AGENDA

1. Issues Related to: Annual Capital Improvement Budget - R. Pfutzenreuter (pp. 2-3)

2. Issues Related to: University Endowment Asset Allocation - R. Pfutzenreuter/S. Mason (p. 4-17)

3. Consent Report - Review/Action - R. Pfutzenreuter (pp. 18-37)

4. Information Items - R. Pfutzenreuter (pp. 38-64)
Finance and Operations Committee  
May 7, 2009

Agenda Item: Issues Related to: Annual Capital Improvement Budget

☑ review  ☐ review/action  ☐ action  ☑ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☑ background/context  ☑ oversight  ☐ strategic positioning

The University adopts an annual capital improvement budget that authorizes projects to begin design and construction during the upcoming fiscal year.

Detailed project information sheets for projects included in the annual capital budget are included in the Board docket (pages 41-62).

Outline of Key Points/Policy Issues:

The 2010 Annual Capital Improvement Budget authorizes projects totaling $149,633,000 to begin design or construction during the next fiscal year. The Annual Capital Budget is reflective of the planning priorities established by the Six-Year Capital Improvement Plan approved annually by the Board of Regents.

The Annual Capital Improvement Budget incorporates the 2009 State Capital Budget Request as presented to the Minnesota Legislature. The final capital budget will be updated to reflect the outcome of the 2009 session.

The University requires that all capital projects spending more than $500,000 on either design or construction be included in the Annual Capital Improvement Budget. In order to be included in the annual capital budget, the project (1) must be approved by the respective vice president or chancellor; (2) must have completed an appropriate level of planning (typically a predesign); (3) must have all the required funding identified; and (4) must be ready to proceed if approved by the Board of Regents. These requirements lead to better projects, but also exclude from the capital budget some important projects still in development.

Background Information:

Board of Regents policy directs the administration to conduct capital planning with a “6-year time horizon, updated annually.” This annual capital planning process is completed in two parts.
Part 1, reviewed by the Board in May and approved by the Board in June, is the annual Capital Improvement Budget for the coming fiscal year in which projects with completed predesigns and financing plans are approved to proceed with design and construction.

Part 2 is a Capital Improvement Plan that establishes the institution's capital priorities for an additional 5 years into the future. This plan will become the basis for continued capital and financial planning.

**President's Recommendation for Action:**

The President recommends approval of the 2010 University Capital Improvement Budget and reaffirmation of its prior year capital expenditure authorization.
Finance and Operations Committee 

Agenda Item: Issues Related to: University Endowment Asset Allocation

☐ review    ☐ review/action    ☐ action    ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President/CIO Stuart Mason

Purpose:

☐ policy    ☐ background/context    ☒ oversight    ☐ strategic positioning

This report was prepared to update the Board of Regents on the current allocation and performance of the Endowment Fund. The Office of Investments & Banking (OIB) prepared this report on the assets it oversees for review by the Investment Advisory Committee and the Board of Regents.

Outline of Key Points/Policy Issues:

Endowment Fund Allocation Update

• Review of economic and equity market factors.
• Review of asset allocation considerations and recent portfolio activity.
• Review of CEF asset allocation and performance as of February 28, 2009.
• Review of the historical CEF balance and distribution levels.
CEF Overall Objectives

- Preserve the overall inflation-adjusted value of the Endowment
- Maximize total return within acceptable risk parameters.
Market Review

Consumer Confidence

Office of Investments & Banking
Market Review

Median Home Prices

Office of Investments & Banking

University of Minnesota
Market Review

Leading Economic Indicators-YOY

Office of Investments & Banking
Market Review

Mortgage Delinquency vs. Mortgage Foreclosure Rate

Office of Investments & Banking

University of Minnesota
Asset Allocation Considerations

- Portfolio Liquidity
- Overall Market Risks (Equity and Fixed Income)
- Volatility of Returns
- Capital Preservation
Recent Activity

- Added 2 core fixed income managers
- Terminated 2 domestic small cap managers
- Significant reductions in hedge funds
- Terminated 3 international managers
- Added domestic and international index managers
## CEF Analysis

### Asset Allocation

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>2/28/09</th>
<th>12/31/08</th>
<th>06/30/08</th>
<th>06/30/07</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>40.0%</td>
<td>18.5%</td>
<td>26.4%</td>
<td>34.5%</td>
<td>50.0%</td>
<td>35-45%</td>
</tr>
<tr>
<td>Private Capital</td>
<td>20.0%</td>
<td>30.6%</td>
<td>30.8%</td>
<td>24.1%</td>
<td>15.2%</td>
<td>15-25%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>20.0%</td>
<td>23.7%</td>
<td>23.5%</td>
<td>21.0%</td>
<td>16.5%</td>
<td>15-25%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20.0%</td>
<td>27.2%</td>
<td>19.4%</td>
<td>20.4%</td>
<td>18.3%</td>
<td>15-25%</td>
</tr>
</tbody>
</table>

### Actual Allocation 2/28/09

- **Fixed Income**: 27.2%
- **Domestic Equity**: 12.1%
- **Int'l Equity**: 6.4%
- **Real Assets**: 23.7%
- **Private Capital**: 30.6%

### Weights Relative to Target

- **U.S. Equity**: -7.9%
- **Int'l Equity**: -13.6%
- **Private Capital**: 10.6%
- **Real Assets**: 3.7%
- **Fixed Income**: 7.2%
CEF 2009 Strategy

- Maintain enhanced portfolio liquidity
- Slowly increase exposure to public equities as fundamentals improve
- Suspend new commitments to limited partnerships through 2009
- Maintain higher levels of fixed income
# CEF Returns

as of Feb 28 2009

<table>
<thead>
<tr>
<th>Asset Class &amp; Benchmark Returns (%)</th>
<th>Quarter</th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>-9.1</td>
<td>-36.8</td>
<td>-12.4</td>
<td>-5.1</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>-16.4</td>
<td>-43.5</td>
<td>-15.5</td>
<td>-6.4</td>
</tr>
<tr>
<td>International Equity</td>
<td>-14.8</td>
<td>-54.3</td>
<td>-17.4</td>
<td>-3.6</td>
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<tr>
<td>MSCI ACWI</td>
<td>-12.6</td>
<td>-51.5</td>
<td>-14.6</td>
<td>-2.1</td>
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<tr>
<td>Private Capital</td>
<td>-6.4</td>
<td>-9.8</td>
<td>11.2</td>
<td>27.7</td>
</tr>
<tr>
<td>Russell 3000 + 300bp</td>
<td>-15.8</td>
<td>-41.7</td>
<td>-12.9</td>
<td>-3.6</td>
</tr>
<tr>
<td>Real Assets</td>
<td>-4.8</td>
<td>-13.7</td>
<td>-0.3</td>
<td>5.8</td>
</tr>
<tr>
<td>CPI + 400bp</td>
<td>0.9</td>
<td>4.3</td>
<td>6.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>-5.7</td>
<td>-18.7</td>
<td>-3.8</td>
<td>-0.2</td>
</tr>
<tr>
<td>BC Aggregate</td>
<td>2.4</td>
<td>2.1</td>
<td>5.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CEF Total Return (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CEF Custom Index</td>
<td>-8.4</td>
<td>-28.8</td>
<td>-4.2</td>
<td>1.7</td>
</tr>
<tr>
<td>70 Russell 3000/ 30 BC AGG</td>
<td>-11.0</td>
<td>-32.0</td>
<td>-9.5</td>
<td>-3.2</td>
</tr>
</tbody>
</table>
CEF Analysis
Actual CEF vs. Trailing Average

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

Office of Investments & Banking

University of Minnesota
CEF Analysis

* Beginning July 1, 2008, distribution calculation methodology was changed from calculation at pool level to individual endowment level as a result of new FES system.
Finance and Operations Committee

May 7, 2009

Agenda Item: Consent Report

☐ review  ☒ review/action  ☐ action  ☐ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

General Contingency
To approve allocations from General Contingency greater than $250,000.

Purchase of Goods and Services over $250,000
To approve purchases of goods and services over $250,000, in compliance with Board of Regents Policy: Board Operations and Agenda Guidelines.

Outline of Key Points/Policy Issues:

General Contingency
There are no items in the General Contingency report requiring Board approval.

Purchase of Goods and Services Over $250,000

• To Apache Group for an estimated $371,900 for Can Liners (Trash Bags), to be stocked at the University Stores for use in University departments for the period from May 1, 2009 through April 30, 2010. Payment for these stock purchases will come from the University Stores Operating Budget. Purchases for stock are included in the FY 2009 University Stores Operating Budget and will be included in the FY 2010 Operating Budget. The University Stores Operating Budget is approved annually through the Operating Budget Process. Vendor was chosen through a competitive process.

• To BD Biosciences for $706,144 for a BD FACS Aria II fluorescence activated cell sorter to be housed at The Hormel Institute, University of Minnesota, Austin, MN. This instrument will be purchased with funds provided by The Hormel Foundation, the University of Minnesota (start-up faculty funds), and Mayo Clinic Rochester. These funds are currently available for purchasing this instrumentation. Vendor was chosen through a competitive process.
• To Contemporary Services Corporation for $3,500,000 for security and crowd management services for TCF Bank Stadium for the period of July 31, 2009 through July 31, 2014 for the Department of Intercollegiate Athletics. Security and crowd management services for the TCF Bank Stadium will be funded by department budgeted funds. Vendor was selected through a competitive process.

• To GE Healthcare IITS US Corp. for the estimated amount of $2,214,783 for a Centricity Business License Renewal. This contract provides for continued use of GE Practice Management Software from July 31, 2002 through July 31, 2017 for Boynton Health Service. Student Insurance will fund $75,000 of the module addition and the rest of the funding will come from Boynton Health Service Administration. Vendor was selected through a competitive process.

• To Guardian Life Insurance Company of America for the estimated amount of $729,940 for Long Term Disability Coverage for graduate, professional and nursing students in the Academic Health Center. This contract provides for long term disability coverage during two plan years from September 1, 2009 through August 31, 2011, with three one-year renewal options. Boynton Health Service is responsible for this purchase, but the cost is paid entirely by students through a mandatory per semester fee. Vendor was selected through a competitive process.

• To Health Partners Administrators, Inc. for an estimated $2,238,200 to administer self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and UMD Graduate Assistants for the period of August 24, 2009 through August 31, 2011. The Graduate Assistants Health Benefit Plan is a benefit paid primarily by the University through fringe charges to departments in addition to grad students being charged a percentage of the cost. Vendor was selected through a competitive process.

• To IKON Office Solutions, Inc. for $330,000 for a 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of April 1, 2009 through March 31, 2012. The funds come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges and pays the vendor invoice directly from these funds. Vendor was selected through a competitive process.

• To Laser Technologies for an estimated $890,818 for Hewlett Packard laser toner and inkjet printer cartridges to be stocked at the University Stores for use in University departments. The contract period is from June 1, 2009 through May 31, 2010. Payment for these stock purchases will come from the University Stores Operating Budget. Purchases for stock are included in the FY 2009 University Stores Operating Budget and will be included in the FY 2010 Operating Budget. The University Stores Operating Budget is approved annually through the Operating Budget Process. Vendor was selected through a competitive process.

• To Lenovo for an estimated $351,780 to purchase 260 IBM/Lenovo ThinkPad T400 laptops for the incoming Law School class of 2012. The laptops will be purchased through funds obtained through a laptop purchase fee added to the Law School’s Student Technology Fee over the first two semesters of the students’ enrollment. Vendor was selected through a competitive process.

• To Loffler Companies, Inc. for $975,000 for a 3-year contract for copier/multifunction device maintenance offered to all University departments on all campuses through Office Equipment Services (OES), covering the period of April 1, 2009 through March 31, 2012. The funds come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges and pays the vendor invoice directly from these funds. Vendor was selected through a competitive process.
• To Mavo Systems, Inc. for $529,151.95 for the clean-up of flooded areas of the Electrical Engineering and Computer Sciences Building for the period of January 30, 2009 through February 20, 2009 for Facilities Management. This project falls under a property damage loss claim. Vendor was selected through a competitive process.

