AGENDA

1. Board of Regents Policy: Endowment Fund - Review - R. Pfutzenreuter/S. Mason (pp. 2-9)


3. Issues Related to: Financing Medical Education and Flow of Funds - R. Pfutzenreuter/A. Friedman/E. Nunnally (pp. 18-21)

4. Issues Related to: President’s Recommended FY2012 Annual Capital Improvement Budget - R. Pfutzenreuter (pp. 22-23)


7. Information Items - R. Pfutzenreuter (pp. 37-44)
Finance and Operations Committee

May 12, 2011

Agenda Item:  Board of Regents Policy: Endowment Fund

☒ review  ☐ review/action  ☐ action  ☐ discussion

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

Purpose:

☒ policy  ☐ background/context  ☐ oversight  ☐ strategic positioning

To review amendments to Board of Regents Policy: Endowment Fund.

Outline of Key Points/Policy Issues:

The Office of Investments and Banking (OIB) has reviewed changing industry standards, current literature, and has surveyed peer institutions regarding governance and common practices regarding endowment policies. The Investment Advisory Committee (IAC) formulated a recommendation in favor of the new policy structure. The Administration proposes the following changes intended to clarify the Board of Regents (Board) authority and enable it to more effectively exercise its fiduciary duties:

- Add a comprehensive review of strategic objectives and the investment program, annually;
- Significantly expand reporting requirements to the Board;
- Refine investment objectives;
- Remove asset allocation as an element of Board policy;
- Add liquidity constraints; and
- Refine risk considerations.

Background Information:

The IAC has discussed these issues during the last three quarterly meetings. The proposed policy changes were previewed at the March meeting of the Board.

The new policy is on pages 3-6 of the docket materials. The existing policy is on pages 7-9.

President’s Recommendation for Action:

The President recommends adoption of amendments to Board of Regents Policy: Endowment Fund.
ENDOWMENT FUND

SECTION I. SCOPE.

This policy governs the management of investments in the University of Minnesota (University) endowment fund (endowment).

SECTION II. INVESTMENT OBJECTIVES.

The investment objectives for the University endowment shall be, over the long-term, to:

(a) preserve the inflation adjusted value of the endowment;

(b) generate investment returns that meet or exceed the annual payout rate plus direct expenses incurred by the investment program after adjusting for inflation as measured by the Consumer Price Index;

(c) execute the investment program within acceptable risk parameters; and

(d) provide stable distributions for annual spending purposes.

SECTION III. COMPREHENSIVE PROGRAM REVIEW.

Annually, the president or delegate shall engage with the Board of Regents (Board) in a comprehensive review of the investment program including a discussion of the role of investment strategies employed during the previous year to achieve the investment objectives.

SECTION IV. REPORTING.

The president or delegate shall make the following reports to the Board at the specified times or frequencies:

(a) quarterly, a report regarding the status of the endowment containing all of the following information:

(1) the total market value and investment performance relative to selected benchmarks for each asset class and the total portfolio;
(2) an attribution analysis of investment performance;

(3) an analysis of investment performance relative to investment objectives;

(4) an evaluation and discussion of portfolio risk;

(5) current asset allocation targets and ranges; and

(6) new managers, manager terminations, and changes in investment allocations to existing managers.

These items shall be summarized in an annual report.

(b) at its next regularly-scheduled meeting, any significant change in investment strategy and any internal or external event that has the potential to materially affect the performance of the fund;

(c) annually, a comparison to peer institutions of relative performance and asset allocation and steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms; and

(d) any other information requested by the Board.

SECTION V. INVESTMENT MANAGEMENT GUIDELINES.

Subd. 1. Use of Investment Managers. Except as provided in Subd. 3 below, endowment funds shall be invested only through investment managers. The president or delegate shall choose investment managers with demonstrated expertise and engage them by written agreement to execute transactions in their discretion within stated parameters and in accordance with applicable policy. No investment manager may manage more than 20 percent of the endowment for a period of more than 12 consecutive months.

Subd. 2. Liquidity. Between 60 and 70 percent of total endowment assets shall be capable of being converted to cash or cash equivalents within 12 months without material loss of market value. The sum of (a) assets that do not meet this liquidity criterion and (b) total unfunded commitments to limited partnerships shall not at any time exceed 55 percent of total endowment assets.
Subd. 3. Asset Allocation and Rebalancing. The president or delegate shall establish asset allocation targets and ranges to accomplish adequate diversification for the prudent management of risk without sacrificing the potential for returns sufficient to meet the investment objectives. A determination shall be made as to whether deviations from such ranges are likely to be short-term or whether rebalancing is appropriate in order to maintain expected portfolio performance. In order to achieve rebalancing, the following investment instruments may be employed without the use of an investment manager:

(a) futures contracts, only on a net unleveraged basis;

(b) options contracts for purposes of hedging or the sale of covered options, provided that aggregate option exposure may not exceed ten percent of the value of the endowment; and

(c) investments in exchange-traded funds.

Subd. 4. Limitations.

(a) The use of derivatives for speculative purposes is prohibited.

(b) No individual investment may be made for the purpose of exercising management control in any company. This provision is not intended to prohibit the use by investment managers of control strategies with respect to portfolio companies.

(c) A maximum of ten percent of the endowment may be invested in any single fund or account.

(d) The investment of endowment funds shall comply at all times with the restrictions on investment of amounts comprising the Permanent University Fund that are set forth in Minnesota Statutes Section 11A.24 or its successor.

Subd. 5. Social Responsibility. The University shall consider social responsibility in its investment decisions.
NEW

SECTION VI. PAYOUT RATE.

The endowment payout rate shall be set at a level that supports University operations while enabling the endowment to grow at an inflation-adjusted rate that will provide for future distributions. Distributions shall be made quarterly. The annual payout rate shall be 4.5 percent of the average of the endowment’s trailing month-end market values for the prior 60 months.


ENDOWMENT FUND

SECTION I. SCOPE.

This policy governs the management of investments in the University of Minnesota (University) endowment fund (endowment).

SECTION II. GUIDING PRINCIPLES.

The following principles shall guide the University's management of the endowment:

(a) The University shall seek to maximize financial returns on invested assets consistent with an appropriate degree of risk as measured by industry guidelines for comparable long-term objectives.

(b) The University shall consider social responsibility in its investment decisions.

SECTION III. INVESTMENT OBJECTIVES.

Subd. 1. Overall Objectives. The overall objectives for the University endowment shall be to:

(a) preserve the inflation-adjusted value of the endowment; and

(b) maximize total return (income plus capital appreciation) within acceptable risk parameters and a goal of at least 500 basis points annually above inflation (as measured by the Consumer Price Index) over a five-year trailing period.

