and net assets	\$ 23,329	\$ 29,411	\$ 8,314	\$ 9,519

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position

June 30, 2009 and 2008 (in thousands)

	University of Minnesota Physicians		University of Minnesota Alumni Association	
	2009	2008	2009	2008
Assets				
Cash and cash equivalents	\$ 30,494	\$ 41,911	\$ 267	\$ 556
Investments, substantially at fair market value	14,496	6,335	20,145	26,361
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	46,761	47,502	109	141
Interest in charitable lead trusts, unitrusts, pooled income, and trusts				
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties			132	116
Property and equipment, net	18,557	13,577	204	245
Prepays and other assets	3,393	3,680	287	248
Total assets	113,701	113,005	21,144	27,667
Liabilities				
Accounts payable and accrued liabilities	56,378	57,080	187	269
Deferred revenue			3,556	3,375
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	56,378	57,080	3,743	3,644
Net Assets				
Unrestricted	57,323	55,925	16,772	23,057
Temporarily restricted			449	206
Permanently restricted			180	760
Total net assets	57,323	55,925	17,401	24,023
Total liabilities and net assets	\$ 113,701	\$ 113,005	\$ 21,144	\$ 27,667

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position

June 30, 2009 and 2008 (in thousands)

	University Gateway Corporation	
	2009	2008
Assets		
Cash and cash equivalents	\$ 969	\$ 907
Investments, substantially at fair market value		279
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	31,911	32,294
Interest in charitable lead trusts, unitrusts, pooled income, and trusts		
Gift annuities		
Interest in the net assets of related parties	17,968	22,267
Due from affiliated parties		
Property and equipment, net	8,797	7,912
Prepays and other assets	677	712
Total assets	60,322	64,371
Liabilities		
Accounts payable and accrued liabilities	2,431	1,203
Deferred revenue		
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	43,856	44,408
Total liabilities	46,287	45,611
Net Assets		
Unrestricted	14,029	18,734
Temporarily restricted	6	26
Permanently restricted		
Total net assets	14,035	18,760
Total liabilities and net assets	\$ 60,322	\$ 64,371

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, 2009 and 2008 (in thousands)

	2009	2008
Revenues		
Operating revenues		
Student tuition and fees, net of scholarship allowances of \$132,401 in 2009; \$122,406 in 2008	\$ 590,647	\$ 547,874
Federal grants and contracts	398,804	420,638
State and other government grants	45,492	74,083
Nongovernmental grants and contracts	217,714	212,936
Student loan interest income	1,897	1,664
Sales and services of educational activities	197,357	161,526
Auxiliary enterprises, net of scholarship allowances of \$14,761 in 2009; \$13,657 in 2008	289,408	307,975
Other operating revenues	1,968	2,900
Total operating revenues	1,743,287	1,729,596
Expenses		
Operating expenses		
Education and general		
Instruction	684,940	676,125
Research	600,096	564,907
Public service	203,107	190,933
Academic support	379,993	331,105
Student services	99,436	89,437
Institutional support	231,295	196,648
Operation and maintenance of plant	244,543	246,787
Scholarships and fellowships	90,429	82,662
Depreciation	154,517	145,251
Auxiliary enterprises	214,949	222,778
Other operating expenses, net	923	489
Total operating expenses	2,904,228	2,747,122
Operating Loss	(1,160,941)	(1,017,526)
Nonoperating Revenues (Expenses)		
Federal appropriations	22,409	8,363
State appropriations	707,806	733,740
Grants	157,708	128,025
Gifts	129,212	124,427
Investment income	(92,525)	41,016
Net decrease in the fair market value of investments	(175,083)	(90,864)
Interest on capital-asset related debt	(29,395)	(32,107)
Other nonoperating revenues, net	(110)	(2,788)
Net nonoperating revenues	720,022	909,812
Loss Before Other Revenues	(440,919)	(107,714)
Capital appropriations	65,913	74,937
Capital grants and gifts	39,198	19,753
Additions to permanent endowments	9,049	12,468
Total other revenues	114,160	107,158
Decrease In Net Assets	(326,759)	(556)
Change in accounting principle	58,263	(12,820)
Net assets at beginning of year	3,093,729	3,107,105
Net assets at end of year	\$ 2,825,233	\$ 3,093,729

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Revenues					
Contributions	\$ 154	\$ 76,235	\$ 20,804	\$ 97,193	\$ 131,934
Investment income, net	160	6,955	15	7,130	14,662
Net realized and unrealized losses on investments	(23,024)	(221,970)		(244,994)	(41,826)
Change in value of trusts	(91)	(9,037)	(7,756)	(16,884)	(7,180)
Support services revenue	2,606			2,606	2,725
Other revenue	796			796	626
Net assets released from restriction	122,009	(122,009)		-	-
Total revenues	102,610	(269,826)	13,063	(154,153)	100,941
Expenses					
Program services					
Distributions for educational purposes	119,760			119,760	96,657
Support services					
Management and general	8,028			8,028	8,114
Fund-raising	13,744			13,744	13,338
Total expenses	141,532	-	-	141,532	118,109
Increase (decrease) in net assets	(38,922)	(269,826)	13,063	(295,685)	(17,168)
Net assets at beginning of year	73,032	923,367	504,479	1,500,878	1,518,046
Net assets at end of year	\$ 34,110	\$ 653,541	\$ 517,542	\$ 1,205,193	\$ 1,500,878

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	Minnesota Medical Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Revenues					
Contributions	\$ 2,583	\$ 71,191	\$ 6,450	\$ 80,224	\$ 103,549
Investment income, net	(861)	(18,178)	(41,068)	(60,107)	(17,721)
Change in value of split-interest agreements		(1,640)	(3,822)	(5,462)	(999)
Service charges	4,552	(3,257)	(1,210)	85	107
Receipts from affiliated parties	5,725	(373)	(73)	5,279	2,193
Spending allocation	13	7,244	(7,257)	-	-
Change in donor restrictions		(1,638)	1,638	-	-
Net assets released from restriction	41,922	(41,922)		-	-
Total revenues	53,934	11,427	(45,342)	20,019	87,129
Expenses					
Program services					
Research and education grants	38,318			38,318	36,732
Communications	778			778	393
Student aid and scholarships	2,041			2,041	2,024
Honor and award grants	582			582	550
Alumni and sponsored events	918			918	851
Support services					
Management and general	3,713			3,713	3,571
Fund-raising	7,969			7,969	6,966
Total expenses	54,319	-	-	54,319	51,087
Increase (decrease) in net assets	(385)	11,427	(45,342)	(34,300)	36,042
Net assets at beginning of year	11,161	191,143	202,787	405,091	369,049
Net assets at end of year	\$ 10,776	\$ 202,570	\$ 157,445	\$ 370,791	\$ 405,091

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	Minnesota Landscape Arboretum Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Revenues					
Contributions	\$ 2,041	\$ 885	\$ 419	\$ 3,345	\$ 4,097
Membership dues and fees	860			860	811
Investment income, net	(4)	(47)		(51)	85
Net realized and unrealized losses on investments	(637)	(4,337)		(4,974)	(926)
Change in value of annuity trust			19	19	21
Other revenue	192			192	306
Net assets released from restriction	1,866	(1,866)		-	-
Total revenues	4,318	(5,365)	438	(609)	4,394
Expenses					
Program services	7,828			7,828	6,125
Support services					
Management and general	111			111	55
Fund-raising	931			931	908
Total expenses	8,870	-	-	8,870	7,088
Increase (decrease) in net assets	(4,552)	(5,365)	438	(9,479)	(2,694)
Net assets at beginning of year	4,967	9,211	14,792	28,970	31,664
Net assets at end of year	\$ 415	\$ 3,846	\$ 15,230	\$ 19,491	\$ 28,970