• To Metro Sales, Inc. for $390,000 for a 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES), covering the period of April 1, 2009 through March 31, 2012. The funds come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges and pays the vendor invoice directly from these funds. Vendor was selected through a competitive process.

• To Protide Pharmaceuticals, Inc. for $577,122.14 for the purchase of custom-made enzymes as needed for the period May 1, 2009 through April 30, 2010 for the Schulze Diabetes Institute, Department of Surgery. The enzymes will be purchased by the Schulze Diabetes Institute with funds budgeted for fiscal years 2009 and 2010. These expenditures will be recovered by charging individual researchers/laboratories for the porcine islet isolation services provided. See attached documentation regarding basis for vendor selection.

• To Toshiba Business Solutions for $300,000 for a 3-year contract for copier/multifunction device maintenance offered to all University departments on all campuses through Office Equipment Services (OES), covering the period of May 1, 2009 through March 31, 2012. The funds come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges and pays the vendor invoice directly from these funds. Vendor was selected through a competitive process.

• To Xerox Corporation for $3,600,000 for a 3-year contract for copier/multifunction device maintenance offered to all University departments on all campuses through Office Equipment Services (OES), covering the period of April 1, 2009 through March 31, 2012. The funds come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges and pays the vendor invoice directly from these funds. Vendor was selected through a competitive process.

**Background Information:**

**General Contingency**

Allocations from the General Contingency in excess of $250,000 require Board approval. Allocations of less than $250,000 are reported in the Board of Regents Finance and Operations Committee each month in which the Committee meets.

**President's Recommendation for Action:**

The President recommends approval of the Consent Report.
## General Contingency

### 2008-09 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
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<tbody>
<tr>
<td><strong>FY2009 General Contingency</strong></td>
<td><strong>$1,400,000</strong></td>
<td></td>
<td></td>
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<tr>
<td>Carryforward from FY2008 into FY2009</td>
<td>896,843</td>
<td>2,296,843</td>
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<td>1 VP for University Relations</td>
<td>22,000</td>
<td>2,274,843</td>
<td>Media relations efforts for Republican National Convention</td>
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<tr>
<td>2 VP for University Relations</td>
<td>50,000</td>
<td>2,224,843</td>
<td>Campus-area neighborhood employee housing incentive</td>
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<tr>
<td>*3 VP for University Relations</td>
<td>250,000</td>
<td>1,974,843</td>
<td>Campus-area neighborhood/district plan and vision</td>
</tr>
<tr>
<td>4 Assoc VP for Campus Planning and Project Development</td>
<td>60,000</td>
<td>1,914,843</td>
<td>Predesign of exercise and wellness center for Cooke Hall</td>
</tr>
<tr>
<td>5 Assoc VP for Campus Planning and Project Development</td>
<td>95,000</td>
<td>1,819,843</td>
<td>Predesign work for Cooke Hall renovation</td>
</tr>
<tr>
<td>6 Associate VP for Auxiliary Services</td>
<td>63,000</td>
<td>1,756,843</td>
<td>Request for Proposal process for Dining Services</td>
</tr>
<tr>
<td>7 General Counsel</td>
<td>46,000</td>
<td>1,710,843</td>
<td>Move of Records Office</td>
</tr>
<tr>
<td>8 Sr VP for Academic Affairs and Provost</td>
<td>100,139</td>
<td>1,610,704</td>
<td>Weisman Art Museum collection digitization project</td>
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<td>9 Assoc VP for Campus Planning and Project Development</td>
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<td>1,435,704</td>
<td>Update to Twin Cities Campus Master Plan</td>
</tr>
<tr>
<td>10</td>
<td></td>
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<td><strong>New items this reporting period:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>13 Assoc VP for Campus Planning and Project Development</td>
<td>(13,393)</td>
<td>1,449,097</td>
<td>Return unused funds from East Cliff mech. system</td>
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<td>14 Executive Director for the Board of Regents</td>
<td>15,602</td>
<td>1,433,495</td>
<td>Additional expenses related to BOR meeting on UMD campus</td>
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<td>15 Chancellor for the University of Minnesota Morris</td>
<td>80,117</td>
<td>1,353,378</td>
<td>Finance Director Position year 1 of 3</td>
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<tr>
<td>16 Sr VP for System Academic Administration</td>
<td>55,000</td>
<td>1,298,378</td>
<td>Awards and Incentives Recognition (AIR) Program</td>
</tr>
<tr>
<td>17</td>
<td></td>
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<tr>
<td><strong>Balance as of April 30, 2009</strong></td>
<td></td>
<td><strong>$1,298,378</strong></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Subject to Board approval due to cost of $250,000 or more</td>
<td></td>
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</table>
Purchase of Goods and Services over $250,000

To Apache Group for an estimated $371,900 for Can Liners (Trash Bags), to be stocked at the University Stores for use in University departments, for the period from May 1, 2009 through April 30, 2010.

Can liners (trash bags) are used throughout the University. These products are purchased as needed by University departments.

Apache Group was chosen as the low bid provider through a competitive bid process. This is the third year of a possible five-year contract. Prices are reviewed each year, in the renewal process, to assure they remain competitive.

Payment for these stock purchases will come from the University Stores Operating Budget. Purchases for stock are included in the Fiscal 2009 University Stores Operating Budget, and will be included in the Fiscal 2010 Operating Budget. The University Stores Operating Budget is approved annually through the Operating Budget Process.

Submitted by: Laurie Scheich, Associate Vice President, Auxiliary Services (624-0542); Ed Kimmel, Director, University Stores (624-4570); Lynn Hein, Purchasing Manager, University Stores (624-6543).

Approval of the item requested by:

Kathleen A. O'Brien, Vice President for University Services  
3/17/09
Purchase of Goods and Services $250,000 and over

To BD Biosciences for $706,144 for a BD FACS Aria ll fluorescence activated cell sorter to be housed at The Hormel Institute, University of Minnesota, Austin, MN.

The purchase of a fluorescence activated cell sorter such as the FACS Aria ll is essential for isolation of purified cell populations, including stem cells. The Hormel Institute is a recognized leader in the scientific field showing that dietary factors modulate crucial cellular signal transduction pathways in cancer development, and in the development of small molecule inhibitors of key cancer proteins.

There are currently five research who have projects involving FACS sorting groups at The Hormel Institute. A research-level cell sorter such as the FACS Aria ll will enable the purification and isolation of specific target cells such as tissue stem cells, IPS cells, and cancer stem cells for downstream analysis of cell proliferation and investigation of cancer cell interactions with chemopreventive and chemotherapeutic compounds. FACS-purified cell populations are required for characterization of biochemical regulatory pathways with which specific cancer genes interact. FACS sorted cell populations will find use in studies of signaling pathways implicated in cancer development or in investigations of tissue morphogenesis and cell interactions relevant to tumor development.

The BD FACS Aria ll was chosen through a competitive bid process.

This instrument will be purchased with funds provided by The Hormel Foundation, the University of Minnesota (start-up faculty funds), and Mayo Clinic Rochester. These funds are currently available for purchasing this instrumentation.

Submitted by: Ann M. Bode, Ph.D.
Associate Director
The Hormel Institute, University of Minnesota
801 16th Ave NE, Austin, MN 55912
Phone: 507-437-9615
Fax: 507-437-9606
Email: ambode@hi.umn.edu

Approval for this item requested by:

[Signature]
Date 4/1/09

VP or Exec. VP Signature
Purchase of Goods and Services $250,000 and over

To Contemporary Services Corporation (CSC) for $3,500,000 for security and crowd management services for TCF Bank Stadium for the period of July 31, 2009 through July 31, 2014 for the Department of Intercollegiate Athletics.

*With Gopher Football coming back to campus and competing in the new TCF Bank Stadium there is a requirement for 24/7/365 security control for the stadium and crowd management services for events held in the stadium (including Gopher Football games).*

*TCF Bank Stadium is considered a high rise complex and code requires that security staffing be on site at all times to ensure the safety of the property, assets within the property and any and all building users. The services include both the 24/7 security staffing component along with the crowd management services for ALL events in the stadium. Crowd management services include: bag checkers, ticket takers, ushers, security control, premium service personnel, etc. CSC will employ approximately 600 people to fulfill these services, with approximately 300 of those working at the stadium during a Gopher Football game.*

*Through a competitive bid process, CSC was selected to provide these services with a 5 year contract with the option to renew for 2 additional years. The annual cost for this service is approximately $700,000 per year. Staffing for 24/7 security will be provided by CSC with a core group of individuals rotating around the clock to provide adequate coverage. Staffing for crowd management services will be drawn from a large pool of applicants recruited by CSC. ALL staff working under CSC at the stadium will have advanced guest service training to deliver the best customer service in the Twin Cities sporting industry.*

*Security and crowd management services for the TCF Bank Stadium will be funded by department budgeted funds.*

Submitted by: Scott Ellison, Associate AD for Facilities and Operations
Intercollegiate Athletics
Room 250, Bieman Athletic Building
Minneapolis Campus
Phone: 612-625-8860
Fax: 612-626-7859

Approval for this item requested by:

[Signature]
VP or Exec. VP Signature

[Signature] 4/1/09
Date
PURCHASE OF GOODS AND SERVICES OVER $250,000

To GE Healthcare IITS US Corp for the estimated amount of $2,214,783 for a Centricity Business License Renewal. This contract provides for continued use of GE Practice Management Software from July 31, 2002, through July 31, 2017 for Boynton Health Services.

In 1987, The Regents of the University of Minnesota, through its Boynton Health Service conducted an RFP and awarded Interpretive Data Systems, Inc (IDS), later renamed IDX Systems Corporation (IDX) a contract to provide an enterprise software package along with annual software maintenance and support. This system provides patient insurance registration, patient clinic scheduling, third party health care insurance claims processing, payment posting, and accounts receivable management for Boynton Health Service. The contract specified a term of fifteen (15) years, with an available renewal of an additional fifteen (15) years upon receipt of a $10,000 payment from the University. The initial fifteen year term expired July 31, 2002. IDX Systems Corporation was acquired by GE Healthcare IITS US Corp in January 2006 and the contract was transferred to GE at that time. Boynton Health Service was contacted by representatives of GE during the summer of 2008 to confirm that the contract was in fact renewed in 2002, but neither party could verify invoicing or payment had occurred.

Given the fact that Boynton Health Services had continued to use the software and pay annual maintenance since 2002, as well as the conclusion that $10,000 was well below market value for renewal of a licensing agreement of this scope and financial magnitude, Boynton Health Services agreed to pay the $10,000 and has signed the renewal. Boynton intends to bid this out prior to the contract end date of 2017. The process for selecting a new vendor and conversion of a practice management system will require a minimum of two years prior to contract termination.

The additional estimated amount of $2,214,783 covers the following items:

- $937,111 is the annual software license maintenance agreement from 2002 through present.
- $121,000 is the new application module addition for a Managed Care Application and Open Referral.
- $1,156,672 is the estimated future annual software license maintenance agreement cost through 2016.

Student Insurance will fund $75,000 of the module addition and the rest of the funding will come from Boynton Health Services Administration.

Submitted by: Edward P. Ehlinger, MD, MSPH
Director and Chief Health Officer
Boynton Health Service; W334
Phone: 612-625-1612
Fax: 612-625-1434

Approval for this item requested by:

[Signature]
Gerald Rinehart, Vice Provost, Office of Student Affairs

Date 9/11/09
PURCHASE OF GOODS AND SERVICES OVER $250,000

To Guardian Life Insurance Company of America for the estimated amount of $729,940.00 for Long Term Disability Coverage for graduate, professional and nursing students in the Academic Health Center. This contract provides for long term disability coverage during two plan years from September 1, 2009, through August 31, 2011 with three one-year renewal options.