Subd. 2. Investment Manager Objectives. The objectives for the investment managers of the endowment shall be to exceed the investment performance of appropriate benchmarks selected by the University.

SECTION IV. ASSET ALLOCATION GUIDELINES.

Subd. 1. Public Equities. The long-term target allocation for publicly traded equities, both domestic and international, shall be between 35 and 45 percent.
Subd. 2. Fixed Income. The long-term target allocation for fixed income shall be between 15 and 25 percent.

Subd. 3. Private Capital. The long-term target allocation for private capital (such as private equity, venture capital, and distressed debt) shall be between 15 and 25 percent.

Subd. 4. Real Assets. The long-term target allocation for real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities) shall be between 15 and 25 percent.

Subd. 5. Futures and Exchange Traded Funds (ETFs). In order to rebalance exposures to certain asset classes, the purchase or sale of futures contracts or ETFs is permissible. Futures may be employed only on a net unleveraged basis. Futures shall not be employed for speculative purposes.

Subd. 6. Options. The use of options shall be limited to the purchase of options for hedging purposes or the sale of covered options. The option exposure in aggregate shall not exceed 10 percent of the value of the endowment.

Subd. 7. Short-Selling of Securities. The aggregate market value of short sales shall not exceed 10 percent of the value of the endowment.

Subd. 8. Management Control. The University shall make no direct investments for the purpose of exercising management control in the underlying companies. Control strategies are permissible in the context of investments in portfolio companies made by approved investment managers.

Subd. 9. Investment Manager Limit. A maximum of 20 percent of the endowment may be invested by any one investment management firm. The president or delegate shall make adjustments to a portfolio if an investment management firm exceeds this limit for 12 consecutive months.

Subd. 10. Calculations of Limits. Calculations of all percentage limitations shall be done on a market value basis.
Subd. 11. Adherence to Guidelines and Addressing Deviations. The president or delegate shall attempt to cause the allocation of invested assets to remain within the guidelines stated in Section IV. If market changes cause the asset allocations to deviate from the guidelines, the president or delegate shall develop a plan to restore the allocations to guideline proportions over a period of time that is appropriate in light of the reason for the deviations and the nature of the subject investments.

SECTION V. DISTRIBUTION RATE.

The endowment distribution rate shall be set at a level that is supportive of University operations while enabling the endowment to grow at an inflation-adjusted rate that will provide for future distributions. Distributions shall be made quarterly. The annual distribution rate shall be 4.5 percent of the average of the endowment’s trailing month-end market values for the prior 60 months.

SECTION VI. REPORTING.

The president or delegate shall report quarterly to the Board of Regents regarding the status and performance of endowment assets.
Agenda Item: Board of Regents Policy: Investment Functions

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

Purpose:

To review proposed Board of Regents Policy: Investment Functions.

Outline of Key Points/Policy Issues:

The Office of Investments and Banking has reviewed changing industry standards, current literature, and has surveyed peer institutions regarding governance and related policy issues. The Investment Advisory Committee (IAC) has formulated a recommendation in favor of the proposed new policy structure. The Administration proposes superseding existing Board of Regents Policy: Investment Transactions and implementing a new policy entitled Board of Regents Policy: Investment Functions. The following differences between the two policies are intended to clarify the Board or Regents (Board) authority and enable it to more effectively exercise its fiduciary duties:

• Change policy name to Investment Functions;
• Add "Standard of Care" guiding principle;
• Delegate the authority to engage investment managers and to establish asset allocation guidelines to the president;
• Add reporting requirements for all investment pools; and
• Add investment guidelines regarding custody, transaction costs and securities lending.

Background Information:

The IAC has discussed these issues during its last three quarterly meetings. The policy changes were previewed at the March meeting of the Board. If adopted, these policy changes would require modification of the Board policy: Reservation and Delegation of Authority, Section VI, Subd. 3.

The proposed policy is on pages 11-14 of the docket materials. The policy to be superseded is on pages 15-17.

President's Recommendation for Action:

The President recommends adoption of Board of Regents Policy: Investment Functions.
SECTION I. SCOPE.

This policy governs all investment functions conducted by the University of Minnesota (University).

SECTION II. GUIDING PRINCIPLES.

Subd. 1. Standard of Care. The standard applicable to all investment functions shall be the "prudent person standard," which provides that investment activities, both transactional and otherwise, shall be undertaken, under circumstances then prevailing, in the following manner:

(a) with the judgment and care that persons of prudence, discretion, and intelligence would exercise under similar circumstances.

(b) for investment purposes rather than speculation; and

(c) taking into account the importance of capital preservation and the risk that will be incurred and managed in light of the expected return to be derived.

Subd. 2. Emerging and Minority- or Woman-Owned Investment Managers. The use of emerging investment management firms and investment management firms that are minority-owned or woman-owned are encouraged, as well as steps in this regard consistent with the financial and fiduciary responsibility of the University.

SECTION III. DEFINITIONS.

Subd. 1. Security. Security shall mean any investment instrument or group of instruments commonly used by investors of institutional assets.

Subd. 2. Investment Advisor. Investment advisor shall mean a person or firm engaged to render advice to the University in connection with its investment activities. An investment advisor does not have authority to execute investment transactions.

Subd. 3. Investment Manager. Investment manager shall mean a person or firm engaged to execute investment-related activities on behalf of the University at its discretion within the parameters established by the president or delegate and in accordance with applicable policy. In circumstances where applicable industry
standards require registration with the Securities and Exchange Commission (SEC), only investment managers duly registered with the SEC may be engaged to provide services to or act on behalf of the University.

Subd. 4. Investment Transactions. *Investment transactions* shall mean:

(a) the purchase, investment in, possession, or other acquisition of an interest in a security;

(b) the sale, conversion, exchange, transfer, or other disposal of an interest in a security; and

(c) the pledge of a security.

Subd. 5. Emerging Investment Management Firms. *Emerging investment management firms* shall mean investment management firms that manage total assets of less than $250 million.

Subd. 6. Broker/Dealer. *Broker/dealer* shall mean a person or firm duly registered as a broker-dealer with the SEC and a member in good standing of the Financial Industry Regulatory Authority, Inc. (FINRA) who is engaged to execute investment transactions on behalf of the University as directed by the president or delegate. Investment transactions may be executed in the open market or from the firm’s inventory.