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	Minnesota 4-H Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Revenues					
Contributions	\$ 95	\$ 147	\$ 1	\$ 243	\$ 207
Investment income, net	21	(1,128)		(1,107)	(176)
Change in value of annuity trust		(17)	(4)	(21)	2
Other revenue	223	751		974	2,033
Net assets released from restriction	1,069	(1,069)		-	-
Total revenues	1,408	(1,316)	(3)	89	2,066
Expenses					
Program services	1,051			1,051	1,046
Support services					
Management and general	117			117	108
Fund-raising	183			183	204
Total expenses	1,351	-	-	1,351	1,358
Increase (decrease) in net assets	57	(1,316)	(3)	(1,262)	708
Net assets at beginning of year	290	4,709	2,780	7,779	7,071
Reclassification of net assets	(150)	1,228	(1,078)	-	-
Net assets at end of year	\$ 197	\$ 4,621	\$ 1,699	\$ 6,517	\$ 7,779

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

University of Minnesota Physicians

	Total (unrestricted)	
	2009	2008
Revenues		
Net patient service revenue	\$ 188,913	\$ 176,365
Investment income, net	818	1,514
Net realized and unrealized gains (losses) on investments	(630)	66
Other revenue	146,704	109,344
Total revenues	335,805	287,289
Expenses		
Program services		
Health care services	300,432	252,840
Support services		
Management and general	33,975	28,138
Total expenses	334,407	280,978
Increase in net assets	1,398	6,311
Net assets at beginning of year	55,925	49,614
Net assets at end of year	\$ 57,323	\$ 55,925

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	University of Minnesota Alumni Association				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Revenues					
Contributions	\$ 78		\$ 1	\$ 79	\$ 91
Membership dues and fees	825			825	859
Investment income, net	(50)	\$ (1)		(51)	88
Change in value of investments	(4,844)	(150)		(4,994)	(714)
Other revenue	2,255			2,255	2,816
Net assets released from restriction	68	(68)		-	-
Total revenues	(1,668)	(219)	1	(1,886)	3,140
Expenses					
Program services	4,098			4,098	4,362
Support services					
Management and general	549			549	512
Fund-raising	89			89	64
Total expenses	4,736	-	-	4,736	4,938
Increase (decrease) in net assets	(6,404)	(219)	1	(6,622)	(1,798)
Reclassification of net assets	119	462	(581)	-	-
Net assets at beginning of year	23,057	206	760	24,023	25,821
Net assets at end of year	\$ 16,772	\$ 449	\$ 180	\$ 17,401	\$ 24,023

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008) (in thousands)

	University Gateway Corporation			
	Unrestricted	Temporarily restricted	Total 2009	Total 2008
Revenues				
Investment income, net	\$ 8		\$ 8	\$ 523
Direct financing lease revenue	3,260		3,260	3,281
Change in derivative financial instruments	(937)		(937)	(54)
Change in the interest in net assets of related parties	(4,292)	\$ (7)	(4,299)	(699)
Other revenue	2,670		2,670	2,694
Net assets released from restriction	13	(13)	-	-
Total revenues	722	(20)	702	5,745
Expenses				
Program services	4,960		4,960	5,722
Support services				
Management and general	65		65	39
Payment to affiliated parties	402		402	391
Total expenses	5,427	-	5,427	6,152
Decrease in net assets	(4,705)	(20)	(4,725)	(407)
Net assets at beginning of year	18,734	26	18,760	19,167
Net assets at end of year	\$ 14,029	\$ 6	\$ 14,035	\$ 18,760

See notes to consolidated financial statements.

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

Years Ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Cash Flows From Operating Activities		
Student tuition and fees	\$ 593,281	\$ 550,600
Grants and contracts (federal, state, nongovernmental, other)	631,048	684,696
Sales and services of educational activities	189,948	159,379
Auxiliary enterprises	291,962	303,546
Other operating revenues	1,776	2,887
Payments to employees for services	(1,413,471)	(1,336,136)
Payments for fringe benefits	(438,526)	(413,418)
Payments to suppliers for goods and services	(747,897)	(770,144)
Payments for scholarships and fellowships	(82,309)	(78,993)
Loans issued to students	(4,211)	(12,219)
Collection of loans to students	11,130	10,125
Net cash used by operating activities	(967,269)	(899,677)
Cash Flows From Noncapital Financing Activities		
Federal appropriations	22,409	10,745
State appropriations	726,603	839,808
Grants for other than capital purposes	115,978	129,722
Gifts for other than capital purposes	124,213	118,371
Private gifts for endowment purposes	9,048	12,468
Other nonoperating revenues (expenses), net	1,247	(5,592)
Direct lending receipts	277,108	246,145
Direct lending disbursements	(277,900)	(245,738)
Agency transactions	(1,617)	(757)
Net cash provided by noncapital financing activities	997,089	1,105,172
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	49,545	83,841
Capital grants and gifts	37,410	20,491
Proceeds from capital debt	145,952	73,180
Proceeds from sale of capital assets	1,074	1,402
Purchases of capital assets	(328,139)	(344,037)
Principal paid on capital debt	(36,878)	(45,934)
Interest paid on capital debt	(30,019)	(34,436)
Net cash used by capital and related financing activities	(161,055)	(245,493)
Cash Flows From Investing Activities		
Investment income, net	71,791	72,657
Proceeds from sales and maturities of investments	2,332,693	2,634,595
Purchase of investments	(2,286,367)	(2,561,712)
Net cash provided by investing activities	118,117	145,540
Net Increase (Decrease) in Cash and Cash Equivalents	(13,118)	105,542
Cash and Cash Equivalents at Beginning of Year	339,438	233,896
Cash and Cash Equivalents at End of Year	\$ 326,320	\$ 339,438

See notes to consolidated financial statements.

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

Years Ended June 30, 2009 and 2008 (in thousands)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities	2009	2008
Operating loss	\$ (1,160,941)	\$ (1,017,526)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	154,517	145,251
Changes in assets and liabilities		
Receivables, net	(63,726)	(4,201)
Inventories	(3,230)	(1,137)
Prepaid and other items	2,965	(2,462)
Accounts payable	40,429	(26,198)
Accrued liabilities	28,974	32,124
Deferred revenue	33,743	(25,528)
Net cash used by operating activities	\$ (967,269)	\$ (899,677)

Noncash Investing, Capital, and Financing Activities

Unrealized losses on investments	\$ (175,083)	\$ (90,864)
Capital assets on account	59,947	32,736
Contribution of capital assets	1,578	7,660
Capital assets borrowed under capital lease	1,203	2,036
Amortization of bond premium	806	728

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

Cash and cash equivalents	\$ 274,904	\$ 270,632
Restricted cash and cash equivalents	51,416	68,806
Total cash and cash equivalents at end of year	\$ 326,320	\$ 339,438

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2009 and 2008 (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 Unit—RUMINCO, Ltd. is a wholly owned single parent captive insurance company. Although it is legally separate from the University, RUMINCO, Ltd. is reported as if it were part of the University because its sole purpose is to handle medical malpractice, general liability, directors' and officers' liability, and automobile liability on behalf of the University.