In the fall of 2008 Dr. Frank Cerra and the Deans of the Academic Health Center (AHC) asked the Student Health Benefits Office to request a proposal to secure long term disability benefits for students in the six schools and colleges that make up the AHC: Medical School, School of Dentistry, College of Pharmacy, School of Nursing, School of Public Health and College of Veterinary Medicine. The benefits would be provided to Graduate, Professional and Nursing students enrolled in an AHC degree program. This request for benefits originated from Medical School student representatives asking for benefits the Dental School had obtained previously for their students in 2006 and 2007.

All Academic Health Center Graduate and Professional students are in a vulnerable stage in their life while they complete their degrees at the University. They are more likely to be disabled than to die, and they are incurring expenses, debts and loans from financial institutions and family – and making little or no money. The Long Term Disability Contract addresses the potential problems of a student who becomes disabled while attending school.

Through a competitive RFP process, Guardian Life Insurance was chosen because they provided the needed coverage at the best price. The policy will provide coverage for a monthly disability benefit for a disabled student while in school with a potential benefit until the age of Social Security eligibility if a student is permanently disabled. In addition, it includes a benefit to offset expenses (e.g. bank loans) for the student. The policy guarantees a student’s future insurability regardless of any medical pre-existing conditions, through a guaranteed conversion coverage option upon graduation through an individual or group trust plan depending on the school they are graduating from.

Boytton Health Services is responsible for this purchase, but cost is paid entirely by the students through a mandatory per semester fee in the amount of $39.78 per semester, amount to $79.56 per academic year.

Submitted by: Edward P. Ehlinger, MD, MSPH
Director and Chief Health Officer
Boytton Health Service; W334
Phone: 612-625-1612
Fax: 612-625-1434

Approval for this item requested by:

Gerald Rinehart, Vice Provost, Office of Student Affairs Date
Purchase of Goods and Services over $250,000

To HealthPartners Administrators, Inc. for the estimated amounts shown below, to administer self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and UMD Graduate Assistants for the period of August 24, 2009 through August 31, 2011. The administrative and stop loss fees are as follows:

- HealthPartners Administrators, Inc. Administrative Services - $1,516,600
- HealthPartners Administrators, Inc. Stop Loss Insurance - $721,600

Based on the results of a competitive request for proposal process, this is a request to award the initial contract to HealthPartners Administrators, Inc. for the 2009-2010 and 2010-2011 academic years. There are four one-year remaining options to renew the contract. The medical coverage and administration are funded through the fringe benefit recovery pool.

The Twin Cities and UMD Graduate Assistants Plan offer subsidized medical insurance coverage to graduate students with assistantships in research and teaching, if on appointments of at least 25% time or more. The subsidy for “student only” coverage will be 95% for a student with a 50% appointment. The dependent premium subsidy will remain at 65% of the dependent plan’s premium.

The Office of Employee Benefits recommends that the University award the contract to HealthPartners Administrators, Inc.

Submitted by: Dann Chapman
   Director, Employee Benefits

Approval for this item is requested by:

Carol Carrier
Vice President, Office of Human Resources

May 7, 2009
Purchase of Goods and Services over $250,000

To IKON Office Solutions, Inc. for $330,000 for 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of April 1, 2009 through March 31, 2012. There is also an option to renew for 2 additional 1-year increments.

In 1999, Office Equipment Services (OES), a University department, began a centralized billing service for departments who process their copier maintenance billing through OES on a summarized billing. This process represents an administrative simplification for both the vendor and participating University departments.

As a result of this simplification, IKON Office Solutions Inc. has offered lower rates for maintenance of Savin, Canon and Sharp equipment. These lower rates are passed back directly to each department participating in the program administered through OES. This program results in reduced departmental administrative time in processing and reconciling invoices. A potential of 1,200 invoices would need to be processed University-wide in lieu of the current summarized invoices.

This initial contract is a 3-year contract with 2 options to renew in 1 year increments for a total contract period of 5 years.

The funds for this purchase order come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges, and pays the vendor invoice directly from these funds.

Submitted by: Dianne Gregory, Director, General Services
Room 101 Printing Services Building
Minneapolis Campus
Phone: (612) 625-2585
Fax: (612) 626-9500

Approval for this item requested by:

[Signature]
Kathleen O’Brien, Vice President for University Services

4/15/09
Date
Purchase of Goods and Services over $250,000

To Laser Technologies for an estimated $890,818 for Hewlett Packard laser toner and ink-jet printer cartridges, to be stocked at the University Stores for use in University departments. The contract period is from June 1, 2009, through May 31, 2010.

*Hewlett Packard laser and ink-jet supplies are used throughout the University by most departments and research laboratories in a variety of laser and ink-jet printers. These products are purchased as needed by University departments.*

*Laser Technologies was chosen as the low bid provider through the University of Minnesota bid process. This is the second year of a possible five-year contract. Prices are reviewed each year, in the renewal process, to assure they remain competitive.*

*Payment for these stock purchases will come from the University Stores Operating Budget. Purchases for stock are included in the Fiscal 2009 University Stores Operating Budget, and will be included in the Fiscal 2010 Operating Budget. The University Stores Operating Budget is approved annually through the Operating Budget Process.*

Submitted by:  
Laurie Scheich, Associate Vice President, Auxiliary Services (624-0542);  
Ed Kimmel, Director, University Stores (624-4570);  
Lynn Hein, Purchasing Manager, University Stores (624-6543).

Approval of the item requested by:  

[Signature]

Kathleen A. O'Brien, Vice President for University Services

Date: 4/17/09
Purchase of Goods and Services over $250,000

To Lenovo for an estimated $351,780 to purchase 260 IBM/Lenovo ThinkPad T400 laptops for the incoming Law School class of 2012.

The Law School, in order to further the mission of providing a technologically rich learning environment, has implemented a student laptop requirement.

This program affords the students a richer learning experience and a better support program for their laptops through standardization and vendor support. The program benefits the University by allowing Law School technology staff to better protect the enterprise from viruses and other malicious code. The program benefits faculty by allowing them to increase the use of technology in their classes with the knowledge that the students have equipment capable of performing the new learning and assessment opportunities.

Through a competitive proposal (RFP) process, the Lenovo Corporation was chosen as the provider of laptops for the incoming Law class of 2012. This is the second year of this contract with the Lenovo Corporation.

The laptops will be purchased through funds obtained through a laptop purchase fee added to the Law School’s Student Technology Fee over the first two semesters of the students’ enrollment.

Submitted by: Steve Winckelman, Information Technology Director
Room 421, Mondale Hall
Minneapolis Campus
Phone: (612) 625-9327
Fax: (612) 625-3478

Approval for this item requested by:

VP or Exec. VP Signature  Date: 4/26/07
Purchase of Goods and Services over $250,000

To Loffler Companies, Inc. for $975,000 for 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of April 1, 2009 through March 31, 2012. There is also an option to renew for 2 additional 1-year increments.

In 1999, Office Equipment Services (OES), a University department, began a centralized billing service for departments who process their copier maintenance billing through OES on a summarized billing. This process represents an administrative simplification for both the vendor and participating University departments.

As a result of this simplification, Loffler Companies, Inc. has offered lower rates for maintenance of Canon, Konica Minolta, and Copystar equipment. These lower rates are passed back directly to each department participating in the program administered through OES. This program results in reduced departmental administrative time in processing and reconciling invoices. A potential of 4,020 invoices would need to be processed University-wide in lieu of the current summarized invoices.

This initial contract is a 3-year contract with 2 options to renew in 1 year increments for a total contract period of 5 years.

The funds for this purchase order come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges, and pays the vendor invoice directly from these funds.

Submitted by: Dianne Gregory, Director, General Services
Room 101 Printing Services Building
Minneapolis Campus
Phone: (612) 625-2585
Fax: (612) 626-9500

Approval for this item requested by:

[Signature]
Kathleen O'Brien, Vice President for University Services

4/16/09 Date
Purchase of Goods and Services $250,000 and over

To Mavo Systems, Inc. for $529,151.95 for the clean-up of flooded areas of the Electrical Engineering and Computer Sciences Building for the period of January 30, 2009 through February 20, 2009 for Facilities Management.

On January 30, 2009 a chiller pipe connection was found to have failed, flooding the center chase of the building and extending to adjacent offices, labs, and public spaces from fifth floor on down to first floor.

Once flooding occurs and materials such as sheet rock, carpet, and ceiling tile become wet, there is a short window of time before mold begins to grow on the materials. The decision was made to remove the materials that could not be dried as quickly as possible to reduce the overall cost. If this decision was delayed, removal costs could have doubled due to special handling procedures that would have been required.

Mavo Systems, Inc. is a contractor that has completed an RFP process and is on a list of annual abatement contractors that have submitted competitive pricing for work at the University Of Minnesota.

This project falls under a property damage loss claim. A project number is set up and captures all the expenses related to the event. The project is then reconciled once we receive reimbursement from the insurance company.

Submitted by: Sean J. Gabor
Facilities Management
Hazardous Material Program Manager
300 Donhowe Building
Minneapolis Campus
Phone: (612) 625-7547
Fax: (612) 624-1189

Approval for the item requested by:

[Signature]
Kathleen O'Brien, VP University Services

[Date]
Purchase of Goods and Services over $250,000

To Metro Sales, Inc. for $390,000 for 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of April 1, 2009 through March 31, 2012. There is also an option to renew for 2 additional 1-year increments.

In 1999, Office Equipment Services (OES), a University department, began a centralized billing service for departments who process their copier maintenance billing through OES on a summarized billing. This process represents an administrative simplification for both the vendor and participating University departments.

As a result of this simplification, Metro Sales, Inc. has offered lower rates for maintenance of Ricoh equipment. These lower rates are passed back directly to each department participating in the program administered through OES. This program results in reduced departmental administrative time in processing and reconciling invoices. A potential of 2,220 invoices would need to be processed University-wide in lieu of the current summarized invoices.

This initial contract is a 3-year contract with 2 options to renew in 1 year increments for a total contract period of 5 years.

The funds for this purchase order come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges, and pays the vendor invoice directly from these funds.

Submitted by:
Dianne Gregory, Director, General Services
Room 101 Printing Services Building
Minneapolis Campus
Phone: (612) 625-2585
Fax: (612) 626-9500

Approval for this item requested by:

Kathleen O'Brien, Vice President for University Services

4/15/69
Purchase of Goods and Services $250,000 and over

To Protide Pharmaceuticals, Inc for $577,112.14 for the purchase of custom-made enzymes as needed for the period May 1, 2009 through April 30, 2010 for the Schulze Diabetes Institute, Department of Surgery.

The Schulze Diabetes Institute needs to purchase custom-made enzymes used during the porcine islet isolation process. The porcine islet isolation is an important component to the Institute's research.

This is a manufacturer direct contract with Protide Pharmaceuticals to produce the needed enzymes. These enzymes were developed by the University of Minnesota and have been produced by Protide Pharmaceuticals, Inc. in the past with exceptional results. This company is able to meet the quality and consistency needs of the Institute for their research. This company is also able to provide the quantity of product needed for the coming year. This blanket order would cover the solutions needed for one year.

The enzymes will be purchased by the Schulze Diabetes Institute with funds budgeted for fiscal years 2009 and 2010. These expenditures will be recovered by charging individual researchers/laboratories for the porcine islet isolation services provided.

Submitted by: Faith Mrutu, Chief Financial Officer
405 Masonic Memorial Building
Mpls Campus
Phone: (612) 626-4791
Fax: (612) 626-5855

Approval for this item requested by:

[Signature]
VP or Exec. VP Signature

[Signature]
Date

4/21/09
Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because:

Protide Pharmaceuticals Inc. has been the producer of the requested custom-made enzymes used during porcine islet isolation for many years. In order to maintain consistency in results and quality of services, the Institute has determined it needs to continue with Protide. This company is able to provide product that meets the quality and consistency needs for the Institute's research. They are also able to produce the needed quantities of the needed enzymes.