**SECTION IV. DELEGATION OF AUTHORITY.**

The president or delegate shall have the authority and power to take all actions necessary or appropriate to manage and conduct the investment program and execute investment transactions in accordance with Board of Regents (Board) policies. Such actions include the following:

(a) to establish asset allocation guidelines and ranges designed to achieve the diversification necessary to meet the investment objectives established by the Board;

(b) to engage and terminate investment managers and advisers;

(c) to negotiate, enter into, and perform investment transactions with broker/dealers and investment managers;
(d) to negotiate, enter into, and perform purchases, sales, and other transactions
in the secondary market when such action facilitates rebalancing to comply with asset
allocation guidelines;

(e) to exercise any voting right related to a security owned by the University in
a manner determined by the president or delegate to be in the best interests of the
University and in accordance with all applicable policies;

(f) to direct the sale of exercise of any right related to a security; and

(g) to execute, acknowledge, and deliver all certificates, agreements, powers of
attorney, or other legal instruments for any purpose related to the management and
performance of the investment function of the University.

SECTION V. REPORTING.

The president or delegate shall make periodic reports to the Board as may be
required in Board policies or as may be appropriate or requested by the Board in order
that it may exercise its oversight function.

SECTION VI. INVESTMENT PROGRAM REQUIREMENTS.

Subd. 1. Custody of Investment Securities. A system of custodianship shall
be established to assure the appropriate management of access to, and the safety of,
securities held on behalf of the University.

Subd. 2. Transaction Costs. All reasonable efforts shall be made to execute
transactions at the lowest possible cost, taking into account commissions, efficiency of
execution, and other relevant considerations.

Subd. 3. Limitations.

(a) Short sales may be effected only as a component of more complex hedging
transactions and may not be made for speculative purposes.

(b) No direct purchases may be made of a security issued by the University.

Subd. 4. Securities Lending. Securities lending programs maybe used as a
means of augmenting income. Cash collateral received from borrowers may be invested
only in cash equivalents and U.S. government securities.
SECTION VII. CERTIFICATE OF AUTHORITY.

As needed or may be requested, the secretary of the Board shall certify the authority and power of the president or delegate to enter into investment transactions or to invest and deal in securities as provided in this policy.

SUPERSEDES: INVESTMENT TRANSACTIONS dated May 14, 2010; and INVESTMENT MANAGERS dated November 9, 1990.
INVESTMENT TRANSACTIONS

This policy governs the administration’s authority to invest and deal in securities and to engage investment managers.

Subd. 1. Definitions. For purposes of this policy, the terms below shall have the following meanings:

(a) Security shall mean any investment instrument or group of instruments commonly used by investors of institutional assets.

(b) Investment advisor shall mean a person or firm engaged to render advice to the University of Minnesota (University) in connection with its investment activities. An investment advisor does not have authority to execute investment transactions.

(c) Investment manager shall mean a person or firm engaged to execute investment transactions at its discretion on behalf of the University or to otherwise manage the University’s investments. In circumstances where applicable industry standards require registration with the Securities and Exchange Commission (SEC), only investment managers duly registered with the SEC may be engaged to provide services to or act on behalf of the University.

(d) Investment transactions shall mean:

(1) the purchase, investment in, possession, or other acquisition of an interest in a security;

(2) the sale, conversion, exchange, transfer, or other disposal of an interest in a security; and

(3) the pledge of a security.

(e) Emerging investment management firms shall mean investment management firms that manage institutional assets under $250 million.

(f) Broker/dealer shall mean a person or firm duly registered as a broker-dealer with the SEC and a member in good standing of FINRA (Financial Industry Regulatory Authority, Inc.) executing investment transactions on behalf of the University upon the University’s directive. Investment transactions may be executed in the open market or from the firm's inventory.
Subd. 2. Delegation of Authority. In accordance with Board of Regents Policy: *Reservation and Delegation of Authority*, the president or delegate shall have the authority and power to take all actions necessary or appropriate to conduct investment-related activities and execute investment transactions. Such actions may include, but are not limited to, the following:

(a) to negotiate and enter into investment transactions with broker/dealers, investment managers, or other qualified counterparties;

(b) to negotiate and enter into sales and other divestment transactions in the secondary market when such action is required for rebalancing to comply with asset allocation guidelines;

(c) to vote any voting securities owned by the University in accordance with relevant Board of Regents (Board) policies;

(d) to give to investment managers written or oral instructions with respect to investment transactions;

(e) to bind and obligate the University to, and for the execution of, any contract, arrangement, or transaction that may be entered into by any such officer for and on behalf of the University;

(f) to pay such sums as may be necessary in connection with any investment transactions;

(g) to deliver securities to and deposit funds with investment managers or broker/dealers;

(h) to order the transfer or delivery of a security to any other person whatsoever and/or to order the transfer or record of a security to the name of the University;

(i) to direct the sale or exercise of any rights with respect to a security;

(j) to execute, acknowledge, and deliver proper transfers, assignments, and letters of transmittal;

(k) to execute consents to reorganizations, modifications, or extension agreements and compromises;
(l) to execute, acknowledge, and deliver all powers of attorney or any other legal instruments for the purpose of splitting and issuance of new certificates in exchange, transferring, and disposing of or releasing any stocks, bonds, or other evidences of indebtedness held by the University or for any other purpose with relationship thereto in the ordinary course of business;

(m) to sign for the University all releases, powers of attorney, and/or other documents in connection with any such transaction and to agree to any terms or conditions to control any such account; and

(n) to direct investment managers or broker/dealers to surrender a security to the proper agent or party for the purpose of effecting any exchange or conversion or for the purpose of deposit with any protective or similar committee.

Subd. 3. Authority to Engage Investment Managers. The Board reserves to itself the exclusive authority and power on behalf of the University to engage investment managers, provided that, in exigent situations, the president or delegate shall have the authority to engage immediately an investment manager. In such instance, the president or delegate shall seek Board approval of the engagement at the next regularly scheduled Board meeting. The president or delegate shall have the authority and power to terminate the engagement of an investment manager and to engage and to terminate investment advisors.

Subd. 4. Targeted Investment Managers. The Board encourages the use of emerging investment management firms and investment management firms that are minority-owned or woman-owned, and encourages steps in this regard consistent with the financial and fiduciary responsibility of the University. The administration shall report annually all steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms.

Subd. 5. Binding Effect. Action taken by the president or delegate pursuant to this policy shall be an act of and shall bind the Board.

Subd. 6. Certificate of Authority. The secretary of the Board shall certify the authority and power of the president or delegate to enter into investment transactions or to invest and deal in securities as provided in this policy.