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

University of Minnesota Foundation

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

During fiscal years 2009 and 2008, the UMF distributed \$134,020 and \$110,230, 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 2009 and 2008, the MMF distributed \$46,018 and \$46,092, 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 2009 and 2008, the Minnesota Landscape Arboretum Foundation distributed \$8,523 and \$6,214, 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 2009 and 2008, the Minnesota 4-H Foundation distributed \$968 and \$1,085, 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 2009 and 2008, the Association distributed \$1,330 and \$1,482, 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 2009 and 2008, Gateway distributed \$477 and \$648, 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 2009 and 2008, UMPhysicians distributed \$53,989 and \$42,463, 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 Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial report for these differences. The component units' financial data has, however, been aggregated into like categories for presentation purposes and is shown in these statements in thousands, although in all cases except the University of Minnesota Physicians, the separately issued component units' financial statements are not rounded.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles prescribed by GASB. These statements are prepared on a consolidated, entity-wide basis. All significant 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 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 and endowment income (interest earned on endowments but allocated to other funds). Realized and unrealized gains and losses are reported as a net increase (decrease) in the fair market value of investments.

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

In general, the University follows the Uniform 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 \$1,853 and \$503 for fiscal years 2009 and 2008, respectively.

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

Asset category	Useful life (in years)	Capitalization threshold
Buildings and improvements	10-40	\$50,000
Leasehold improvements	Lease term	50,000
Infrastructure	10-40	50,000
Equipment	3-20	2,500
Library and reference books	10	N/A
Capitalized software-purchased	5	25,000
Capitalized software-internally developed	5	100,000

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

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

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

Restatement of Net Assets—Unrestricted net assets have been restated due to the implementation of GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. 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 on its Statements of Revenues, Expenses, and Changes in Net Assets for the impact of this change.

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 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 \$645 and \$721 for fiscal years 2009 and 2008, 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 2009 and 2008, departmental research in nonsponsored accounts of \$169,750 and \$150,858, 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.

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.

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.

New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), which addresses the recognition of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Additionally, it establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB 51 provides guidance on determining the useful life of intangible assets when contractual or legal provisions limit the length of their life. This statement is effective for the fiscal year ending June 30, 2010, and the provisions of this statement are generally required to be applied retroactively for fiscal years ending after June 30, 1980. Management is in the process of evaluating the impact this statement will have on the University.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), which addresses the recognition, measurement, and disclosure of information regarding derivative instruments. It will require the University to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, at fair value. In addition, disclosure requirements will provide a summary of the University’s derivative instrument activity and the information necessary to assess the University’s objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. This statement is effective for the fiscal year ending June 30, 2010. Management is in the process of evaluating the impact this statement will have on the University.

2. Cash and Investments

Summary

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

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

Authorizations

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

Temporary Investment Pool (TIP)—Short-Term Reserves— The TIP is invested to meet the current obligations of the University. The investment objective for the TIP is to maximize current income while preserving principal and maintaining liquidity. The pool is invested primarily in commercial paper, money market funds, corporate obligations, and U.S. government and agency securities within the credit quality and term constraints of the portfolio. In June 2006, the Board of Regents established a policy that allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF)—a fund of predominantly equity investments managed by outside investment managers and whose investments may have limited liquidity. As of June 30, 2009 and 2008, the market value of TIP assets invested in CEF was \$88,480 and \$119,251, respectively.

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

As of June 30, 2009 and June 30, 2008 TIP's average Standard & Poor's credit rating was AA and is further broken down as follows:

Standard & Poor's quality rating	Market value 2009	Market value 2008
AAA*	\$ 384,768	\$ 141,315
AA		33,801
AA-	25,999	2,499
A+		4,926
A	9,050	7,403
A-	18,814	32,675
A2		
BBB+	14,546	28,305
BBB	5,935	40,688
BBB-		17,978
BB+	25,360	
BB-	12,745	
N/A**	96,550	299,570
Total	\$ 593,767	\$ 609,160

* 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 4.6% over a five-year period. The allocation policy for this fund targets a 40 percent investment in public equities, 20 percent in fixed-income related investments, 20 percent investment in private capital (such as private equity, venture capital, and distressed debt), and 20 percent invested in real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities).

The University's investments in private capital and real assets are generally structured as 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 (FAS) valuation practices. The general partner may use, in the absence of publicly 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, 2009 and 2008, the University had outstanding commitments of \$440,978 and \$531,728, respectively, to private capital and real asset partnership investments that had not yet been drawn down by the general partners of these funds.

The ratable securities in CEF totaled 16.7% of the pool on June 30, 2009 compared to 3.2% on June 30, 2008. They consisted of debt securities that had an average Standard & Poor's rating of AA. The significant increase in debt securities was due to the liquidation of some of the equity positions.

The University distributes funds from the CEF to activities targeted by the endowment purpose. The distribution rate for fiscal year 2009 was 4.6 percent of a five-year moving average of the unit value of the fund. The distribution rate will decrease 10 basis points each year until the annual rate reaches 4.5 percent in fiscal year 2010. When investment income is less than the distribution rate, accumulated capital gains are used to supplement investment income to meet the spending policy. If investment income exceeds the amount needed for distribution, the excess remains in the respective endowment funds.

Group Income Pool (GIP)—Long-Term Reserves— the 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, 2009 and 2008, \$8,347 and \$18,604, respectively, of GIP assets were invested in CEF.

Separately Invested Funds— 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.

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 \$58,447 and \$75,632 on June 30, 2009 and 2008, 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. A further policy limits any investment manager to holding no more than 5 to 7 percent of the portfolio in a single issuer. The University also has an established policy for investments held in the TIP portfolio that limits single issuer concentration to 7 percent. The policy places limits on concentrations to a single issuer, term and credit quality of the individual investments. As of June 30, 2009, and 2008, all securities held in the portfolio 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, 2009, \$8,044 of the University's bank balance of \$8,294 was uninsured and uncollateralized compared with the fiscal year ending June 30, 2008, when \$10,460 of the balance of \$10,560 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 TIP policy limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates.

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

Investment type	Market value 2009	Average duration (years)
Government 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	

The University's investment in securities subject to this risk as of June 30, 2008 was as follows:

Investment type	Market value 2009	Average duration (years)
Governmental issues - agencies	\$94,167	1.22
Corporate bonds	168,274	0.81
Mortgage backed securities	47,148	4.27
Other (primarily mutual funds)	19,959	0.63
Cash and cash equivalents	279,612	0.003
Total	\$609,160	

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 investment policy permits it to target allocations for publicly-traded international securities at 40 percent, with a range around this target of 10-20 percent.