Protide's products are reliable and their costs are in line with Mediatech, Inc, the other company able to provide this service. As an NIH consortium preferred vendor, Mediatech, Inc was used over the past year and has demonstrated they are not able to meet the demands for quantity and quality required by the Institute for their research.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.
Purchase of Goods and Services over $250,000

To Toshiba Business Solutions for $300,000 for 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of May 1, 2009 through March 31, 2012. There is also an option to renew for 2 additional 1-year increments.

In 1999, Office Equipment Services (OES), a University department, began a centralized billing service for departments who process their copier maintenance billing through OES on a summarized billing. This process represents an administrative simplification for both the vendor and participating University departments.

As a result of this simplification, Toshiba Business Solutions has offered lower rates for maintenance of Toshiba and Lanier equipment. These lower rates are passed back directly to each department participating in the program administered through OES. This program results in reduced departmental administrative time in processing and reconciling invoices. A potential of 1,320 invoices would need to be processed University-wide in lieu of the current summarized invoices.

This initial contract is a 3-year contract with 2 options to renew in 1 year increments for a total contract period of 5 years.

The funds for this purchase order come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges, and pays the vendor invoice directly from these funds.

Submitted by: Dianne Gregory, Director, General Services
Room 101 Printing Services Building
Minneapolis Campus
Phone: (612) 625-2585
Fax: (612) 626-9500

Approval for this item requested by:

[Signature: Kathleen O'Brien, Vice President for University Services] [Date: 4/15/09]
Purchase of Goods and Services over $250,000

To Xerox Corporation for $3,600,000 for 3-year contract for copier/multifunction device maintenance offered to all University departments, on all campuses, through Office Equipment Services (OES) covering the period of April 1, 2009 through March 31, 2012. There is also an option to renew for two additional 1-year options.

In 1999, Office Equipment Services (OES), a University department, began a centralized billing service for departments who process their copier maintenance billing through OES on a summarized billing. This process represents an administrative simplification for both the vendor and participating University departments.

As a result of this simplification, Xerox has offered lower rates for maintenance of Xerox equipment. These lower rates are passed back directly to each department participating in the program administered through OES. This program results in reduced departmental administrative time in processing and reconciling invoices. A potential of 4,800 invoices would need to be processed University-wide in lieu of the current summarized invoices.

This initial contract is a 3-year contract with 2 options to renew in 1 year increments for a total contract period of 5 years.

The funds for this purchase order come directly from each University department participating in the program. OES bills each department for the discounted monthly copier maintenance charges, and pays the vendor invoice directly from these funds.

Submitted by: Dianne Gregory, Director, General Services
            Room 101 Printing Services Building
            Minneapolis Campus
            Phone: (612) 625-2585
            Fax: (612) 626-9500

Approval for this item requested by:

Kathleen O'Brien, Vice President for University Services  4/15/09

Date
Finance and Operations Committee

May 7, 2009

Agenda Item: Information Items

☐ review    ☐ review/action    ☐ action    ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy    ☐ background/context    ☒ oversight    ☐ strategic positioning

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

Issuance of University Debt
To provide the Board of Regents with information related to the issuance of General Obligation Bonds, Series C and General Obligation Taxable Bonds, Series 2009D (Build America Bonds-Direct Payment to Issuer).

Outline of Key Points/Policy Issues:

Quarterly Purchasing Report
Detailed reports with brief discussion on the following activity:
• Summary of Purchasing Activity
• Purchases made as Approved Exceptions to Competitive Process
• Purchases made as Preapproved Exceptions to Competitive Process
• Regents Purchasing Policy Violations

Issuance of University Debt

• The University of Minnesota issued approximately $82 million in general obligation bonds: Series 2009C, $45 million of tax-exempt bonds and Series 2009D, $37 million of Build America Bonds, which were authorized under the America Recovery and Reinvestment Act.
• Build America Bonds allow state and local governments to issue taxable bonds for projects eligible for tax-exempt financing and to receive a new direct federal subsidy payment for a portion of their borrowing costs. The United State Treasury Department will make a direct payment to the University in an amount equal to 35 percent of each interest payment due over the next 20 years while the bonds are outstanding.

• The bonds priced on April 15, 2009 with a 3.81% cost of borrowing, resulting in over $2.7 million in cash flow savings for the University over the life of the bonds. The tax-exempt bonds will mature in 2021 and the Build America Bonds will mature from 2022 to 2028.

• The money from issuing the bonds will be used for capital projects – purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment – including the reimbursement of the University for certain amounts previously expended for the costs of such projects. Projects include the new Medical BioSciences Building, the Science Teaching & Student Services Building, and the East Gateway District expansion on the Twin Cities campus; a new residence hall on the Crookston campus; and the Griggs Field renovation on the Duluth campus.

• Wells Fargo Brokerage Services and Wachovia Securities were the underwriters for the bond issue.

• The bonds have been assigned the following long-term ratings:
  o Moody’s Investors Service - Aa2, with stable outlook
  o Standard & Poor’s - AA, with stable outlook

**Background Information:**

**Issuance of University Debt**
- Resolution Related to Issuance of University Debt – approved by the Board of Regents on November 14, 2008.
- Board approval of underwriters – Finance and Operations Consent Report - February 12, 2009
April 23, 2009

The Honorable Steven Hunter, Chair, Finance and Operations Committee
The Honorable Dean Johnson, Vice Chair
The Honorable Clyde Allen
The Honorable Linda Cohen
The Honorable John Frobenius
The Honorable Venora Hung

Committee Members:

Enclosed is Purchasing Services’ report on purchasing activity for 3rd quarter, fiscal year ‘09. Regents policy requires that a quarterly purchasing report, including violations of Regents purchasing policy, be submitted to the Finance and Operations Committee of the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

**Background**

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

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

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

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

“Quarterly Pre-approved Exceptions” are also purchases where the vendor has not been selected through a competitive process. However, they are exceptions that occur routinely with consistent reasons, so that the approval of the justification has become standardized. Refer to Section III of the report for a listing of transactions processed as pre-approved exceptions during the quarter.
"Regents Purchasing Policy Violations" refers to transactions that were processed which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

Please note on the 3rd quarter, 2009 report:

- The third quarter report compares dollars spent on purchases in 3rd quarter of the current year to dollars spent on purchases in 3rd quarter of the 2 previous years. The same comparison is made for approved exceptions and for preapproved exceptions.

  The same comparisons are shown year-to-date, and will become progressively more meaningful with Quarter 4 comparing purchasing activity for 3 complete fiscal years.

- Dollars spent as pre-approved exceptions to bidding increased in 3rd quarter. This 3rd quarter increase is further reflected in the increase in year-to-date dollars spent as pre-approved exceptions. This increase is shown by the data in Section III: The Academic Health Center purchased over $1 million in various lab and medical services related to research projects from Fairview, and the College of Continuing Education established a multi-year contract over $1 million with Personnel Decisions International to collaborate in delivering a popular leadership course. These two purchases resulted in a higher than usual dollar total for pre-approved exceptions.

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

Sincerely,

Michael D. Volna
Associate Vice President-Finance & Controller

Cc: Richard Pfitzenreuter, CFO, Treasurer and Vice President for Budget & Finance
    Ann Cieslak, Executive Director and Corporate Secretary, Board of Regents
    Karen Triplett, Director, Purchasing Services
I. Summary of Purchasing Activity for 3rd Quarter

### Total Quarterly Purchasing Activity

<table>
<thead>
<tr>
<th># of Transactions</th>
<th>Q3 FY07</th>
<th>Q3 FY08</th>
<th>Q3 FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Transactions</td>
<td>159,258</td>
<td>161,970</td>
<td>201,750</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$202,527,576</td>
<td>$252,419,995</td>
<td>$211,834,482</td>
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</table>

### Quarterly Approved Exceptions

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>Q3 FY07</th>
<th>Q3 FY08</th>
<th>Q3 FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>44</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$9,538,113</td>
<td>$1,949,735</td>
<td>$3,077,453</td>
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</table>

### Quarterly Pre-Approved Exceptions

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>Q3 FY07</th>
<th>Q3 FY08</th>
<th>Q3 FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>38</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$1,311,389</td>
<td>$2,018,912</td>
<td>$4,417,127</td>
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Summary of Purchasing Activity YTD

**Total YTD Purchasing Activity**

<table>
<thead>
<tr>
<th># of Transactions</th>
<th>YTD FY07</th>
<th>YTD FY08</th>
<th>YTD FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>476,479</td>
<td>482,777</td>
<td>532,338</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$609,267,829</td>
<td>$729,847,532</td>
<td>$647,906,636</td>
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</table>

**YTD Approved Exceptions**

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>YTD FY07</th>
<th>YTD FY08</th>
<th>YTD FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>158</td>
<td>85</td>
<td>70</td>
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<tr>
<td>Total Dollars Spent</td>
<td>$50,377,649</td>
<td>$13,579,497</td>
<td>$11,341,204</td>
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</table>

**YTD Pre-Approved Exceptions**

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>YTD FY07</th>
<th>YTD FY08</th>
<th>YTD FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>187</td>
<td>56</td>
<td>71</td>
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<tr>
<td>Total Dollars Spent</td>
<td>$7,015,266</td>
<td>$6,211,020</td>
<td>$9,756,290</td>
</tr>
</tbody>
</table>
## II. Purchases made as Approved Exceptions to Competitive Purchasing Process

Under $250,000 - (Goods, Services & Construction)