Finance and Operations Committee May 12, 2011

**Agenda Item:** Issues Related to: Financing Medical Education and Flow of Funds

- [ ] review
- [ ] review/action
- [ ] action
- [x] discussion

**Presenters:** Vice President/CFO Richard Pfutzenreuter
Vice President/Dean Medical School Aaron Friedman
Associate Vice President Elizabeth Nunnally

**Purpose:**

- [ ] policy
- [x] background/context
- [x] oversight
- [ ] strategic positioning

The Finance and Operations Committee work plan for FY2011 included a request to receive an overview of the flow of funds supporting medical education in the Medical School.

**Outline of Key Points/Policy Issues:**

The presentation will cover the sources and uses of funds supporting the Medical School, education programs of the Medical School and how education is financed, the Medical Schools relationship with UMPhysicians and related financial considerations, and the Medical Schools relationship with Fairview Health Services and related financial considerations.

**Background Information:**

The Finance and Operations Committee has not previously discussed the flow of funds that finance the Medical School.
AHC Sources of Funds FY10 - $1.44M
(Includes UMPhysicians, affiliated 501(c)(3) faculty practice plan)

- Tuition & Fees Revenue: 8%
- State (General): 13%
- State (Targeted): 2%
- UMPhysicians (Excluding Academic Transfers): 23%
- UMPhysicians (Academic Transfers): 3%
- MERC/PMAP: 3%
- Indirect Cost Recovery: 5%
- Sponsored Programs: 25%
- Resident Contracts: 4%
- Generated Income (VCM and Dental): 11%
- Philanthropy: 3%
Academic Health Center - FY10
Funds Distribution by Academic Area ($1.44B)

- UMPysicians (Excluding Academic Transfers): 23%
- School of Public Health: 8%
- Medical School: 38%
- AHC Shared Units: 17%
- College of Pharmacy: 3%
- School of Dentistry: 4%
- School of Nursing: 1%
- College of Veterinary Medicine: 6%
- School of Public Health: 3%
Medical School Funds FY10 - $850M
(Includes UMPhysicians, affiliated 501(c)(3) faculty practice plan)

- UMPhysicians (Adjusted for Academic Transfers): 38%
- Tuition & Fees: 4%
- State (General): 8%
- State (Targeted): 2%
- UMPhysicians (Academic Transfers): 5%
- Resident Contracts: 7%
- Generated Income: 5%
- Indirect Cost Recovery: 5%
- Sponsored Programs: 22%
- Philanthropy: 4%
- Sponsored Programs: 22%
Agenda Item: Issues Related to: President's Recommended FY2012 Capital Improvement Budget

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

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 docket materials for the full Board of Regents.

Outline of Key Points/Policy Issues:

The 2012 Annual Capital Improvement Budget authorizes projects totaling $221,528,000 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 by the Board of Regents annually.

The Annual Capital Improvement Budget incorporates the 2011 State Capital Budget Request as presented to the Minnesota Legislature. The final capital budget will be updated to reflect the outcome of the 2011 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 2012 University Capital Improvement Budget and reaffirmation of its prior year capital expenditure authorization.
Finance and Operations Committee
May 12, 2011

Agenda Item: Financial Oversight: Financial Metrics & Peer Comparisons

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide the Board of Regents with key financial metrics and measurements of the University of Minnesota for fiscal year 2010 compared to peer institutions.

Outline of Key Points/Policy Issues:

The Board of Regents periodically receives an update on key financial benchmarks of the University of Minnesota compared to peer institutions. As in prior years, this year’s report will focus on key financial statistics, capital ratios, balance sheet ratios and contribution ratios. The following points should be noted when reviewing the ratios and statistics:

• FY2010 ratios and statistics are as of fiscal year end 2010, but with the direct debt numbers adjusted to include additional debt issuances during FY2011, where applicable.
• University of Minnesota direct debt excludes the Special Purpose Revenue Bonds – Series 2006 (State Supported Revenue Bonds) and Series 2010A (State Supported Biomedical Science Research Facilities Funding Program) totaling approximately $234 million, but includes University Gateway Corporation debt of approximately $54 million.
• Direct debt as calculated is based on par amount outstanding, excluding unamortized premium or discount, which is consistent with Moody’s methodology.
• FY2009 ratios and statistics for the University of Minnesota only are reflected on the slides for comparison purposes.

Background Information:

The key financial benchmarks for the University of Minnesota compared to peer institutions were last presented to the Finance and Operations Committee in May 2010, reflecting fiscal year 2009 data.
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<td>Total Financial Resources ($, in millions)</td>
<td>1,732</td>
<td>797</td>
<td>2,772</td>
<td>3,006</td>
<td>5,860</td>
<td>18,084</td>
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<td>Total Debt ($, in millions)</td>
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<td>Total Cash &amp; Investments ($, in millions)</td>
<td>1,410</td>
<td>758</td>
<td>1,498</td>
<td>3,566</td>
<td>4,148</td>
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<td>Total Revenues ($, in millions)</td>
<td>1,854</td>
<td>2,735</td>
<td>5,348</td>
<td>6,056</td>
<td>6,872</td>
<td>13,203</td>
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<td>Total Expenses ($, in millions)</td>
<td>1,768</td>
<td>894</td>
<td>2,654</td>
<td>3,148</td>
<td>3,642</td>
<td>11,965</td>
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<td>Expendable financial resources-to-direct debt (x)</td>
<td>1.10</td>
<td>1.02</td>
<td>2.27</td>
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<td>Educational expenses per student ($)</td>
<td>23,570</td>
<td>24,581</td>
<td>34,622</td>
<td>33,649</td>
<td>41,206</td>
<td>42,316</td>
<td>49,902</td>
<td>21,839</td>
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<td>23,023</td>
<td>28,672</td>
<td>29,429</td>
<td>24,146</td>
<td>36,770</td>
<td></td>
</tr>
<tr>
<td>State appropriation per student ($)</td>
<td>8,335</td>
<td>10,098</td>
<td>12,098</td>
<td>10,768</td>
<td>7,183</td>
<td>13,314</td>
<td>20,285</td>
<td>7,263</td>
<td>13,705</td>
<td>6,847</td>
<td>8,174</td>
<td>7,254</td>
<td>4,348</td>
<td>19,033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable financial resources-to-operations (x)</td>
<td>0.31</td>
<td>0.22</td>
<td>0.22</td>
<td>0.35</td>
<td>0.25</td>
<td>0.24</td>
<td>0.34</td>
<td>0.30</td>
<td>0.36</td>
<td>0.25</td>
<td>0.44</td>
<td>0.49</td>
<td>0.32</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total Financial Resources-to-direct debt (x)</td>
<td>1.80</td>
<td>1.60</td>
<td>3.30</td>
<td>3.20</td>
<td>3.50</td>
<td>3.40</td>
<td></td>
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</tr>
<tr>
<td>Direct Debt-per-student ($)</td>
<td>17,727</td>
<td>14,413</td>
<td>13,496</td>
<td>15,328</td>
<td>33,109</td>
<td>47,257</td>
<td>49,108</td>
<td>18,615</td>
<td>26,053</td>
<td>65,857</td>
<td>11,228</td>
<td>18,858</td>
<td>33,108</td>
<td>15,655</td>
<td>22,377</td>
<td></td>
</tr>
<tr>
<td>Total Expenses ($, in millions)</td>
<td>3,956</td>
<td>22,665</td>
<td>45,824</td>
<td>49,154</td>
<td>109,823</td>
<td>115,341</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Operating Ratios</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
### Key Financial Statistics