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

Investment Type	Foreign Currency	Market Value 2009	Market Value 2008
Equity	Japanese yen	\$ 5,254	\$ 23,255
Equity	Euro	3,690	39,419
Equity	British pound sterling	2,813	16,074
Equity	Australian dollar	924	5,586
Equity	Hong Kong dollar	761	1,406
Equity	Singapore dollar	588	1,112
Equity	Swiss franc	543	2,730
Equity	Canadian dollar	321	3,439
Equity	Thailand Baht	318	318
Equity	Swedish krona	226	1,982
Equity	Norwegian krone	167	2,493
Equity	New Taiwan dollar	161	48
Equity	Danish krone	148	1,223
Equity	South Korean won	141	368
Equity	Turkish lira	125	-
Equity	South African Rand	112	7
Equity	Malaysian ringgit	89	90
Equity	Mexican Peso	71	469
Equity	New Zealand dollar	66	284
Equity	Polish Zloty	65	23
Equity	Brazilian Real	37	-
Total		\$ 16,620	\$ 100,326

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	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	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

The following summarizes cash, securities lending and investments, including the University's insurance subsidiary at June 30, 2008:

	Temporary investment pool*	Invested assets related to indebtedness	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	Insurance subsidiary	Total
Cash and cash equivalents	\$ 248,452	\$ 6,174		\$ 11,443	\$ (1,111)		\$ 5,674	\$ 270,632
Securities lending			\$ 118,956					118,956
Short-term investments	70,586							70,586
Total current assets	319,038	6,174	118,956	11,443	(1,111)	-	5,674	460,174
Restricted cash and cash equivalents		68,806						68,806
Investments—Securities	257,961	1,020		301,330	32,910	\$ 40	22,073	615,334
Investments—Other				815,536			4,714	820,250
Total noncurrent assets	257,961	69,826	-	1,116,866	32,910	40	26,787	1,504,390
	576,999	\$ 76,000	\$ 118,956	\$ 1,128,309	\$ 31,799	\$ 40	\$ 32,461	\$ 1,964,564
Unrestricted amounts included above	\$ 280,612	\$ -	\$ 23,388	\$ -	\$ 8,742	\$ -	\$ 32,461	\$ 345,203

*Temporary investment pool includes cash-in-transit of \$(15,360) and \$(32,159) on June 30, 2009 and 2008 respectively.

Securities Lending

To enhance the return on investments, the Board of Regents of the University has authorized participation in a global securities lending program. The program was managed by the University's custodial bank, which loaned securities to approved broker-dealers in return for cash or other acceptable collateral. By contractual agreement, the level of collateralization must be at least 102 percent of the market value of the securities loaned. The types of securities lent included domestic and foreign equities and domestic government, agency, and corporate bonds, as well as foreign, sovereign, fixed-income securities. Collateral received was generally in the form of cash, although U.S. government or agency securities, sovereign debt (rated A or better), convertible bonds, and irrevocable bank letters of credit are also acceptable forms of collateral. The University retained all rights to ownership of the loaned securities and received all dividend and interest income. The securities lending agent had the ability to sell collateral securities in the event a borrower defaults.

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 loaned securities with market values of \$0 and \$115,559 on June 30, 2009 and 2008, respectively. These loaned securities were supported by collateral of approximately \$118,956 (which is included as securities lending collateral in the consolidated statements of net assets) on June 30, 2008. Of this collateral amount, approximately \$31,760 was cash and approximately \$87,196 was acceptable noncash collateral on June 30, 2008.

In general, since the value of collateral received exceeded the market value of the securities on loan, in fiscal year 2008 and part of fiscal year 2009, the University's credit risk was minimal. The University and the borrowers of its securities maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loaned security was invested in a collective investment pool, together with the cash collateral of other participants in the securities lending

program. The average duration of the pool was 0 and 40 days as of June 30, 2009 and 2008, respectively. Since the security loans were terminable at will by either the borrower or the lender, the maturity of the loan does not generally match the duration of the investments made with the cash collateral. If the University elected to terminate a security loan, the lending agent had the ability to substitute the same security from a different client while returning the University's security.

Income and cost from its participation in this securities lending program were \$185 and \$79, respectively, for the year ended June 30, 2009, and \$3,005 and \$2,572, respectively, for the year ended June 30, 2008.

3. Other Asset and Liability Information

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	(8,968)		(8,968)
Total receivables, net	\$ 252,333	\$ 598	\$ 252,931
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	27,229	13,079	40,308
Accrued interest	6,534		6,534
Refundable advances		55,732	55,732
Other	36,194	449	36,643
Total accrued liabilities	\$ 269,932	\$ 113,666	\$ 383,598

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, OPEB, termination benefits, see Notes 6, 10, 11)	\$ 182,255	\$ 234,790	\$ (198,518)	\$ 218,527	\$ 180,678
Self-insurance reserves (see Note 9)	33,293	231,906	(224,891)	40,308	27,229
Refundable advances	55,323	409		55,732	
Other	24,428	36,643	(24,428)	36,643	36,194

Receivables, net, and student loans receivable as of June 30, 2008, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$ 5,902		\$ 5,902
Sponsored grants and contracts	79,421		79,421
Notes receivable	156	\$ 691	847
Student receivables	39,620		39,620
Trade receivables	85,757		85,757
Accrued interest	3,660		3,660
Other	8,347		8,347
Allowance for uncollectible accounts	(9,086)		(9,086)
Total receivables, net	\$ 213,777	\$ 691	\$ 214,468
Student loans receivable	\$ 10,660	\$ 65,432	\$ 76,092
Allowance for uncollectible accounts	(2,237)	(654)	(2,891)
Student loans receivable, net	\$ 8,423	\$ 64,778	\$ 73,201

Accrued liabilities as of June 30, 2008, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 16,979	\$ 3,103	\$ 20,082
Compensation and benefits	178,963	30,002	208,965
Self-insurance reserves	20,663	12,630	33,293
Accrued interest	5,304		5,304
Refundable advances		55,323	55,323
Other	24,428		24,428
Total accrued liabilities	\$ 246,337	\$ 101,058	\$ 347,395

Activity for certain liabilities consisted of the following as of June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, OPEB, termination benefits, see Notes 6, 10, 11)	\$ 160,759	\$ 181,962	\$ (160,466)	\$ 182,255	\$ 168,104
Self-insurance reserves (see Note 9)	28,196	206,690	(201,593)	33,293	20,663
Refundable advances	56,157		(834)	55,323	
Other	23,747	24,428	(23,747)	24,428	24,428

4. Capital Assets

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

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable 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	40,693	53		(45)	40,701
Total depreciable capital assets	3,722,372	68,558	53,160	(25,817)	3,818,273
Nondepreciable 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
Total nondepreciable capital assets	334,667	291,857	(53,160)	(47)	573,317
Accumulated depreciation					
Buildings and improvements	(1,171,183)	(74,466)			(1,245,649)
Leasehold improvements	(1,251)	(579)			(1,830)
Equipment	(401,995)	(51,623)		23,159	(430,459)
Infrastructure	(164,253)	(12,047)			(176,300)
Library and reference books	(54,567)	(11,732)			(66,299)
Capitalized software	-	(4,070)			(4,070)
Total accumulated depreciation	(1,793,249)	(154,517)	-	23,159	(1,924,607)
Capital assets, net	\$ 2,263,790	\$ 205,898	\$ -	\$ (2,705)	\$ 2,466,983
Summary					
Depreciable capital assets	\$ 3,722,372	\$ 68,558	\$ 53,160	\$ (25,817)	\$ 3,818,273
Nondepreciable capital assets	334,667	291,857	(53,160)	(47)	573,317
Total capital assets	4,057,039	360,415	-	(25,864)	4,391,590
Total accumulated depreciation	(1,793,249)	(154,517)	-	23,159	(1,924,607)
Capital assets, net	\$ 2,263,790	\$ 205,898	\$ -	\$ (2,705)	\$ 2,466,983