<table>
<thead>
<tr>
<th>Price</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>88775</td>
<td>Upper Midwest Organ Procurement Organization, Inc., d/b/a Life Source</td>
<td>Service for receiving donor referral calls and triaging the calls to Minnesota Lions Eye Bank.</td>
<td>$240,000</td>
<td>Ophthalmology</td>
</tr>
<tr>
<td>2</td>
<td>104145</td>
<td>SVTA Associates</td>
<td>Components for building CIGS deposition systems.</td>
<td>$200,757</td>
<td>Electrical and Computer Engineering</td>
</tr>
<tr>
<td>2,3,8</td>
<td>B11624.20040</td>
<td>Sarstedt</td>
<td>Disposable lab supplies.</td>
<td>$167,000</td>
<td>University Stores</td>
</tr>
<tr>
<td>8</td>
<td>114703</td>
<td>MBS Textbooks Exchange/ MBS Systems</td>
<td>Upgrade existing Point of Sale (POS) hardware and software systems.</td>
<td>$123,303</td>
<td>UMD Stores</td>
</tr>
<tr>
<td>2,3,8</td>
<td>B11624.20048</td>
<td>Invitrogen</td>
<td>Media, enzymes and molecular biology products.</td>
<td>$123,117</td>
<td>University Stores</td>
</tr>
<tr>
<td>8</td>
<td>118929</td>
<td>MTS Systems Corporation</td>
<td>A digital servo-controller, with function generation, data acquisition, hydraulic control, and I/O with 5 control channels.</td>
<td>$117,882</td>
<td>Civil Engineering</td>
</tr>
<tr>
<td>2,8</td>
<td>118528</td>
<td>Rigaku Americas Corporation</td>
<td>Desktop Minstrel UV Imaging System.</td>
<td>$109,460</td>
<td>Biochemistry, Molecular Biology and Biophysics</td>
</tr>
<tr>
<td>2</td>
<td>102774</td>
<td>Applied Biosystems</td>
<td>Molecular diagnostic testing kits, reagents, and consumables.</td>
<td>$99,745</td>
<td>Vet Diagnostics Lab</td>
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<tr>
<td>2,3,8</td>
<td>B11624.20051</td>
<td>USA Scientific Plastics</td>
<td>Disposable lab supplies.</td>
<td>$98,626</td>
<td>University Stores</td>
</tr>
<tr>
<td>2,3,8</td>
<td>B11624.20034</td>
<td>Rainin Instrument, LLC</td>
<td>Pipet tips and pipettors.</td>
<td>$84,000</td>
<td>University Stores</td>
</tr>
<tr>
<td>2</td>
<td>118200</td>
<td>Sorin Biomedical, Inc.</td>
<td>OptiForm Mechanical Mitral Valves.</td>
<td>$79,800</td>
<td>Surgical Sciences</td>
</tr>
<tr>
<td>8</td>
<td>119337</td>
<td>CommVault Systems, Inc.</td>
<td>Backup software, licensing, support and installation.</td>
<td>$69,004</td>
<td>AHC-Information Systems Office</td>
</tr>
<tr>
<td>3</td>
<td>103940</td>
<td>Suburban Surgical Co., Inc.</td>
<td>Stainless steel 2 compartment integral primate cage unit.</td>
<td>$66,900</td>
<td>Research Animal Resources</td>
</tr>
<tr>
<td>7</td>
<td>83401</td>
<td>Mercodia, Inc.</td>
<td>Elisa assay kits to measure calcineuin subunits A and B in human serum specimens.</td>
<td>$58,480</td>
<td>Epidemiology</td>
</tr>
<tr>
<td>2,3,8</td>
<td>B11624.20021</td>
<td>Dot Scientific</td>
<td>Items produced and distributed by manufacturer made to their unique specifications.</td>
<td>$51,000</td>
<td>University Stores</td>
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15 PURCHASES
TOTAL: $1,689,074
<table>
<thead>
<tr>
<th>Price Reasonableness</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>110070</td>
<td>Saterdalen &amp; Associates</td>
<td>Satellite Symposium.</td>
<td>$161,581</td>
<td>Office of Continuing Education</td>
</tr>
<tr>
<td>8</td>
<td>114844</td>
<td>Kent State University</td>
<td>Professor of Psychology to conduct &quot;Validation Studies of the MMPI-2-RF&quot; research.</td>
<td>$118,798</td>
<td>University Press</td>
</tr>
<tr>
<td>2</td>
<td>107019</td>
<td>Cornerstone Government Affairs</td>
<td>Review, analyze and provide advice regarding strategies to participate in various federal government programs.</td>
<td>$80,000</td>
<td>Department of Applied Economics</td>
</tr>
<tr>
<td>6</td>
<td>119176</td>
<td>National Institute for School Leadership</td>
<td>For curriculum and materials for the Minnesota Principals Academy, and license to the materials.</td>
<td>$67,500</td>
<td>SR VP Academic Affairs/Provost</td>
</tr>
<tr>
<td>6,7</td>
<td>109717</td>
<td>Bosma Research International, Inc.</td>
<td>Development and maintenance of web-based surveys and secure databases.</td>
<td>$62,500</td>
<td>Institute on Community Integration</td>
</tr>
<tr>
<td>8</td>
<td>118640</td>
<td>Rumson Consulting Group</td>
<td>Investment Manager consulting services.</td>
<td>$50,000</td>
<td>Investments &amp; Banking</td>
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Total: $540,379

<table>
<thead>
<tr>
<th>Price Reasonableness</th>
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<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,8</td>
<td>113979</td>
<td>Rigaku Americas Corporation</td>
<td>Minstrel HT Imaging System.</td>
<td>$466,000</td>
<td>Biochemistry, Molecular Biology and Biophysics</td>
</tr>
</tbody>
</table>

Total: $466,000

<table>
<thead>
<tr>
<th>Price Reasonableness</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PO-01571</td>
<td>Hammel Green and Abramson</td>
<td>1.6 - 3.0 MW Wind Turbine.</td>
<td>$382,000</td>
<td>Plant Services - UMM</td>
</tr>
</tbody>
</table>

Total: $382,000
Reasonableness of Single Price is ascertained by one or more of the following:

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

<table>
<thead>
<tr>
<th>Exception</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>117720</td>
<td>Biocare Medical, LLC</td>
<td>Refurbish Nemesis 7200 automated slide staining system.</td>
<td>$50,000</td>
<td>Lab Medicine and Pathology</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>7</td>
<td>93623</td>
<td>Infinera</td>
<td>Annual software maintenance.</td>
<td>$115,600</td>
<td>Networking and Telecommunications Services</td>
</tr>
<tr>
<td>7</td>
<td>110837</td>
<td>Roche Diagnostics Corporation</td>
<td>Maintenance agreement for Genome Sequencer.</td>
<td>$100,000</td>
<td>Microbiology</td>
</tr>
<tr>
<td>7</td>
<td>91496</td>
<td>IBM</td>
<td>Post warranty annual maintenance for BlueGene/L.</td>
<td>$97,992</td>
<td>Hormel Research Institute</td>
</tr>
<tr>
<td>7</td>
<td>118505</td>
<td>Eaton Powerware</td>
<td>Three years of support for two Universal Power Supply units.</td>
<td>$74,461</td>
<td>Office of Information Technology</td>
</tr>
<tr>
<td>7</td>
<td>103551</td>
<td>Oracle Corporation</td>
<td>Database license and support for 2/20/09-11/23/10.</td>
<td>$54,990</td>
<td>Office of Information Technology</td>
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<tr>
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<td></td>
</tr>
<tr>
<td>11</td>
<td>117113</td>
<td>Entuity, Inc.</td>
<td>Network management software.</td>
<td>$942,500</td>
<td>Networking and Telecommunications Services</td>
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21 PURCHASES
TOTAL: $2,535,236
Exception #14: Fairview purchases related to research projects.

<table>
<thead>
<tr>
<th>Exception</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>14</td>
<td>86436</td>
<td>Fairview Health Services</td>
<td>Pharmacy setup, IDS dispensing and lab services.</td>
<td>$154,367</td>
<td>OBGYN</td>
</tr>
<tr>
<td>14</td>
<td>119461</td>
<td>Fairview Health Services</td>
<td>Medical and lab services.</td>
<td>$153,118</td>
<td>HOT Administration</td>
</tr>
<tr>
<td>14</td>
<td>102150</td>
<td>Fairview Health Services</td>
<td>Supplies, services and space lease.</td>
<td>$152,958</td>
<td>Clinic Resources</td>
</tr>
<tr>
<td>14</td>
<td>104807</td>
<td>Fairview Health Services</td>
<td>Lab tests.</td>
<td>$144,188</td>
<td>Pediatrics</td>
</tr>
<tr>
<td>14</td>
<td>111170</td>
<td>Fairview Health Services</td>
<td>Lab services.</td>
<td>$108,946</td>
<td>Neurology</td>
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<tr>
<td>14</td>
<td>99872</td>
<td>Fairview Health Services</td>
<td>Clinical trials.</td>
<td>$100,000</td>
<td>DIIT Administration</td>
</tr>
<tr>
<td>14</td>
<td>105722</td>
<td>Fairview Health Services</td>
<td>Patient care costs.</td>
<td>$100,000</td>
<td>Surgery</td>
</tr>
<tr>
<td>14</td>
<td>102266</td>
<td>Fairview Health Services</td>
<td>Per diem for inpatient stays.</td>
<td>$93,720</td>
<td>AHC-Clinical Research</td>
</tr>
<tr>
<td>14</td>
<td>97306</td>
<td>Fairview Health Services</td>
<td>Patient care costs.</td>
<td>$77,000</td>
<td>Surgery</td>
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<tr>
<td>14</td>
<td>100046</td>
<td>Fairview Health Services</td>
<td>Clinical trials.</td>
<td>$75,000</td>
<td>DIIT Administration</td>
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<tr>
<td>14</td>
<td>102706</td>
<td>Fairview Health Services</td>
<td>Patient care costs.</td>
<td>$72,000</td>
<td>AHC-Clinical Research</td>
</tr>
<tr>
<td>14</td>
<td>108840</td>
<td>Fairview Health Services</td>
<td>Health services.</td>
<td>$68,507</td>
<td>Med Infectious Disease</td>
</tr>
<tr>
<td>14</td>
<td>106882</td>
<td>Fairview Health Services</td>
<td>Pharmacy setup, IDS dispensing and lab services.</td>
<td>$57,375</td>
<td>HOT Administration</td>
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<tr>
<td>14</td>
<td>101091</td>
<td>Fairview Health Services</td>
<td>Clinical trials.</td>
<td>$50,000</td>
<td>DIIT Administration</td>
</tr>
</tbody>
</table>

$1,099,694
# Pre-Approved Exceptions to Competitive Purchasing

**realm:** Professional Services

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

<table>
<thead>
<tr>
<th>Exception</th>
<th>PO #</th>
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<th>Description</th>
<th>Dollar</th>
<th>Department</th>
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</thead>
<tbody>
<tr>
<td>18</td>
<td>97028</td>
<td>Mark F. Desrosiers</td>
<td>Contractor to transfer, maintain and operate Nun Study databases and information systems.</td>
<td>$ 54,400</td>
<td>Laboratory Medicine and Pathology</td>
</tr>
<tr>
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<td></td>
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</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Exception</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>85918</td>
<td>Personnel Decisions International</td>
<td>Training for Successful Manager’s Leadership Program.</td>
<td>$1,102,500</td>
<td>College of Continuing Education</td>
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<tr>
<td>21</td>
<td>87058</td>
<td>Live Nation</td>
<td>Concert producer (Performance by The Killers).</td>
<td>$ 177,411</td>
<td>Northrop</td>
</tr>
<tr>
<td>21</td>
<td>83925</td>
<td>Louzell Productions Ltd.</td>
<td>Concert promoter (Performance by Louie Anderson).</td>
<td>$ 104,270</td>
<td>Northrop</td>
</tr>
<tr>
<td>21</td>
<td>83457</td>
<td>Columbia Artists Management LLC</td>
<td>Performance by the Russian National Ballet.</td>
<td>$ 100,000</td>
<td>Northrop</td>
</tr>
<tr>
<td></td>
<td>104876</td>
<td>Ardani Artists Management, Inc.</td>
<td>Performance by the Elfman Ballet of St. Petersburg.</td>
<td>$ 100,000</td>
<td>Northrop</td>
</tr>
</tbody>
</table>

## Exception #22: Fairview purchases related to research projects.

<table>
<thead>
<tr>
<th>Exception</th>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>91182</td>
<td>Fairview Health Services</td>
<td>Lab Services.</td>
<td>$ 243,310</td>
<td>Department of Medicine</td>
</tr>
</tbody>
</table>

## IV. Regents Policy Violations

**realm:** Professional Services

**exceptions:** 0

### 0 PURCHASES

**total:** $0

<table>
<thead>
<tr>
<th>PO #</th>
<th>Supplier</th>
<th>Description</th>
<th>Dollar</th>
<th>Department</th>
</tr>
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<tbody>
<tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
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</tbody>
</table>
MOODY’S ASSIGNS Aa2 RATINGS TO UNIVERSITY OF MINNESOTA’S GENERAL OBLIGATION BONDS, SERIES 2009C AND GENERAL OBLIGATION TAXABLE BONDS, SERIES 2009D; OUTLOOK IS STABLE

UNIVERSITY WILL HAVE TOTAL OF $1.05 BILLION OF RATED DEBT OUTSTANDING, INCLUDING GUARANTEED DEBT OF UNIVERSITY OF MINNESOTA FOUNDATION AND COMMERCIAL PAPER AT FULL ISSUANCE

Regents of the University of Minnesota
Higher Education
MN

Moody’s Rating

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds, Series 2009C</td>
<td>Aa2</td>
</tr>
<tr>
<td>Sale Amount</td>
<td>$55,000,000</td>
</tr>
<tr>
<td>Expected Sale Date</td>
<td>04/15/09</td>
</tr>
<tr>
<td>Rating Description</td>
<td>Public Higher Education Revenue</td>
</tr>
<tr>
<td>General Obligation Taxable Bonds, Series 2009D</td>
<td>Aa2</td>
</tr>
<tr>
<td>Sale Amount</td>
<td>$35,000,000</td>
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<td>Expected Sale Date</td>
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<tr>
<td>Rating Description</td>
<td>Public Higher Education Revenue</td>
</tr>
</tbody>
</table>

Moody’s Outlook  Stable

Opinion

NEW YORK, Apr 13, 2009 -- Moody’s Investors Service has assigned an Aa2 rating to the University of Minnesota’s General Obligation Bonds, Series 2009C and General Obligation Taxable Bonds, Series 2009D. The rating outlook is stable.