| **Total Direct Debt ($, in millions)** | Institution’s obligations (e.g. bonds, notes, commercial paper, capital leases, bank loans, and draws upon lines of credit) plus University Gateway Corporation debt (for the U of MN) |
| **Total Indirect Debt ($, in millions)** | Unfunded pension obligations plus capitalization of operating leases plus obligations not on the institution’s statement of net assets but considered a possible use of the institution’s financial resources |
| **Comprehensive Debt ($, in millions)** | Direct debt plus indirect debt |
| **Unrestricted Financial Resources ($, in millions)** | Total unrestricted net assets of the University |
| **Expendable Financial Resources ($, in millions)** | The sum of unrestricted net assets plus restricted expendable net assets plus foundation unrestricted and temporarily restricted net assets less foundation net investment in plant |
| **Total Financial Resources ($, in millions)** | The sum of unrestricted net assets plus restricted expendable net assets plus restricted nonexpendable net assets plus foundation total net assets less foundation net investment in plant |
| **Total Cash & Investments ($, in millions)** | Cash and investments plus bond trustee debt service reserve funds or debt service funds |
| **Total Adjusted Operating Revenues ($, in millions)** | Total operating revenue as stated in audit, less scholarships and fellowships (reclassified from expenses), plus Pell grant revenues, plus gifts and state appropriations (which are reported an non-operating revenue) plus 5% of average three year cash and investments level |
| **Total Adjusted Operating Expenses ($, in millions)** | Total operating expenses as reported in audit less scholarships and fellowships plus interest expense |

### Market Data and Ratios

| **Total Enrollment FTE (#, may be estimated)** | Number of full-time students plus the full-time equivalent of part-time students |
| **Freshman Matriculation (%)** | Number of admissions divided by number of freshman applications accepted |
| **Freshman Selectivity (%)** | Number of acceptances divided by number of freshman applications |
| **Net tuition per student ($)** | Net tuition and fee revenue divided by total number of full-time equivalent students of the fall semester for the prior year |
| **State appropriation per student ($)** | State appropriation divided by total number of full-time equivalent students of the fall semester for the prior year |
| **Education expenses per student ($)** | Total expenses less auxiliary expenses less research expenses less patient care expenses divided by total full-time equivalent enrollment for the prior year |
| **Total tuition discount (%)** | The sum of scholarship discount and allowances plus scholarship expense divided by gross tuition and fee revenue |
### Capital Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expendable financial resources to direct debt (x)</td>
<td>Expendable financial resources divided by direct debt</td>
</tr>
<tr>
<td>Unrestricted financial resources to direct debt (x)</td>
<td>Unrestricted financial resources divided by direct debt</td>
</tr>
<tr>
<td>Total financial resources to direct debt (x)</td>
<td>Total financial resources divided by direct debt</td>
</tr>
<tr>
<td>Direct debt per student ($)</td>
<td>Direct debt divided by full-time equivalent students</td>
</tr>
<tr>
<td>Expendable financial resources to comprehensive debt (x)</td>
<td>Expendable financial resources divided by comprehensive debt</td>
</tr>
<tr>
<td>Total financial resources to comprehensive debt (x)</td>
<td>Total financial resources divided by comprehensive debt</td>
</tr>
<tr>
<td>Actual debt service to operations (%)</td>
<td>Actual annual debt service divided by total adjusted operating expenses</td>
</tr>
<tr>
<td>Age of plant (#, in years)</td>
<td>Accumulated depreciation divided by depreciation expense</td>
</tr>
</tbody>
</table>

### Balance Sheet Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted financial resources to operations (x)</td>
<td>Unrestricted financial resources divided by total adjusted operating expenses</td>
</tr>
<tr>
<td>Expendable financial resources to operations (x)</td>
<td>Expendable financial resources divided by total adjusted operating expenses</td>
</tr>
<tr>
<td>Total financial resources per student ($)</td>
<td>Total financial resources divided by full-time equivalent students</td>
</tr>
</tbody>
</table>

### Operating Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual operating margin (%)</td>
<td>Adjusted total unrestricted revenues (adjustments include limiting investment income to 5% of average of previous three years cash and investments and subtracting net assets released for construction and acquisition of fixed assets), less total unrestricted operating expenses, divided by adjusted total unrestricted revenues</td>
</tr>
<tr>
<td>Actual debt service coverage (X)</td>
<td>Annual operating surplus (deficit) plus interest and depreciation expenses plus additional, unusually large non-cash expenses, divided by actual principal and interest payments</td>
</tr>
<tr>
<td>Return on financial resources (%)</td>
<td>(Total Resources current year[FY10] minus Total Resources prior year[FY09]) divided by Total Resources prior year [FY09]</td>
</tr>
</tbody>
</table>
### Contribution Ratios

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net tuition and fees (%)</td>
<td>Net tuition and fees and auxiliaries revenue divided by total adjusted operating revenues</td>
</tr>
<tr>
<td>Auxiliaries (%)</td>
<td></td>
</tr>
<tr>
<td>Investment Income (%)</td>
<td>Calculated endowment spending number divided total adjusted operating revenues. (Calculated endowment spending = investment income reported in audit, including unrealized gains and losses, adjusted by 5% of the average of the prior three years’ cash and investments balance)</td>
</tr>
<tr>
<td>Gifts (%)</td>
<td>Gift revenue divided by total adjusted operating revenues</td>
</tr>
<tr>
<td>Grants and contracts (%)</td>
<td>Grants and contracts revenue divided by total adjusted operating revenues</td>
</tr>
<tr>
<td>State appropriations (%)</td>
<td>State appropriation revenue divided by total adjusted operating revenues</td>
</tr>
<tr>
<td>Patient care (%)</td>
<td>Patient care revenue divided by total adjusted operating revenues</td>
</tr>
<tr>
<td>Other (%)</td>
<td>Other revenue divided by total adjusted operating revenues</td>
</tr>
</tbody>
</table>
Finance and Operations Committee

May 12, 2011

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 seek approval for allocations from General Contingency greater than $250,000.