Capital assets, net on June 30, 2008, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets					
Buildings and improvements	\$ 2,452,208		\$ 170,468	\$ (4,706)	\$ 2,617,970
Leasehold improvements	2,036		395		2,431
Equipment	579,564	\$ 62,734	(1,842)	(44,839)	595,617
Infrastructure	336,774		13,774		350,548
Library and reference books	110,688	13,943		(9,518)	115,113
Capitalized software	16,188	24,505			40,693
Total depreciable capital assets	3,497,458	101,182	182,795	(59,063)	3,722,372
Nondepreciable capital assets					
Land	64,028	5,358	756	(27)	70,115
Museums and collections	40,487	3,487			43,974
Construction in progress	161,271	243,229	(183,551)	(371)	220,578
Total nondepreciable capital assets	265,786	252,074	(182,795)	(398)	334,667
Accumulated depreciation					
Buildings and improvements	(1,104,617)	(71,271)		4,705	(1,171,183)
Leasehold improvements	(928)	(323)			(1,251)
Equipment	(391,181)	(51,191)		40,377	(401,995)
Infrastructure	(153,077)	(11,176)			(164,253)
Library and reference books	(52,795)	(11,290)		9,518	(54,567)
Capitalized software	-				-
Total accumulated depreciation	(1,702,598)	(145,251)	-	54,600	(1,793,249)
Capital assets, net	\$ 2,060,646	\$ 208,005	\$ -	\$ (4,861)	\$ 2,263,790
Summary					
Depreciable capital assets	\$ 3,497,458	\$ 101,182	\$ 182,795	\$ (59,063)	\$ 3,722,372
Nondepreciable capital assets	265,786	252,074	(182,795)	(398)	334,667
Total capital assets	3,763,244	353,256	-	(59,461)	4,057,039
Total accumulated depreciation	(1,702,598)	(145,251)	-	54,600	(1,793,249)
Capital assets, net	\$ 2,060,646	\$ 208,005	\$ -	\$ (4,861)	\$ 2,263,790

5. Long-Term Debt

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
Total			\$ 824,753	\$ 147,153	\$ 37,681	\$ 934,225	\$ 486,999

Long-term debt on June 30, 2008, 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 2004A	4.86%	2010	\$ 15,333		\$ 3,635	\$ 11,698	\$ 3,804
Series 2003A	4.39%	2031	67,000		1,250	65,750	1,650
Series 2001C	4.40%	2009	139,250		5,600	133,650	133,650
Series 2001B	4.33%	2009	1,980		360	1,620	1,620
Series 2001A	3.08%	2009	5,240		2,570	2,670	2,670
Series 1999A	4.16%	2009	147,150		10,250	136,900	136,900
Commercial paper notes, Series A	3.15%-3.65%	2009	147,100		5,000	142,100	142,100
Commercial paper notes, Series B	3.15%-3.65%	2009	58,000		3,000	55,000	55,000
Commercial paper notes, Series C	3.15%-3.65%	2009		\$ 70,000	3,500	66,500	66,500
Obligations to the State of Minnesota pursuant to Infrastructure development bonds							
	3.55%-6.90%	2025	57,267		5,751	51,516	5,406
Auxiliary revenue bonds	3.00%	2013	6,545		1,015	5,530	1,080
Special purpose revenue bonds	4.00%-5.00%	2029	147,714		3,189	144,525	4,214
Capital leases and other	1.72%-8.00%	2015	3,621	5,215	1,542	7,294	1,628
Total			\$ 796,200	\$ 75,215	\$ 46,662	\$ 824,753	\$ 556,222

General Obligation Bonds

On May 5, 2009, the University issued General Obligation Taxable Bonds, Series 2009D in the amount of \$37,330 and General Obligation Bonds, Series 2009C in the amount of \$44,625. 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 term bonds were issued at a coupon rate of 6.3 percent, maturing in December 2022 through December 2028 with a discount of \$334. The 2009C bonds were issued at coupon rates of 1.5 – 5 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 \$130,000 line of credit with a major commercial bank. The credit agreement was originally entered into on October 2, 2008 with an expiration date of October 1, 2009. In September 2009, the agreement was extended for another one-year period with a current expiration of October 1, 2010. No amounts have been drawn under the line of credit.

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

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. On November 25, 2008, the SBPA was extended for a 90 day period, and subsequently on February 24, 2009, for an additional 364-day period. Under this agreement, a principal commitment of \$127,750 is available, which is reduced annually in the same amount as the annual principal reduction on the bonds. The agreement, which expires on March 15, 2010, provides for 10 equal semiannual installments, at six-month intervals, of the bonds put back to the banks holding the agreement. No amounts had been drawn under this agreement through June 30, 2009.

In June 2004, the University entered into a SBPA with an expiration date of June 12, 2009, 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 University entered into a SBPA with a replacement bank to provide liquidity support for the Series 1999A bonds. Under this agreement principal commitment of

\$126,300 is available which is reduced annually in the same amount as the annual principal reduction on the bonds. 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, 2009.

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. In the absence of SBPAs, the University has classified the entire obligation of the Series 2003A and 2001B bonds as current liabilities. Since the SBPA related to the Series 2001C expires within the next fiscal year, the University has also classified the entire obligation as a current liability. 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 2009D, 2009B, and 2001B bonds.

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 4–5 percent with a premium of \$10,721.

On November 14, 2008, the Board authorized the issuance of bonds in one or more series to provide financing for the costs of the Biomedical Sciences Research Facilities in the total principal amount of up to \$292,000, provided that authorization for each series is subject to specific certifications by the Board to the State of Minnesota. The November 2008 authorization contemplated initially that the bonds would be issued in a principal amount up to \$16,000, with additional series subject to further approval of the Board. Since this series of debt has not been issued to date, the Board is expected to authorize an initial issuance and sale of bonds up to an aggregate principal amount of \$53,200 in November 2009. In 2008 State of Minnesota legislation, it established an annual state general fund appropriation sufficient to make debt service payments for 75 percent of the cost of constructing the facilities. The construction of the four new facilities will occur over at least a five-year time frame.

University debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on investments purchased from the 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, 2009.

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.

In June 2009, the Board authorized the issuance of additional commercial paper in the principal amount of up to \$33,000 to provide funds to finance pledges related to TCF Bank Stadium. This commercial paper is expected to be issued prior to the end of the 2009 calendar year.

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 \$2,953 and \$2,703 were pledged as security to pay total principal and interest payments of \$1,407 and \$1,404 for auxiliary revenue bonds in fiscal years 2009 and 2008, 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 \$1,318 on June 30, 2009 and \$1,264 on June 30, 2008, for future debt service. An additional \$5,704 and \$5,580 was set aside for building replacement reserves for June 30, 2009 and June 30, 2008, respectively. These mandatory reserves are included in restricted expendable net assets in the financial statements.

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt services of infrastructure development bonds issued by the state for University capital projects. Debt was issued between July 1990 and October 2005, with the University's one third portion of debt obligation totaling \$109,391. The total amount of outstanding debt issued by the state on behalf of the University was \$137,279 as of June 30, 2009 and \$154,547 as of June 30, 2008.

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 \$10,511 and related accumulated depreciation totals \$4,808. The leases bear interest rates between 1.72 percent and 8.0

percent, with none extending beyond fiscal year 2017. 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 2017.

Interest Rate Swaps

In order to protect against future interest rate fluctuations on the University's general obligation bonds and for budgeting purposes, the University has entered into six separate interest rate swaps. All of these are pay fixed and receive variable interest rate swaps, which effectively change the University's variable interest rate bonds to synthetic fixed-rate 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 (expired July 1, 2008), 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 cost to the University.