At the same time, we have affirmed the Aa2 and Aa2/VMIG1 ratings on the University’s outstanding long-term debt and the A2-P-1 ratings on the Series A, Series B, and Series C Commercial Paper Notes (detailed in RATED DEBT at the end of the report). Also affirmed at this time is the Aa2 rating on the University of Minnesota Foundation’s outstanding debt, based on the guarantee of the University. Both the University and the Foundation have debt rated Aa2/VMIG1, with the short-term rating based on liquidity support provided by Standby Bond Purchase Agreements (SBPAs).

USE OF PROCEEDS: Proceeds from the Series 2009C and D bonds will be used to fund various capital projects, reimburse the University for funds already expended (about $52 million), and pay costs of issuance.

LEGAL SECURITY: The Series 2009C and D bonds are fixed rate bonds and are a general obligation of the University. The bonds are on parity with its outstanding General Obligation bonds and Commercial Paper Notes. There is no debt service reserve fund. The University may choose to not issue the Series 2009D bonds at the time of sale, depending upon market conditions. If issued, as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA), the University will receive from the federal government a credit subsidy of 35% of the amount of each interest payment on the taxable bonds.

DEBT STRUCTURE AND DEBT-RELATED INTEREST RATE DERIVATIVES: A substantial 71% of the University’s outstanding direct debt is variable rate debt - specifically the Series 1999A, 2001B, 2001C, 2003A, as well as the Commercial Paper, Series A, B and C. The University has entered into a number of interest rate swaps; on 2/27/2009 it terminated three swaps with Lehman Brothers Commercial Bank and entered into replacement swaps with Barclays Capital. As of 3/31/2009, the fair market value of all swaps, including the Barclay swaps, was negative $60 million; the University is not required to post collateral unless its rating moves below Baa2/BBB. Although substantial, the fair market value can fluctuate widely depending
upon market conditions and remaining term on the swaps. We find the risks that might arise from the derivative transactions acceptable for the University's rating level.

STRENGTHS

*Strong market position as a Big Ten public university, with enrollment for Fall 2008 of 58,504 full-time equivalent (FTE) students at its campuses and total research expenses of $565 million for fiscal year (FY) 2008, up from $511 million the prior year.

*Overall strong balance sheet resources, with expendable and total financial resources of $2.6 billion and $3.5 billion, respectively, as of fiscal year end (FYE) 2008; total foundations include $1.9 billion of resources held by the University’s two major affiliated foundations; however expendable and total resources would decline to $1.8 billion and $2.5 billion, respectively, assuming a 30% decline from investment losses and endowment spending.

* Good operating performance and cash flow generation, with a well-diversified revenue base. The University produced a three-year average operating margin of 1.2% as calculated by Moody's, which although favorable has declined steadily from earlier years. However, we expect operating surplus to decrease due to anticipated reductions in state appropriations and constrained revenue growth from tuition and gifts, offset by initiatives taken by the University to reduce or manage expenses or enhance revenues.

*University investments providing sufficient self-liquidity or the presence of bank facilities to support bonds tendered back to the University or commercial paper unable to be remarketed (see SHORT-TERM RATIONALE).

CHALLENGES

*Thin unrestricted resources, resulting in a substantially thinner cushion of only 0.2 times of proforma debt and 0.09 times of annual operating expenses.

*Substantial future borrowing plans planned over the next six years to fund future capital projects for strategically important projects, including the construction of the biomedical research facilities, completion of the stadium construction, and the University's proportional one-third share for state-funded projects; however we note the University will likely defer debt issuance for some projects, including the biomedical research facilities, in reaction to expected contractions in state appropriations and related impact on operating performance.

*Declines in State's demographic environment with an expected decrease in high school graduates from 2009-2013, although mitigated by draw of out-of-state students. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years is projected to decline, decreasing the pool of future applicants.

MARKET POSITION/COMPETITIVE STRATEGY: SOLID STUDENT MARKET AND RESEARCH POSITION HELD BY THIS BIG TEN PUBLIC UNIVERSITY:

Moody's believes that the University of Minnesota will maintain a very strong market position as the flagship public university and the land grant institution for the State, as well as one of the nation's leading educational and research institutions. The University has shown rising enrollment, with full-time equivalent (FTE) enrollment of 58,504 students for Fall 2008, with increases at both undergraduate and graduate levels. The University of Minnesota is a member of the prestigious Big Ten athletic conference, enhancing its broader market draw, resulting in non-resident students accounting for 28% of enrollment for Fall 2008. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years are projected to decline, decreasing the pool of future applicants.

The University of Minnesota is one of the nation's leading research universities, with $565 million of research expenses in FY 2008, up from $511 million in FY 2007. Further, research awards totaled $675 million for FY 2008, up 9% from the $619 million awarded the previous year; increases were experienced in federal, private/business and state funding. Federal awards rose to $443 million from $423 million the prior year. Federal research funding has been generally constrained in recent years with reduced funding and shifting research priorities, with an expected short term increase for the next two years as part of the federal stimulus program. We believe that the University of Minnesota will remain successful in its research activities with good levels of grants from governmental and private sources. An important driver of future growth will be the four biomedical research facilities to be built on the University's Minneapolis campus from 2009 to 2013. In May 2008, the State Legislature approved the funding of 75% of the total $292 million of project costs, or about $220 million; the State's support for the bonds will be accomplished through funds transfers to the University to cover 75% of the debt service on the bonds to be issued to provide the funding for construction.
Moody's believes University of Minnesota will continue to generate favorable operating margins and cash flow generation, although at likely lower levels as it copes with expected decreases in state funding and constrained growth in tuition, gift and investment revenues. For FY 2008, the University produced a three-year average operating margin of 1.2% as calculated by Moody's, down from 2.7% for the three year period of fiscal years 2004-2006. With $145 million of depreciation expense in FY 2008, cash flow has been good, producing average actual debt service coverage of 2.8 times. Revenue sources are diverse, with student charges for tuition and auxiliary services accounting for 29% of FY 2008 total operating revenues, grants and contracts (adjusted to reclassify Pell Grants as tuition rather than grant revenues) for 30%, and state appropriations for 27%.

Regarding state funding, for FY 2009, the current fiscal year, $698 million was appropriated. In December 2008, the Governor of Minnesota imposed a nonrecurring $20 million unallotment to the University for FY2009 to address the forecasted state deficit for the current 2008-2009 biennium. The Governor's budget recommendations released in January 2009 for the 2010-2011 biennium included a recurring reduction in FY2010 of $75.5 million to the University's base appropriation, on top of a recurring $2.6 million base reduction for FY2010 that was passed into law during the 2008 legislative session. From the perspective of the traditional biennial viewpoint, the Governor's budget recommendation results in a biennial reduction of $156.1 million. However, with one-time State Fiscal Stabilization Funds (SFSF) to be received under the federal economic stimulus package (ARRA), the Governor restored the University's funding for fiscal years 2009, 2010 and 2011 so that it would receive the $707 million allocated in FY 2008. However, the additional funds are one-time in nature that will not be carried through to FY 2012. The Governor's current proposal for the FY2012-2013 base has the effect of restoring to the University's biennial base the additional $72 million it was reduced by in FY2010-2011. The University intends to use the SFSF funds for one-time investments as they will not be continued and is modeling budget scenarios to address the expected drop in funding. Although we expect the University will produce less favorable operating performance due to the reductions in state funding, we believe it will implement revenue generating and expense management/reduction initiatives to manage through financial challenges including volatility in state operating support.

Moody's currently maintains an Aa1 general obligation rating for the State of Minnesota and revised the outlook to stable from positive reflecting declining revenues, increased expenditures and complete use of the State's budget reserves. The Aa1 rating is based on the State's strong economic fundamentals and moderate to relatively low debt ratios on a per capital basis and personal income basis. These strengths are offset by the rapid deterioration in finances in the past year, a return to "gridlock" in the state capitol that, in the recent past, led to the use of mostly non-recurring solutions when confronting diminishing revenues and, in 2005, a partial government shutdown, and a slowdown in state economy in recent years. For more information, see Moody's report dated January 12, 2009.

**BALANCE SHEET POSITION: STRONG TOTAL FINANCIAL RESOURCES BASE WITH THINNER UNRESTRICTED RESOURCE LEVELS, WITH MANAGEABLE DEBT PLANS**

University of Minnesota has shown good total financial resource levels, with total resources of $3.5 billion at FYE 2008, down modestly from $3.6 billion the previous year; expendable financial resources were $2.6 billion at 6/30/2008. FY 2008 expendable resources provide a good 2.4 times coverage of $1.056 billion of proforma debt including the current issues, the commercial paper at full program sizes, and the Foundation debt guaranteed by the University; operating expenses are covered 1.0 times. However we expect resources to decline based on year-to-date investment performance and expendable resource cushion of proforma debt decreases to 1.7 times assuming a 30% decline in resources based on investment losses and endowment spending. We note that two major affiliated foundations, the University of Minnesota Foundation and the Minnesota Medical Foundation, held $1.9 billion or more than half of the University's financial resources. The University reported $124 million in gifts that excludes the gift activity of the Foundations that exceeded $235 million for that year. We expect the University will continue to demonstrate fundraising success.

Despite the strong expendable and total resource levels, the University has shown declining unrestricted resources during the past few years - dropping from $370 million in FY 2006 to $230 million in FY 2008 and further declining to $161 million if assuming the 30% resource reduction from investment losses. The cushion of unrestricted resources to debt and operations has likewise narrowed, with FY 2008 unrestricted resources cushioning proforma debt only 0.2 times and operations by only 0.09 times, or slightly more than one month of operating expenses. The decrease in unrestricted resources is due to a number of factors, including the $11.2 million funding of the GASB 45 OPEB liability as well as other liabilities and various accruals.

Removing the OPEB liability from unrestricted net assets, the unrestricted cushion improves slightly to 0.2 times for proforma debt and 0.13 times for operations. We expect unrestricted resource levels to continue to be challenged due to constrained revenue growth and expense pressures with anticipated state funding cuts. However, the University has an active asset liability management oversight and cash flow monitoring and projections to manage its operating needs.

For the current fiscal year through 2/28/2009, the University has a projected loss of about 27% loss on its consolidated endowment pool, including 9/30/08 returns on non-marketable investments; this follows an annual return of -4.8% for the prior year, FY 2008. The University of Minnesota has a diversified long-term endowment portfolio, with allocations at 12/31/2008 of: domestic equities - 17%; international equities - 19%; fixed income - 9%; private capital - 31%; real assets - 24%.
Regarding future debt plans, the University of Minnesota intends to issue up to $143 million in debt for the remainder of 2009 to complete the stadium project, provide the initial funding for the first Biomedical Research Facility and to fund various capital projects. The Board continues to assess its capital needs and debt plans. Nonetheless, we believe the University of Minnesota can absorb the additional planned debt. However, the impact of any debt plans beyond those planned will depend on the successful growth of financial resources, including unrestricted resources, to absorb the anticipated debt and produce continuation of good resource coverage.