Purchase of Goods and Services $1,000,000 and Over
To seek approval for purchases of goods and services of $1,000,000 and over.

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 $1,000,000 and Over

• To Collier Computing, Inc. for an estimated $2,710,000 to purchase an Hitachi Data Systems storage array including installation services and three years of maintenance/support for all components from May 15, 2011, through May 14, 2014, for the Office of Information Technology. The Office of Information Technology O&M resources will fund this project. Vendor was selected through a competitive process.

• To Computer Concepts & Services, Inc. for an additional $400,000 for the purchase of essential analysis and programming services during the period of May 31, 2011, through May 31, 2012, for the University of Minnesota Veterinary Diagnostic Laboratory (VDL). The total value of this agreement is now $1,675,000. VDL licensing fees, user fees and corporate gifts provide sources of funding for modifications specified by the VDL. This has been budgeted for in FY12. Vendor was selected through a competitive process.

• To Medica for the estimated annual amount of $9,769,560 for administering multiple self-funded UPlan medical plan options for the two-year period of January 1, 2012, through December 31, 2013, through the University of Minnesota Office of Human Resources Employee Benefits. The estimated amount of $9,769,560 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment. The administrative fees are funded on an annual basis through the fringe pool. Vendor was selected through a competitive process.
• To Metropolitan Life Insurance Company (MetLife) for an estimated $4,482,000 for the first two-year contract period, from September 1, 2011, through August 31, 2013, of a six-year award to provide a fully insured Voluntary Student Dental Plan. This dental insurance plan will be offered to Twin Cities, Duluth, Crookston and Morris and Rochester Students. The cost of coverage is born entirely by students that purchase the dental coverage. Vendor was selected through a competitive process.

• To Staywell for the estimated amount of $2,653,174 for administration of health improvement and disease and data management services for the two-year period of January 1, 2012, through December 31, 2013, through the University of Minnesota Office of Human Resources Employee Benefits. The estimated amount of $2,653,174 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment. The administrative fees are funded on an annual basis through the fringe pool. Vendor was selected through a competitive process.

Background Information:

Approvals are sought in compliance with Board of Regents Policy as follows:
• General Contingency: Reservation and Delegation of Authority, Sec.VII, Subd. 1.
• Purchase of Goods and Services $1,000,000 and Over: Reservation and Delegation of Authority, Sec.VII, Subd. 6

President's Recommendation for Action:

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

### 2010-11 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2011 General Contingency</strong></td>
<td></td>
<td>$1,000,000</td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2010 into FY2011</td>
<td>117,393</td>
<td>1,117,393</td>
<td></td>
</tr>
<tr>
<td>1  Return unused funds</td>
<td>(151)</td>
<td>1,117,544</td>
<td>Unused funds from East Cliff boiler replacement project</td>
</tr>
<tr>
<td>2  Exec Dir Office for Business &amp; Community Economic Dev</td>
<td>55,000</td>
<td>$1,062,544</td>
<td>Awards Incentive &amp; Recognition Program</td>
</tr>
<tr>
<td>3  Executive Director for the Board of Regents</td>
<td>149,563</td>
<td>912,981</td>
<td>Salary and fringe for new Deputy Director position</td>
</tr>
<tr>
<td>4  Chancellor, University of Minnesota Crookston</td>
<td>100,000</td>
<td>812,981</td>
<td>Bridge funding for Dir of Assessment position, year 2 of 3</td>
</tr>
<tr>
<td>*  Assoc. VP for Capital Planning and Project Management</td>
<td>215,000</td>
<td>597,981</td>
<td>Eastcliff maintenance and refurbishment projects</td>
</tr>
<tr>
<td>9  Assoc. VP for Capital Planning and Project Management</td>
<td>75,000</td>
<td>$522,981</td>
<td>Pre-Demolition work</td>
</tr>
<tr>
<td>11 Assoc. VP for Capital Planning and Project Management</td>
<td>165,000</td>
<td>$357,981</td>
<td>Security and phone system upgrades to Eastcliff property</td>
</tr>
<tr>
<td>13 Assoc. VP for Capital Planning and Project Management</td>
<td>175,000</td>
<td>182,981</td>
<td>Consultant services for F &amp; A rate development process</td>
</tr>
<tr>
<td>14 Vice President for Research</td>
<td>175,000</td>
<td>182,981</td>
<td></td>
</tr>
<tr>
<td><strong>New items this reporting period:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 General Counsel</td>
<td>36,495</td>
<td>146,486</td>
<td>Transition funding for attorney salary and fringe 0.2 FTE</td>
</tr>
<tr>
<td>19 Executive Director for the Board of Regents</td>
<td>32,000</td>
<td>114,486</td>
<td>Presidential search and transition expenses</td>
</tr>
<tr>
<td><strong>Balance as of April 30, 2011</strong></td>
<td></td>
<td>114,486</td>
<td></td>
</tr>
</tbody>
</table>
Purchase of Good and Services $1,000,000 and over

To Collier Computing, Inc. for an estimated $2,710,000 to purchase Hitachi Data Systems storage array including installation services and three years of maintenance/support for all components from May 15, 2011 through May 14, 2014 for the Office of Information Technology.

The new Hitachi storage array will replace the University's existing antiquated storage environments. The new storage array will benefit the University in the following ways:

- Cost reduction through consolidation of 12 different storage arrays into a single array.
- Reduce time required by storage administrator to manage increased amounts of storage.
- Provide maximum performance and capacity for University Enterprise Applications and Services (e.g., NetFiles, Active Directory, Virtual Hosting, etc.).
- Improve disaster recovery solution for enterprise storage.
- Provide a storage solution that is scalable to several petabytes.

This purchase includes installation and configuration of the appliance by the vendor. In addition, the maintenance/support agreement provides around-the-clock preventative maintenance and problem resolution including 7x24 on-line and telephone support plus on-site response for serious hardware problems.

Collier Computing, Inc. has been selected as the vendor for the Hitachi storage solution through a competitive RFP process.

The Office of Information Technology O&M resources will fund this project.

Submitted by: Diane Wollner
Director, OIT Finance
203 Johnston Hall
Phone: 612-626-1311
Fax: 612-626-0076

Approval for this item requested by:

[Signature]
Vice President and CIO

4-25-2011
Date
Purchase of Goods and Services $1,000,000 and over

To Computer Concepts & Services, Inc. for an additional $400,000 for the purchase of essential analysis and programming services during the period of May 31, 2011 through May 31, 2012 for the University of Minnesota Veterinary Diagnostic Laboratory (VDL). The total value of this agreement is now $1,675,000.