The University treats the replacement swaps integrated with the issuance of the 2003A, 2001C, and 1999A variable-rate bonds as qualified hedges with respect to these bonds.

Subsequent to fiscal year-end 2009, the University restructured its Series 1999A, 2001C, and 2003A integrated 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). The restructured swaps are effective November 1, 2009.

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

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2009, 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	\$ 64,100	2/27/2009	4.39%	3-Month LIBOR*	Pay fixed and receive variable	\$ (3,757)	8/15/2031
2001C	Integrated	127,750	2/27/2009	4.40%	3-Month LIBOR*	Pay fixed and receive variable	(5,387)	12/1/2036
1999A	Integrated	126,300	2/27/2009	4.16%	3-Month LIBOR*	Pay fixed and receive variable	(5,720)	1/1/2034
							\$ 318,150	\$ (14,864)

Other hedging activities

Freestanding	\$ 70,000	8/27/1997	4.98%	SIFMA Index**	Pay fixed and receive variable	\$ (12,061)	8/27/2017
Freestanding	37,500	8/28/1997	4.88%	LIBOR Index***	Pay fixed and receive variable	(3,987)	8/28/2012
Freestanding	37,500	9/1/1997	4.90%	LIBOR Index***	Pay fixed and receive variable	(4,261)	7/1/2012
	\$ 145,000					\$ (20,309)	

* 3-Month LIBOR (London Interbank Offered Rate) is a filtered average of rates charged by banks for unsecured, 90-day loans to other banks.

** 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.

The University has swap transactions with three separate counterparties. The percentage of the notional amount of swaps outstanding on June 30, 2009, for each counterparty is 69, 23, and 8 percent, while these counterparties are rated A1, A1, and Aa3, respectively, by Moody's Investors Service.

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

Swap contracts with positive fair values are exposed to credit risk. 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. The swap contracts with negative fair values are not exposed to credit risk. As of June 30, 2009, the University was not exposed to credit risk should the counterparty not perform under the terms of the swap agreements.

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, 2009, debt service requirements of the University's outstanding long-term debt obligations and net swap payments are as follows.

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

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30							
2010	\$ 221,707	\$ 263,600	\$ 1,692	\$ 486,999	\$ 73,689	\$ 13,422	\$ 574,110
2011	29,345		1,487	30,832	16,141	10,507	57,480
2012	122,445		1,253	123,698	20,886	8,221	152,805
2013	15,625		977	16,602	14,028	3,379	34,009
2014	15,342		663	16,005	13,281	3,112	32,398
2015-2019	74,087		872	74,959	56,465	9,831	141,255
2020-2024	78,944			78,944	38,495		117,439
2025-2029	90,958			90,958	16,834		107,792
2030-2034	15,228			15,228	2,049		17,277
	\$ 663,681	\$ 263,600	\$ 6,944	\$ 934,225	\$ 251,868	\$ 48,472	\$1,234,565

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, 2009	Bond call date
General obligation bonds 1982 Series A	4/23/1985	\$ 112,635	\$ 65,000	\$ 29,625	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	142,000	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.

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 55 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 six 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 137 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 58 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 9,400 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%	4.50%
University	7.00%	8.51%	11.20%	14.10%	4.50%
Required contributions (\$)					
Employee					
2009	\$296	\$7	\$75	\$400	\$19,297
2008	315	9	77	349	17,621
2007	322	9	75	300	15,799
University					
2009	\$296	\$37	\$1,031	\$601	\$19,321
2008	315	52	1,078	524	17,636
2007	322	51	1,096	450	15,799

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 contributions 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 240 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 programs 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)	\$	339
Interest on net pension obligation (NPO)		181
Adjustment to ARC		(386)
Annual pension cost (expense)		134
Less contributions made –		
fiscal year ended June 30, 2009		(394)
Decrease in NPO		(260)
NPO—June 30, 2008		3,625
NPO—June 30, 2009	\$	3,365

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2009	\$ 134	\$ 394	294.03%	\$ 3,365
6/30/2008	199	391	196.48%	3,625
6/30/2007	203	440	216.75%	3,817

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)
7/1/2008	\$ 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%
7/1/2006	5,099	9,154	4,055	55.70%	1,444	280.82%

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	7/1/2008
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	13 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 the 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, or 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 6,700 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 4,500 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 2009

	FRP	ORP	457	415(m)
Employee	\$16,898	\$39,858	\$10,929	N/A
University	88,068	394	N/A	484

7. Related Organization

The University is responsible for appointing nine members of the 15-member Board of Directors of UCare Minnesota, a licensed nonprofit health maintenance organization (HMO) that provides medical services for its members. The University's accountability for this organization, however, does not extend beyond making board appointments. 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; three members are automatically appointed by virtue of the University positions that they hold.

8. Organization 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 \$10,612 and \$8,390 were billed to Fairview in fiscal years 2009 and 2008, respectively. Fairview billed the University \$456 and \$116 in fiscal years 2009 and 2008, respectively, for pharmaceuticals, medical professionals, and transcription services.

Construction projects in progress, principally buildings, approximated \$445,495 on June 30, 2009. The estimated cost to complete these facilities is \$357,086, which is to be funded from plant fund assets and \$56,246 in appropriations available from the State of Minnesota as of June 30, 2009.

The University owns steam production facilities that produce steam for heating and cooling the Twin Cities campus, which by agreement are managed, operated, and maintained by an unaffiliated company. The term of the agreement is for five years and began May 17, 2004. In fiscal year 2009, the contract was extended for one year, with a contract end date of May 2010. 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, 2009 and 2008, were \$19,242 and \$18,712, respectively, of which \$15,854 and \$16,161 were for real property and \$3,388 and \$2,551 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2009, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2010	\$500	\$11,950	\$12,450
2011		11,591	11,591
2012		11,116	11,116
2013		10,915	10,915
2014		6,578	6,578
2015 - 2019		2,460	2,460
Total commitments	\$500	\$54,610	\$55,110

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 6 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 RxAmerica for pharmacy benefit management. Two carriers provide medical conversion policies to the University under which terminated employees are able to convert their UPlan coverage to single coverage once their COBRA rights expire. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$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 Blue Cross and Blue Shield of Minnesota. 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, 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

Reported liabilities as of June 30, 2008, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$6,490	\$4,122	(\$1,986)	\$1,131	\$9,757
Workers' compensation	7,953	3,759	(3,759)	(579)	7,374
UPlan medical	11,646	166,295	(164,146)	780	14,575
UPlan dental	514	14,390	(14,312)	(55)	537
Graduate assistant health plan	1,119	16,213	(16,294)	(331)	707
Student health plan	474			(131)	343

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, 2009 and 2008, 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 10.5 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
2009	166	\$1,589
2008	250	1,443

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
2009	290	\$2,385
2008	220	1,793

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
2009	118	\$833
2008	222	1,936

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
2009	8	\$14
2008	10	28

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
2009	438	\$4,415
2008	406	2,773

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 no cost to the participant for up to two years 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 3 through 12 after disability onset. The following premium rates were in effect for fiscal year 2009:

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	\$5,269
COBRA	5,374
Disabilitant	5,269

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2009, the University paid \$6,801 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)	\$18,502
Interest on net OPEB obligation	446
Adjustment to annual required contribution	(790)
Annual OPEB cost (expense)	18,158
Less contributions made – fiscal year ended June 30, 2009	(6,801)
Increase in net OPEB obligation	11,357
Net OPEB obligation—June 30, 2008	11,167
Net OPEB obligation—June 30, 2009	\$22,524