SHORT-TERM RATING RATIONALE: UNIVERSITY RELIES ON SELF-LIQUIDITY, INCLUDING THE USE OF A LINE OF CREDIT, TO SUPPORT TENDER FEATURES OF VARIABLE RATE DEMAND OBLIGATIONS AND MATURING COMMERCIAL PAPER

University of Minnesota currently has $65 million of long-term debt in weekly mode backed by self-liquidity - the Series 2001B and the Series 2003A - and about $263 million of outstanding commercial paper Series A, B and C. The obligation to both make payments on tendered bonds that are not remarketed and to pay commercial paper at maturity is a general obligation of the University. There is a limit of no more than $50 million of CP that can mature in any one day, as outlined in the Dealer Agreement. The limit was breached one time for $55 million maturing on a single April 2009 maturity due to a Remarketing Agent rollover; the University has been advised and plans to monitor the maturity schedule more actively to ensure that the limit is maintained.

Moody's believes the University has adequate unrestricted cash and investments to meet the self-liquidity needs of its variable-rate demand bonds and commercial paper notes, although coverage has tightened and the University relies heavily on a $130 million line of credit from Wells Fargo Bank (Aa2/P-1) that expires on 10/1/2009 to support its self liquidity program. The obligation to both make payments on tendered bonds that are not remarketed and to pay commercial paper at maturity is a general obligation of the University. Moody's believes that the University's self-liquidity program provides adequate coverage for the tender features of the variable-rate demand bonds as well as the University's issuances under its commercial paper (CP) programs. The University has approximately $334 million of investments with same-day liquidity, including $192 million in Moody's Aaa-rated Wells Fargo Funds Trust Government Money Market Fund and $142 million in treasuries and agencies.

The University has the right to cancel the bank agreement with notice and can replace a bank at its discretion. In addition, under certain limited circumstances the bank can terminate the commitment immediately. Events which would cause the bank agreement to terminate are: (1) the University's failure to pay any principal or interest when due; (2) any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Documents that continues for 30 days; (3) a default in the compliance of the maintenance of 60 days cash on hand in the University's Temporary Investment Pool that continues for 30 days; (4) a material default in the payment or performance of any obligation in excess of $15 million or to the Bank for any amount that continues for 30 days after notice; (4) failure to pay or satisfy a final, non-appealable judgment in excess of $15 million within 60 days; (5) University becoming insolvent or unable to pay its debts, or a court proceeding seeking an order for liquidation of the University which is not dismissed within 60 days.

Because there is no mandatory tender of outstanding bonds when the bank line of credit expires or terminates, the University of Minnesota's short-term rating for the variable rate debt and commercial paper backed by self-liquidity also reflects adequate levels of available funds with same-day and weekly liquidity in the event the bank lines expire or are terminated by the University. In addition to its same-day liquidity, the University currently has over $186 million of investments on a non-discounted basis which it could liquidate within one week.

Moody's applies its Standard Approach to the self-liquidity analysis, as detailed in our November 2006 report, "Variable Rate Debt Instruments Supported By An Issuer's Own Liquidity." Under the Standard Approach, the University's same-day liquidity investments must cover its daily and weekly liabilities; for 2/28/2009, coverage is 1.4 times. Further, the University's same-day and weekly liquidity investments excluding the bank line must cover its short-term demand debt and for 2/28/2009 coverage is at only 1.2 times. However, we note that the funds used for the self-liquidity reporting are only those of the Temporary Investment Pool that is the operating fund and excludes any cash and investments from the Consolidated Endowment Pool that can be liquidated in one week or less. We also note that the Series 2009C bonds will reimburse the University for $52 million of funds already expended and these proceeds will be invested in securities that can be considered for self-liquidity, further improving coverage. The University's financial management team has a high degree of capability to manage and liquidate these securities in a timely manner, with appropriate procedures to address a failed remarketing of either the bonds or the commercial paper.

The tender feature on the Series 1999A and 2001C General Obligation Bonds ($270 million outstanding at 6/30/08) is supported by Standby Bond Purchase Agreements, all noted in Rated Debt section.

Outlook

The stable rating outlook for the University of Minnesota reflects expectations of minimal to no growth in financial resources during the next two years due to constrained operating performance and weak investment
performance, mitigated by continued favorable fundraising. Overall we expect continuation of favorable student demand and a return to stronger growth trends in research grant activity. There is a stable outlook on the Series 2006 Special Purpose Revenue Bonds reflecting expectations of the payment of the legislated debt service support for the bonds, as well as the State's current stable outlook; any change in rating or outlook for the State could result in a correlated change for the Series 2006 bonds.

What could change the University rating--UP

Significant growth in financial resources with manageable additional further debt issuance; further strengthening of student demand; continued fundraising success; growth in research funding.

What could change the University rating--DOWN

Significant increase in the University's leverage position accompanied by operating deficits and deterioration of student demand; material reduction in unrestricted funds at the University.

KEY INDICATORS (Fiscal 2008 financial data and Fall 2008 enrollment data)

*Figures in parentheses represent FY2008 financial data with a 30% estimated decline in financial resources representing the impact of potential investment losses combined with endowment spending

Total Enrollment: 58,504 full-time equivalent students

Total Proforma Debt (including current issues, CP at full program issuance, and Foundation debt guaranteed by University): $1.05 billion

Unrestricted Financial Resources: $230 million ($161 million)

Expendable Financial Resources: $2.6 billion ($1.8 billion)

Total Financial Resources: $3.6 billion ($2.5 billion)

Unrestricted Resources to Proforma Debt: 0.2 times (0.2 times)

Expendable Resources to Proforma Debt: 2.4 times (1.7 times)

Unrestricted Resources to Operations: 0.09 times (0.06 times)

Expendable Resources to Operations: 1.0 times (0.7 times)

Reliance on State Support: 27% of total operating revenues

State of Minnesota G.O. Rating: Aa1, stable

RATED DEBT

Commercial Paper, Series A, Series B, and Series C: rated P-1 (based on self-liquidity)


General Obligation Series 1999A: rated Aa2/VMIG1 based on SBPA from Landesbank Hessen-Thuringen Girozentrale. The VMIG1 rating expires upon expiration of the SBPA (06/12/2009), or upon earlier termination.


General Obligation Series 2001C - Aa2/VMIG1 rating based on SBPA from JPMorgan Chase Bank, N.A. (rated Aa1/P-1). The VMIG1 rating expires upon expiration of the SBPA (3/16/2010), or upon earlier termination.

Special Purpose Revenue Bonds (State Supported Stadium Debt) Series 2006, rated Aa2

State General Obligation Bonds: Aa1 (based on the State of Minnesota's rating)
University of Minnesota Foundation (University Gateway Project Revenue bonds Guarantee):

General Obligation Series 1997B, rated Aa2/VMIG 1 rating based on SBPA from Wells Fargo Bank, N.A. (rated Aa2/P-1). The VMIG 1 rating expires upon expiration of the SBPA (3/16/2010) or upon earlier termination.

CONTACTS

University: Carole Fleck, Director - Debt Management, 612-624-2858

Underwriter: Wachovia Securities, Nicholas Taylor, (303) 893-4006

METHODOLOGY

The last rating action was on January 27, 2009 when the rating of the University of Minnesota was affirmed and the rating outlook was revised to stable from positive.

The principal methodology used in rating the University of Minnesota was Public Colleges and Universities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

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heading “Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy.”
Summary:
University Of Minnesota; Public Coll/Univ - Unlimited Student Fees

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Credit Profile

University of Minnesota Regents, Minnesota

University of Minnesota, Minnesota

University of Minnesota Regents (University of Minnesota) GO bonds (University Of Minnesota) ser 2009C/D due 04/01/2028

Long Term Rating AA/Stable Rating Assigned

Rationale

Standard & Poor’s Ratings Services affirmed its ‘AA’ long-term rating to the Regents of the University of Minnesota’s series 2009C tax-exempt and series 2009D taxable general obligation (GO) bonds, issued on behalf of the University of Minnesota (UM).

The long-term rating reflects our opinion of the university’s:

- GO pledge, which is broader than those of most public universities;
- Position as Minnesota’s (AAA/Stable) flagship research university and land grant institution, with historically strong state operating and capital support;
- Competitive demand trends and stable enrollment, supported by a Big 10 Conference demand niche, substantial research, and competitive professional and graduate programs;
- Balanced operating performance on a full accrual basis;
- Modest debt burden of under 3.0%; and
- History of good fundraising.

Offsetting factors include our view of an uncertain state funding environment, a significant decrease in the value of the endowment in line with current market trends, additional debt plans, and modest unrestricted liquidity for a public flagship institution.

The bonds are expected to be issued in fixed-rate mode with the series 2009C bonds as tax-exempt and the series 2009D bonds as taxable bonds. The taxable portion is being issued as Build America Bonds under the American Recovery and Reinvestment Act of 2009 (ARRA). The university may choose not to issue the series 2009D bonds at the time of sale, depending upon market conditions. Both series of bonds carry the same security pledge of the “full faith and credit” of the university and are considered by Standard and Poor’s to be an unlimited student fee pledge. The university has elected to receive a tax subsidy to be paid by the federal government equal to 35% of the amount of each interest payment on the taxable bonds in lieu of a tax credit to the bondholder. No federal funds or tax credit proceeds are specifically pledged to the payment of the bonds. Proceeds will be used to finance a variety of projects, including a medical biosciences building, the Crookston residence hall, and various renovations. Pro forma debt is approximately $966 million.

UM is the state’s flagship research university system, as well as its designated land grant institution. Enrollment has
been stable and was 66,312 in fall 2008. Tuition and mandatory fees are competitive with those of peer Big 10 Conference institutions, at $10,273 for a resident undergraduate student in the 2008-2009 academic year. State appropriations represent an important 27% of consolidated 2008 university revenues; while annual increases have been healthy in recent years, the state implemented a mid-year $20 million appropriation cut in fiscal 2009. Although initial state budget estimates project additional cuts going forward, university management expects federal stimulus monies will help restore funding to base levels. However, final appropriation levels will not be known until the end of May. Financial resources are what we consider adequate for a public flagship institution, with 2008 adjusted unrestricted net assets (UNA) equal to about 33% of pro forma debt and 11% of expenses. As of Dec. 31, 2008, UMN had a $2.23 billion endowment (held by both the university and its foundations), as well as a strong track record of fundraising. The endowment declined 22.3% in calendar year 2008, in line with current market trends.

The university’s swap program has been assigned a Debt Derivative Profile (DDP) overall score of ‘2’ on a four-point scale where ‘1’ represents the least risk. The university’s score of ‘2’ indicates our opinion that the portfolio represents a low risk at this time. The university has an outstanding notional amount of about $318 million in three floating-to-fixed interest rate swap agreements with Barclays Bank PLC (AA-/Neg). Mark-to-market value of this swap portfolio was $36 million as of March 31, 2009. These swaps synthetically produce fixed interest rates between 4.16% and 4.40%. In addition, the university has an outstanding notional amount of $145 million in three floating to fixed interest rate swap agreements with two other swap providers. Mark-to-market value of these swaps was approximately $24 million as of March 31, 2009. These swaps synthetically produce fixed interest rates of approximately 4.90%. The university has not had to post any collateral for its swap program.

The ‘2.0’ score also indicates that the swap portfolio represents low risk at this time due to the strength of the counterparties and required collateralization, good economic viability during stressful economic cycles, and a low degree of termination risk due to a moderate spread between the university’s current rating and the rating that could trigger a termination or a require collateral.

For additional information on the university, please refer to the analysis published Jan. 26, 2009, on RatingsDirect.

**Outlook**

The stable outlook reflects our expectation that the university will continue to experience favorable demand trends, continuing state financial support, and balanced operating performance while maintaining manageable debt levels.

**Contacts**

Obligor: Carole Fleck, Director of Debt Management, Office of Budget and Finance, University of Minnesota, 612-624-2858.