The University of Minnesota Veterinary Diagnostic Laboratory has developed proprietary laboratory information management (LIMS) software that has been licensed to the North Carolina Department of Agriculture (University of Minnesota Patent Technology Marketing Software License Agreement L1458). The North Carolina Department of Agriculture has also licensed the Online Submission component of the LIMS software (L1872). This contract is to purchase the analysis and programming skills necessary to maintain, modify and implement the LIMS software as stated in the license agreements. These agreements are the result of collaborative efforts by the parties involved to track and analyze animal health data relating to diseases such as highly pathogenic strains of avian influenza, swine influenza, and other zoonotic diseases. Also necessitating ongoing system enhancement are the successful efforts of VDL faculty in research projects on emerging disease identification, new test development, and disease prevention.

Analytical and programming skills are required for ongoing development of system enhancements to address regulatory issues such as participating in the National Animal Health Network and for rapid response to disease outbreaks. Furthermore, laboratory operational issues are met as they arise to maintain and enhance quality management requirements, instrument interfaces for newly developed testing procedures, customer service enhancements, and rapid compilation and transmission of complex infectious disease informatics as well as basic maintenance are incorporated into and addressed by the information system.

Through a competitive bid process, Computer Concepts & Services best demonstrated the necessary experience and skill sets as well as cost effectiveness to carry out the necessary tasks and was awarded the contract in May 2008. This is the second of two renewal options.

VDL licensing fees, user fees and corporate gifts provide sources of funding for modifications specified by the VDL. This has been budgeted for in FY12.

Submitted by: James E. Collins, Director
Veterinary Diagnostic Laboratory
University of Minnesota
1333 Gortner Avenue
St. Paul, MN 55108
Phone: (612) 625-9289
Fax: (612) 624-8707
collie002@umn.edu

Approval for this item requested by:

[Signature]
Aaron Friedman, Vice President Health Sciences

4/20/14
Date
Purchase of Goods and Services $1,000,000 and over

To Medica for the estimated annual amount of $9,769,560 for administering multiple self-funded UPlan medical plan options for the two year period of January 1, 2012 through December 31, 2013 through the University of Minnesota Office of Human Resources Employee Benefits.

Medica was selected as the medical plan administrator during a request for proposal process conducted from November 2010 through March 2011. All major provisions of the Administrative Service Agreement between the Regents of the University of Minnesota and Medica have been agreed to and the contract is being finalized for signature by the University. The contract will be for a two-year period, with four one-year options to renew the contract.

We request that the Board of Regents approve the contract for services from Medica for a two-year period, per the terms of Administrative Services Agreement.

The estimated amount of $9,769,560 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment. The administrative fees are funded on an annual basis through the fringe pool.

Submitted by: Dann Chapman
Director, Employee Benefits

Approval for this item is requested by:

Carol Carrier
Vice President, Office of Human Resources

May 12, 2011
Purchase of Goods and Services $1,000,000 and over

To Metropolitan Life Insurance Company (MetLife) for an estimated $4,482,000.00 for the first two year contract period of a six year award to provide a fully insured Voluntary Student Dental Plan. This dental insurance plan will be offered to Twin Cities, Duluth, Crookston and Morris and Rochester Students.

This estimate is based on a projection of 7,500 covered students. This contract is for dental plan expenses incurred from September 1, 2011, through August 31, 2013.

Students at the University of Minnesota have been requesting for several years that a volunteer dental program also be offered to students. In September 2010, Gerald Rinehart, Vice Provost of Student Affairs, approved the formation of a University Committee to conduct a request for proposal process for a fully insured dental program for students.

In November 2010 the University of Minnesota requested insurance company proposals to provide student dental benefits coverage beginning with the 2011-12 academic year to students attending the University of Minnesota. After evaluating proposals from three different insurance organizations, the committee voted to award the new contract to MetLife.

The cost of coverage is born entirely by students that purchase the dental coverage.

Submitted by: Carl Anderson
Chief Operating Officer
Boytton Health Service; W334
Phone: 612-624-9485
Fax: 612-625-1434

Approval for this item requested by:

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

Date: 4/19/11
Purchase of Goods and Services $1,000,000 and over

To Staywell for the estimated amount of $2,653,174 for administration of health improvement and disease and data management services for the two year period of January 1, 2012 through December 31, 2013 through the University of Minnesota Office of Human Resources Employee Benefits.

Staywell was selected as the health improvement, disease and data management administrator as a result of a request for proposal process conducted from November 2010 through March 2011. All major provisions of the Administrative Service Agreement between the Regents of the University of Minnesota and Staywell have been agreed to and the contract is being finalized for signature by the University. The contract will be for a two-year period, with four one-year options to renew the contract.

As part of the University’s Wellness Program for UPlan medical program participants and their dependents, Staywell will provide a wellness assessment, wellness portal, lifestyle coaching, on-line health action programs, data management, and disease management (if not provided by the clinic).

We request that the Board of Regents approve the contract for services from Staywell for a two-year period, per the terms of Administrative Services Agreement.

The estimated amount of $2,653,174 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment. The administrative fees are funded on an annual basis through the fringe pool.

Submitted by: Dann Chapman
Director, Employee Benefits

Approval for this item is requested by:

Carol Carrier
Vice President, Office of Human Resources

May 12, 2011
Finance and Operations Committee

May 12, 2011

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 Operations and Agenda Guidelines.

Report on Special Meeting of Investment Advisory Committee
To provide a summary of a special meeting of the Investment Advisory Committee (IAC) held March 23, 2011.

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

Report on Special Meeting of Investment Advisory Committee

A special meeting of the IAC was held to conclude the discussion, which had continued as part of two previous meetings, on the topic of the appropriate definition and the inter-relationship among the roles and responsibilities of the Board, the administration, and the IAC and consultants relating to the fiduciary oversight and the management of the investment program. This broader policy issue was addressed as background to a discussion about certain investment program details such as asset allocation target ranges and the engagement and termination of investment managers. The resulting recommendation by the IAC was formulated as the following resolution:

• That the Board exercise it fiduciary responsibility for oversight of the investment program by establishing the investment objectives for the endowment and other funds, by establishing the annual spending or distribution rate, and by performing an evaluation of the investment performance relative to the objectives;
• That the Board retain for itself the right to engage an independent investment advisor in order to conduct such an evaluation and to provide other consulting services;

• That the Board delegate to the OIB the implementation of the investment program, including the determination of appropriate asset allocation guidelines, the engagement and termination of investment managers, and the identification of appropriate rebalancing protocols, all in accordance with applicable Board policies; and

• That relevant Board policies be amended to the extent necessary to reflect these recommendations.