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
6/30/2009	\$18,502	\$6,801	36.8%	\$22,524

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, is as follows:

Actuarial accrued liability (AAL)	\$78,866
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	78,866
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Increase in net OPEB obligation	\$11,357
Covered payroll (active plan members)	1,159,736
UAAL as a percentage of covered payroll	6.80%

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 \$4,652 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, 2009. In subsequent fiscal years, it will provide multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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	7/1/2009
Actuarial cost method	Entry age
Amortization method	Level of percentage of salary, open
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	4.00%
Projected salary increase	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	8.50%
Ultimate rate	5.50%
Year ultimate rate reached	2060

12. Pollution Remediation Obligations

The GASB issued Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, which was effective for the University this fiscal year ended June 30, 2009. GASB 49 addresses accounting and financial reporting for pollution (including contamination) remediation obligations once any one of five specified obligating events occurs. As a result of implementing this standard, the University was required to estimate a liability as of June 30, 2009, and apply these provisions to prior reporting periods, thus restating net assets.

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 at June 30, 2009 to reduce the estimated liability.

As of June 30, 2009, the total estimated pollution remediation liability totaled \$4,737. Due to the provisions of GASB 49 being retroactive to prior reporting periods, as of June 30, 2008, a liability of \$11,290 was recorded. Correspondingly, additional operating expenses and restatement (decrease in) of net assets were recorded for the fiscal year ended June 30, 2008. Beginning net assets for the fiscal year ended June 30, 2008, were restated (decreased) as well for the estimated liability of \$12,820 being recorded.

13. Operating Expenses by Natural Classification

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	\$ 583,702	\$ 101,238			\$ 684,940
Research	394,990	205,106			600,096
Public service	137,029	66,078			203,107
Academic support	289,113	90,880			379,993
Student services	81,204	18,232			99,436
Institutional support	197,559	33,736			231,295
Operation and maintenance of plant	107,706	136,837			244,543
Scholarships and fellowships	6,910	1,748	\$ 81,771		90,429
Depreciation				\$ 154,517	154,517
Auxiliary enterprises	84,737	130,212			214,949
Other operating expense		923			923
	\$ 1,882,950	\$ 784,990	\$ 81,771	\$ 154,517	\$ 2,904,228

Operating expenses by natural classification for June 30, 2008, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 586,613	\$ 89,512			\$ 676,125
Research	367,442	197,465			564,907
Public service	127,579	63,354			190,933
Academic support	250,541	80,564			331,105
Student services	73,804	15,633			89,437
Institutional support	169,156	27,492			196,648
Operation and maintenance of plant	104,806	141,981			246,787
Scholarships and fellowships	3,706	71	\$ 78,885		82,662
Depreciation				\$ 145,251	145,251
Auxiliary enterprises	91,639	131,139			222,778
Other operating expense		489			489
	\$ 1,775,286	\$ 747,700	\$ 78,885	\$ 145,251	\$ 2,747,122

14. Subsequent Event

In October 2009, the University restructured its Series 1999A, 2001C, and 2003A integrated swap agreements with its counterparty by lowering the fixed interest pay rate and receiving a variable interest rate based on the SIFMA index instead of the existing percentage of three-month LIBOR. The restructured swaps are effective November 1, 2009.

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 for the benefit of the Department of Psychiatry. 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 5.4%, the present value of future benefits to be received by MMF was estimated to be \$21,641 at June 30, 2009. MMF received payments from the trust totaling \$103 for the year ended June 30, 2009.

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 over a period of 20 years. 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 5.4%, the present value of future benefits to be received by MMF was estimated to be \$3,279 at June 30, 2009. MMF received payments from the trusts totaling \$770 for the year ended June 30, 2009.

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). Consistent with Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, investments held in alternative structures are valued using 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, 2009, are summarized as follows:

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	\$ 66,964		
Fixed income	53,986	\$ 36,171	
Global equity	32,110	82,561	
Hedge funds		284,109	
Natural resources		89,519	
Treasury inflation protected securities (TIPS)	173,825		
Real Estate		62,048	
Venture Capital		224,977	
Total	\$ 326,885	\$ 779,385	\$ 1,106,270
Other investments not categorized above			31,560
Less investments loaned to broker			(23,269)
Less charitable gift annuities reported separately			(25,822)
Total			\$ 1,088,739

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.

Investments include funds held for the custody of others of \$51,449 as of June 30, 2009.

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.

The investments on June 30, 2009, are summarized as follows:

	Total
Cash and cash equivalents	\$ 14,859
Treasury inflation protected securities (TIPS)	64,102
Fixed income corporate bonds	35,570
Municipal bonds	83
U.S. equity	96,319
Foreign equity	17,608
Global distressed debt	3,051
Private equity	590
Foreign private equity	1,008
Real estate	3,310
Venture capital	455
Natural resources	66
Subtotal	237,021
Less investments loaned to broker	(16,706)
Total	\$ 220,315

Investments include funds held for the custody of others of \$1,537 as of June 30, 2009.

Net investment return for the year ended June 30, 2009, consisted of the following:

Interest and dividend income	\$ 6,220
Net realized and unrealized investment gains	(65,421)
Subtotal	(59,201)
Less external investment manager and consultant fees	(906)
Total	\$ (60,107)

In July 2008, MMF entered into an agreement with Commonfund Asset Management Company, Inc. (COMANCO) to provide investment management for MMF's investments within their Strategic Solutions product. COMANCO will provide the day to day management and reporting for the endowment and will consult with MMF regarding asset allocation and investment policy. Additionally, the Strategic Solutions product will allow MMF to incorporate additional asset classes into the portfolios.

Fair Value Measurements

University of Minnesota Foundation

As of July 1, 2008 UMF adopted FASB Statement No. 157, *Fair Value Measurements*, 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 Statement No. 157 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.

UMF financial assets measured at value on a recurring basis at June 30, 2009:

	Fair value measurements using			Total fair value of assets at June 30, 2009
	Level 1	Level 2	Level 3	
Investments				
Cash and cash equivalents	\$ 59,876	\$ 7,088	-	\$ 66,964
Fixed income:				
Asset backed securities	-	2,749	-	2,749
Mortgages	-	27,359	-	27,359
Alternative structures	-	-	\$ 36,171	36,171
Corporate bonds	-	5,239	-	5,239
Government	-	15,774	-	15,774
Other	155	2,710	-	2,865
Global equity:				
Small cap	6,334	-	-	6,334
Large cap	25,019	-	-	25,019
International equities	756	-	-	756
Alternative structures	-	-	82,561	82,561
Hedge funds	-	-	284,109	284,109
Natural resources	-	-	89,519	89,519
Real estate	-	-	62,049	62,049
Treasury inflation protected securities (TIPS)	-	173,825	-	173,825
Venture capital	-	-	224,977	224,977
Other investments	-	-	31,560	31,560
Total investments	\$ 92,140	\$ 234,744	\$ 810,946	\$ 1,137,830
Gift annuities not categorized above	\$ 1,461	-	-	\$ 1,461
Investment collateral	-	-	\$ 22,251	22,251
Receivables from pending liquidation	-	\$ 29,271	-	29,271
Beneficial interest in perpetual trusts	-	-	21,030	21,030
Beneficial interest in trusts	-	-	2,608	2,608