Underwriter: Nick Taylor, Vice President, Wachovia Securities, 303-893-4006.

**Related Research**

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New Issue: University of Minnesota, MN

MOODY'S ASSIGNS Aa2 RATINGs TO UNIVERSITY OF MINNESOTA'S GENERAL OBLIGATION BONDS, SERIES 2009C AND GENERAL OBLIGATION TAXABLE BONDS, SERIES 2009D; OUTLOOK IS STABLE

UNIVERSITY WILL HAVE TOTAL OF $1.05 BILLION OF RATED DEBT OUTSTANDING, INCLUDING GUARANTEED DEBT OF UNIVERSITY OF MINNESOTA FOUNDATION AND COMMERCIAL PAPER AT FULL ISSUANCE

Regents of the University of Minnesota
Higher Education
MN

Moody's Rating

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| General Obligation Taxable Bonds, Series 2009D | Aa2   |
| Sale Amount                                    | $35,000,000 |
| Expected Sale Date                            | 04/15/09 |
| Rating Description                             | Public Higher Education Revenue |

Moody's Outlook Stable

Opinion

NEW YORK, Apr 13, 2009 -- Moody's Investors Service has assigned an Aa2 rating to the University of Minnesota's General Obligation Bonds, Series 2009C and General Obligation Taxable Bonds, Series 2009D. The rating outlook is stable.

At the same time, we have affirmed the Aa2 and Aa2/VMIG1 ratings on the University's outstanding long-term debt and the P-1 ratings on the Series A, Series B, and Series C Commercial Paper Notes (detailed in RATED DEBT at the end of the report). Also affirmed at this time is the Aa2 rating on the University of Minnesota Foundation's outstanding debt, based on the guarantee of the University. Both the University and the Foundation have debt rated Aa2/VMIG1, with the short-term rating based on liquidity support provided by Standby Bond Purchase Agreements (SBPAs).

USE OF PROCEEDS: Proceeds from the Series 2009C and D bonds will be used to fund various capital projects, reimburse the University for funds already expended (about $52 million), and pay costs of issuance.

LEGAL SECURITY: The Series 2009C and D bonds are fixed rate bonds and are a general obligation of the University. The bonds are on parity with its outstanding General Obligation bonds and Commercial Paper Notes. There is no debt service reserve fund. The University may choose to not issue the Series 2009D bonds at the time of sale, depending upon market conditions. If issued, as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA), the University will receive from the federal government a credit subsidy of 35% of the amount of each interest payment on the taxable bonds.

DEBT STRUCTURE AND DEBT-RELATED INTEREST RATE DERIVATIVES: A substantial 71% of the University's outstanding direct debt is variable rate debt - specifically the Series 1999A, 2001B, 2001C, 2003A, as well as the Commercial Paper, Series A, B, and C. The University has entered into a number of interest rate swaps; on 2/27/2009 it terminated three swaps with Lehman Brothers Commercial Bank and entered into replacement swaps with Barclays Capital. As of 3/31/2009, the fair market value of all swaps, including the Barclay swaps, was negative $60 million; the University is not required to post collateral unless its rating moves below Baa2/BBB. Although substantial, the fair market value can fluctuate widely depending...
upon market conditions and remaining term on the swaps. We find the risks that might arise from the derivative transactions acceptable for the University's rating level.

STRENGTHS

* Strong market position as a Big Ten public university, with enrollment for Fall 2008 of 58,504 full-time equivalent (FTE) students at its campuses and total research expenses of $565 million for fiscal year (FY) 2008, up from $511 million the prior year.

* Overall strong balance sheet resources, with expendable and total financial resources of $2.6 billion and $3.5 billion, respectively, as of fiscal year end (FYE) 2008; total foundations include $1.9 billion of resources held by the University's two major affiliated foundations; however expendable and total resources would decline to $1.8 billion and $2.5 billion, respectively, assuming a 30% decline from investment losses and endowment spending.

* Good operating performance and cash flow generation, with a well-diversified revenue base. The University produced a three-year average operating margin of 1.2% as calculated by Moody's, which although favorable has declined steadily from earlier years. However, we expect operating surplus to decrease due to anticipated reductions in state appropriations and constrained revenue growth from tuition and gifts, offset by initiatives taken by the University to reduce or manage expenses or enhance revenues.

* University investments providing sufficient self-liquidity or the presence of bank facilities to support bonds tendered back to the University or commercial paper unable to be remarketed (see SHORT-TERM RATIONALE).

CHALLENGES

* Thin unrestricted resources, resulting in a substantially thinner cushion of only 0.2 times of proforma debt and 0.09 times of annual operating expenses.

* Substantial future borrowing plans planned over the next six years to fund future capital projects for strategically important projects, including the construction of the biomedical research facilities, completion of the stadium construction, and the University's proportional one-third share for state-funded projects; however we note the University will likely defer debt issuance for some projects, including the biomedical research facilities, in reaction to expected contractions in state appropriations and related impact on operating performance.

* Declines in State's demographic environment with an expected decrease in high school graduates from 2009-2013, although mitigated by draw of out-of-state students. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years is projected to decline, decreasing the pool of future applicants.

MARKET POSITION/COMPETITIVE STRATEGY: SOLID STUDENT MARKET AND RESEARCH POSITION HELD BY THIS BIG TEN PUBLIC UNIVERSITY:

Moody's believes that the University of Minnesota will maintain a very strong market position as the flagship public university and the land grant institution for the State, as well as one of the nation's leading educational and research institutions. The University has shown rising enrollment, with full-time equivalent (FTE) enrollment of 58,504 students for Fall 2008, with increases at both undergraduate and graduate levels. The University of Minnesota is a member of the prestigious Big Ten athletic conference, enhancing its broader market draw, resulting in non-resident students accounting for 28% of enrollment for Fall 2008. The University is implementing recruiting strategies to provide enrollment stability as the number of Minnesota high school graduates over the next 10 years are projected to decline, decreasing the pool of future applicants.

The University of Minnesota is one of the nation's leading research universities, with $565 million of research expenses in FY 2008, up from $511 million in FY 2007. Further, research awards totaled $675 million for FY 2008, up 9% from the $619 million awarded the previous year; increases were experienced in federal, private/business and state funding. Federal awards rose to $443 million from $423 million the prior year. Federal research funding has been generally constrained in recent years with reduced funding and shifting research priorities, with an expected short term increase for the next two years as part of the federal stimulus program. We believe that the University of Minnesota will remain successful in its research activities with good levels of grants from governmental and private sources. An important driver of future growth will be the four biomedical research facilities to be built on the University's Minneapolis campus from 2009 to 2013. In May 2008, the State Legislature approved the funding of 75% of the total $292 million of project costs, or about $220 million; the State's support for the bonds will be accomplished through funds transfers to the University to cover 75% of the debt service on the bonds to be issued to provide the funding for construction.

OPERATING PERFORMANCE: GOOD OPERATING PERFORMANCE AND OPERATING CASH FLOW
Moody's believes University of Minnesota will continue to generate favorable operating margins and cash flow generation, although at likely lower levels as it copes with expected decreases in state funding and constrained growth in tuition, gift and investment revenues. For FY 2008, the University produced a three-year average operating margin of 1.2% as calculated by Moody's, down from 2.7% for the three year period of fiscal years 2004-2006. With $145 million of depreciation expense in FY 2008, cash flow has been good, producing average actual debt service coverage of 2.8 times. Revenue sources are diverse, with student charges for tuition and auxiliary services accounting for 29% of FY 2008 total operating revenues, grants and contracts (adjusted to reclassify Pell Grants as tuition rather than grant revenues) for 30%, and state appropriations for 27%.

Regarding state funding, for FY 2009, the current fiscal year, $698 million was appropriated. In December 2008, the Governor of Minnesota imposed a nonrecurring $20 million unallotment to the University for FY2009 to address the forecasted state deficit for the current 2008-2009 biennium. The Governor's budget recommendations released in January 2009 for the 2010-2011 biennium included a recurring reduction in FY2010 of $75.5 million to the University's base appropriation, on top of a recurring $2.6 million base reduction for FY2010 that was passed into law during the 2008 legislative session. From the perspective of the traditional biennial viewpoint, the Governor's budget recommendation results in a biennial reduction of $156.1 million. However, with one-time State Fiscal Stabilization Funds (SFSF) to be received under the federal economic stimulus package (ARRA), the Governor restored the University's funding for fiscal years 2009, 2010 and 2011 so that it would receive the $707 million allocated in FY 2008. However, the additional funds are one-time in nature that will not be carried through to FY 2012. The Governor's current proposal for the FY2012-2013 base has the effect of trimming the University's biennial base the additional $72 million it was reduced by in FY2010-2011. The University intends to use the SFSF funds for one-time investments as they will not be continued and is modeling budget scenarios to address the expected drop in funding.

Although we expect the University will produce less favorable operating performance due to the reductions in state funding, we believe it will implement revenue generating and expense management/reduction initiatives to manage through financial challenges including volatility in state operating support.

Moody's currently maintains an Aa1 general obligation rating for the State of Minnesota and revised the outlook to stable from positive reflecting declining revenues, increased expenditures and complete use of the State's budget reserves. The Aa1 rating is based on the State's strong economic fundamentals and moderate to relatively low debt ratios on a per capital basis and personal income basis. These strengths are offset by the rapid deterioration in finances in the past year, a return to "gridlock" in the state capitol that, in the recent past, led to the use of mostly non-recurring solutions when confronting diminishing revenues and, in 2006, a partial government shutdown, and a slowdown in state economy in recent years. For more information, see Moody's report dated January 12, 2009.

BALANCE SHEET POSITION: STRONG TOTAL FINANCIAL RESOURCES BASE WITH THINNER UNRESTRICTED RESOURCE LEVELS, WITH MANAGEABLE DEBT PLANS

University of Minnesota has shown good total financial resource levels, with total resources of $3.5 billion at FYE 2008, down modestly from $3.6 billion the previous year; expendable financial resources were $2.6 billion at 6/30/2008. FY 2008 expendable resources provide a good 2.4 times coverage of $1.056 billion of proforma debt including the current issues, the commercial paper at full program sizes, and the Foundation debt guaranteed by the University; operating expenses are covered 1.0 times. However we expect resources to decline based on year-to-date investment performance and expendable resource cushion of proforma debt decreases to 1.7 times assuming a 30% decline in resources based on investment losses and endowment spending. We note that two major affiliated foundations, the University of Minnesota Foundation and the Minnesota Medical Foundation, held $1.9 billion or more than half of the University's financial resources. The University reported $124 million in gifts that excludes the gift activity of the Foundations that exceeded $235 million for that year. We expect the University will continue to demonstrate fundraising success.

Despite the strong expendable and total resource levels, the University has shown declining unrestricted resources during the past few years - dropping from $370 million in FY 2006 to $230 million in FY 2008 and further declining to $161 million if assuming the 30% resource reduction from investment losses. The cushion of unrestricted resources to debt and operations has likewise narrowed, with FY 2008 unrestricted resources cushioning proforma debt only 0.2 times and operations by only 0.09 times, or slightly more than one month of operating expenses. The decrease in unrestricted resources is due to a number of factors, including the $11.2 million funding of the GASB 45 OPEB liability as well as other liabilities and various accruals. Removing the OPEB liability from unrestricted net assets, the unrestricted cushion improves slightly to 0.2 times for proforma debt and 0.13 times for operations. We expect unrestricted resource levels to continue to be challenged due to constrained revenue growth and expense pressures with anticipated state funding cuts. However, the University has an active asset liability management oversight and cash flow monitoring and projections to manage its operating needs.

For the current fiscal year through 2/28/2009, the University has a projected loss of about 27% loss on its consolidated endowment pool, including 9/30/08 returns on non-marketable investments; this follows an annual return of -4.8% for the prior year, FY 2008. The University of Minnesota has a diversified long-term endow