**Background Information:**
May 12, 2011

The Honorable John Frobenius, Chair, Finance and Operations Committee
The Honorable Venora Hung, Vice Chair
The Honorable Clyde Allen
The Honorable Richard Beeson
The Honorable Patricia Simmons
The Honorable Steve Sviggum

Committee Members:

Enclosed is Purchasing Services’ report on purchasing activity for the third quarter, fiscal year 2011. These reports are prepared quarterly to provide you with information regarding the nature and extent of purchasing activity, including exceptions to purchasing policies and violations of Regents purchasing policy.

The enclosed report provides 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

The third quarter report compares dollars spent on purchases in the third quarter of the current year to dollars spent on purchases in second quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for preapproved exceptions. We have also included more detailed information on purchasing activity and exception reporting.

Comments and Highlights

- Total Purchasing Activity - third quarter spending for FY11 is tracking very similarly to third quarter spending of FY10. YTD spending through the third quarter is below both FY10 and FY09 spending at the same point, primarily due to caution in spending on the part of departments.

- Quarterly Approved Exceptions – Third quarter FY11 exceptions are up from the prior two years. 4 significant transactions account for the increase:
  - A purchase from Amano McGann, Inc. for automated payment machines and related equipment in the amount of $1,286,518 for Parking and Transportation Services;
A purchase from FieldTurf, Inc. to replace the turf and re-grade the base of Gibson-Nagurski Football Outdoor Practice Facility in the amount of $668,296 for Intercollegiate Athletics;
- Towers Watson to provide comprehensive benefits in the amount of $750,000 for Benefits;
- A second purchase from Towers Watson for Benefits in the amount of $450,000 to provide National Data Cooperation Services for Employees.

- Pre-approved Exceptions – Third quarter pre-approved exceptions are flat. YTD exceptions are up notably over FY10 and FY09, primarily attributable to notable increases of 28% and 50% in the first and second quarters, respectively.

- There were no Regents Purchasing Policy Violations in the third quarter of FY11.

**Definitions**

"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.

"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.

"Regents Purchasing Policy Violations" refers to transactions that were processed which bypassed the competitive process without following proper protocol and without the necessary approvals.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Interim 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
Tim Bray, Interim Director, Purchasing Service
University of Minnesota
Quarterly Purchasing Report
As of March 31, 2011

I. Summary of Purchasing Activity for 3rd Quarter

### Total Quarterly Purchasing Activity

<table>
<thead>
<tr>
<th># of Transactions</th>
<th>Q3 FY09</th>
<th>Q3 FY10</th>
<th>Q3 FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Transactions</td>
<td>201,750</td>
<td>205,312</td>
<td>212,186</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$211,834,482</td>
<td>$178,264,397</td>
<td>$191,299,634</td>
</tr>
</tbody>
</table>

### Quarterly Approved Exceptions

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>Q3 FY09</th>
<th>Q3 FY10</th>
<th>Q3 FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>24</td>
<td>27</td>
<td>37</td>
</tr>
<tr>
<td>Total PO Dollars</td>
<td>$3,157,453</td>
<td>$4,211,779</td>
<td>$7,284,772</td>
</tr>
</tbody>
</table>

### Quarterly Pre-Approved Exceptions

<table>
<thead>
<tr>
<th># of Exceptions</th>
<th>Q3 FY09</th>
<th>Q3 FY10</th>
<th>Q3 FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>28</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Total PO Dollars</td>
<td>$4,417,127</td>
<td>$1,856,574</td>
<td>$1,612,311</td>
</tr>
</tbody>
</table>
Summary of Purchasing Activity YTD

**Total YTD Purchasing Activity**

<table>
<thead>
<tr>
<th></th>
<th>YTD FY09</th>
<th>YTD FY10</th>
<th>YTD FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Transactions</td>
<td>532,338</td>
<td>704,651</td>
<td>635,914</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$647,906,636</td>
<td>$695,123,715</td>
<td>$600,456,538</td>
</tr>
</tbody>
</table>

**YTD Approved Exceptions**

<table>
<thead>
<tr>
<th></th>
<th>YTD FY09</th>
<th>YTD FY10</th>
<th>YTD FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>71</td>
<td>97</td>
<td>130</td>
</tr>
<tr>
<td>Total PO Dollars</td>
<td>$11,421,204</td>
<td>$17,598,675</td>
<td>$20,119,669</td>
</tr>
</tbody>
</table>

**YTD Pre-Approved Exceptions**

<table>
<thead>
<tr>
<th></th>
<th>YTD FY09</th>
<th>YTD FY10</th>
<th>YTD FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>71</td>
<td>63</td>
<td>84</td>
</tr>
<tr>
<td>Total PO Dollars</td>
<td>$9,756,290</td>
<td>$8,600,745</td>
<td>$16,907,519</td>
</tr>
</tbody>
</table>
## II. Purchases made as Approved Exceptions to Competitive Purchasing Process

<table>
<thead>
<tr>
<th>Exception #1:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.</td>
<td>6</td>
<td>$1,385,082</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #2:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.</td>
<td>11</td>
<td>$3,211,533</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #3:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding source or granting agency specified a single supplier.</td>
<td>5</td>
<td>$438,769</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #4:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>15</td>
<td>$2,249,388</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #1:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A threat to health, welfare, safety.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #2:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A significant loss to the University.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #3:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A failure to provide core services to University students/faculty/staff.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**TOTAL Approved Exceptions**

|                | 37 PURCHASES | $7,284,772 |
III. Pre-Approved Exceptions to Competitive Purchasing

<table>
<thead>
<tr>
<th>Exception #5:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontractors previously arranged by Sponsored Projects Administration (SPA).</td>
<td>2</td>
<td>$425,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #6:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service or supplies available only from another governmental agency or public entity.</td>
<td>4</td>
<td>$483,832</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #9:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique specification research animals purchased under guidelines of the Institutional Animal Care and Use Committee (IACUC).</td>
<td>1</td>
<td>$99,264</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #11:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software license renewals and software upgrades purchased from original developer. This includes adding licenses to an existing license agreement.</td>
<td>1</td>
<td>$153,848</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #23:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases from University Physicians that are not part of sponsored research activities.</td>
<td>2</td>
<td>$136,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #24:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Abroad Program Administrators. (Does not include group airfares.)</td>
<td>2</td>
<td>$316,567</td>
</tr>
</tbody>
</table>

TOTAL Pre-Approved Exceptions 12 PURCHASES $1,612,311

There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.

IV. Regents Policy Violations

There are no Regents Policy Violations to report.