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, 2008	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2009	Net change in unrealized gain (losses) included in change in net assets for the period relating to investments held at June 30, 2009
Fixed income	\$ -	\$ -	\$ 5,234	\$ 30,937	\$ -	\$ 36,171	\$ 5,234
Global equity	249,095	1,395	(69,604)	22,662	(120,987)	82,561	(72,361)
Hedge funds	378,818	-	(58,716)	75,984	(111,977)	284,109	(58,716)
Natural resources	109,525	-	(28,446)	15,494	(7,053)	89,520	(28,446)
Real estate	78,000	-	(25,790)	12,084	(2,246)	62,048	(25,790)
Venture capital	246,930	-	(53,737)	48,670	(16,886)	224,977	(53,737)
Micro cap	7,244	-	(3,631)	-	(3,613)	-	(3,631)
Other investments	34,261	-	(770)	12	(1,943)	31,560	(550)
	\$ 1,103,873	\$ 1,395	\$ (235,460)	\$ 205,843	\$ (264,705)	\$ 810,946	\$ (237,997)

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, 2008	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2009	Net change in unrealized gain (losses) included in change in net assets for the period relating to investments held at June 30, 2009
Investment collateral	\$ 140,166	\$ -	\$ (1,513)	\$ 282,080	\$ (398,482)	\$ 22,251	\$ (1,513)
Beneficial interest in trusts	30,382	(6,930)	-	186	-	23,638	(6,930)

Minnesota Medical Foundation

On July 1, 2008, MMF adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS No. 157 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, and municipal bonds.

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, 2009 consistent with the fair value hierarchy provisions of SFAS No. 157.

Assets	Level 1	Level 2	Level 3	Total
Investments	\$ 65,822	\$ 146,012	\$ 8,481	\$ 220,315
Investments collateral	8,826	4,866	819	14,511
Investment held for unitrusts, annuity trust, and gift annuities	9,206	135	-	9,341
Interest in charitable trusts	-	-	21,642	21,642
Interest in charitable lead trusts	-	-	3,280	3,280
Interest in commercial annuity contracts	-	-	757	757
Total financial assets	\$ 83,854	\$ 151,013	\$ 34,979	\$ 269,846

At June 30, 2009, 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, 2009.

	Investments	Investment collateral	Interest in charitable trusts	Interest in charitable lead trusts	Interest in commercial annuities	Total Level 3 assets
Balance July 1, 2008	\$ 14,109	\$ 42,096	\$ 25,312	\$ 5,549	\$ 806	\$ 87,872
Net investment return	(7,933)	(1,704)	(302)	-	-	(9,939)
Change in value of SIA's	-	-	(3,265)	(1,499)	54	(4,710)
Net purchase and sales	2,305	(25,881)	(103)	(770)	(103)	(24,552)
Net transfers out	-	(13,692)	-	-	-	(13,692)
Balance June 30, 2009	\$ 8,481	\$ 819	\$ 21,642	\$ 3,280	\$ 757	\$ 34,979

Securities Lending

University of Minnesota Foundation

UMF participates in securities lending through a program run by its custodial bank. Under the terms of its securities lending agreement, the program requires brokers who borrow securities from UMF to provide collateral of a value at least equal to 102% of the then fair value of the loaned securities and accrued interest, if any. This collateral is then reinvested on behalf of UMF by the custodial bank. As of June 30, 2009, UMF was in the process of withdrawing from the securities lending program.

The custodial bank has stated that the prime considerations of the collateral pools in which the collateral has been reinvested are liquidity and principal preservation. Given recent market conditions certain securities in these collateral pools may be illiquid, 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. At June 30, 2009, UMF had recorded a loss for an outstanding collateral deficiency liability of \$1,513.

Valuations of the collateral pools are provided to UMF 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 certain 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.

As of June 30, 2009, UMF had equity and fixed income securities with fair values of \$23,268 on loan. UMF 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 approximately \$22,251 and the related liability representing the obligation to return collateral received of \$23,764 are reflected on the statement of financial position as of June 30, 2009. Income from securities lending for the year ended June 30, 2009 was \$416.

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.

As of June 30, 2009, MMF had equity and fixed income securities with fair values of \$16,706 on loan. 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 \$14,511 and the related liability representing the obligation to return collateral received of \$17,193 are reflected on the statement of financial position as of June 30, 2009.

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, 2009, 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	\$ 6,065
Faculty support	5,837
Scholarships and fellowships	55,042
Lectureships, professorships, and chairs	116,565
College program support	52,598
Research	6,392
Trusts	0
Other	1,809
Subtotal	\$244,308

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	\$ 77,012
Faculty support	7,951
Scholarships and fellowships	92,047
Lectureships, professorships, and chairs	27,870
College program support	167,184
Research	23,545
Trusts	6,720
Other	6,904
Subtotal	\$409,233

Total temporarily restricted net assets \$653,541

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances, and purposes the income was expendable to support, as of June 30, 2009, were as follows:

Capital improvement/facilities	\$ 3,442
Faculty support	13,627
Scholarships and fellowships	232,799
Lectureships, professorships, and chairs	177,394
College program support	52,269
Research	7,999
Trusts	28,356
Other	1,656
Total	\$517,542

Minnesota Medical Foundation

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, 2009, for the following purposes:

Medical School - Twin Cities	\$ 72,876
Student scholarships and support	7,202
Academic Health Center	109,293
Faculty grants and awards	9,413
School of Public Health	2,394
Medical School - Duluth	1,392
Total	\$ 202,570

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, 2009, are as follows:

Medical School - Twin Cities	\$ 100,442
Student scholarships and support	23,156
Academic Health Center	20,515
Faculty grants and awards	6,367
School of Public Health	5,646
Medical School - Duluth	1,319
Total	\$ 157,445

Guarantee Agreement and Financing Agreements

University Gateway Corporation

Guarantee Agreement

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

Gateway recorded \$220 and \$222 of bond guarantee fee expense paid to the University of Minnesota Foundation for the years ended June 30, 2009 and 2008, 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 and 2006, 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, 2009 and 2008, is approximately \$291 and \$103, 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 \$937 and \$54 for the years ended June 30, 2009 and 2008, respectively.

Approximate amounts payable under financing agreements at June 30, 2009 and 2008 consisted of the following:

	2009	2008
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	21,305	21,850
Capital lease	282	292
Subtotal	\$ 43,937	\$ 44,492
Less discount on Series 2006 bond	(81)	(84)
Total	\$ 43,856	\$ 44,408

Aggregate annual maturities are approximately as follows:

<u>Fiscal years ending June 30</u>	
2010	\$ 581
2011	601
2012	627
2013	652
2014	678
Thereafter	40,798
	\$ 43,937

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

Required Supplementary Information

- 86 Schedules of Funding Progress for Pension Plan
and Other Postemployment Benefits

Required Supplementary Information (RSI) (Unaudited)

Years ended June 30, 2009 and 2008 (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)
7/1/2008	\$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%
7/1/2006	5,099	9,154	4,055	55.70%	1,444	280.82%

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

Schedule of Funding Progress for the UPlan

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)
6/30/2009	\$-	\$78,866	\$78,866	0.00%	\$1,159,736	6.80%
6/30/2008	\$-	\$77,408	\$77,408	0.00%	\$1,095,615	7.07%

The University adopted GASB 45 as of July 1, 2007. In subsequent fiscal years, it will provide three-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Additional information related to the UPlan as it relates to OPEB is provided in Note 11.