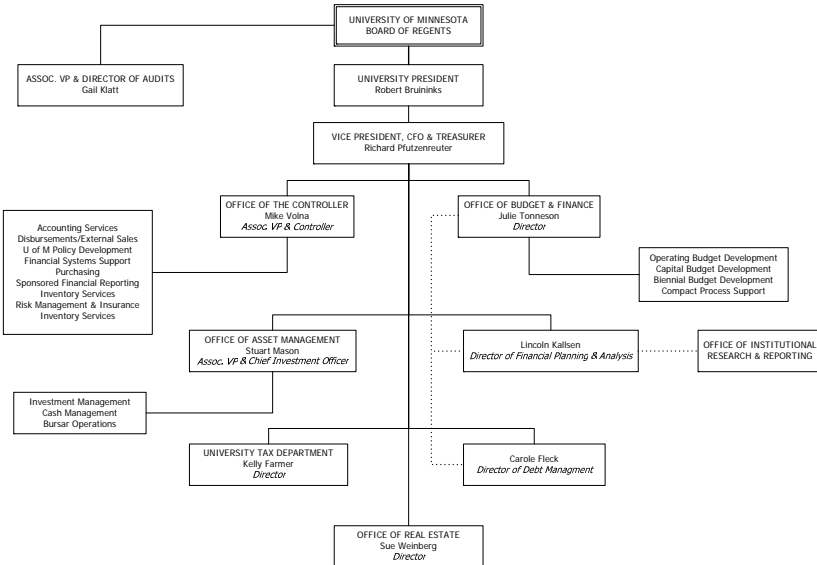


UNIVERSITY OF MINNESOTA Financial Overview



University of Minnesota Financial Management Organization



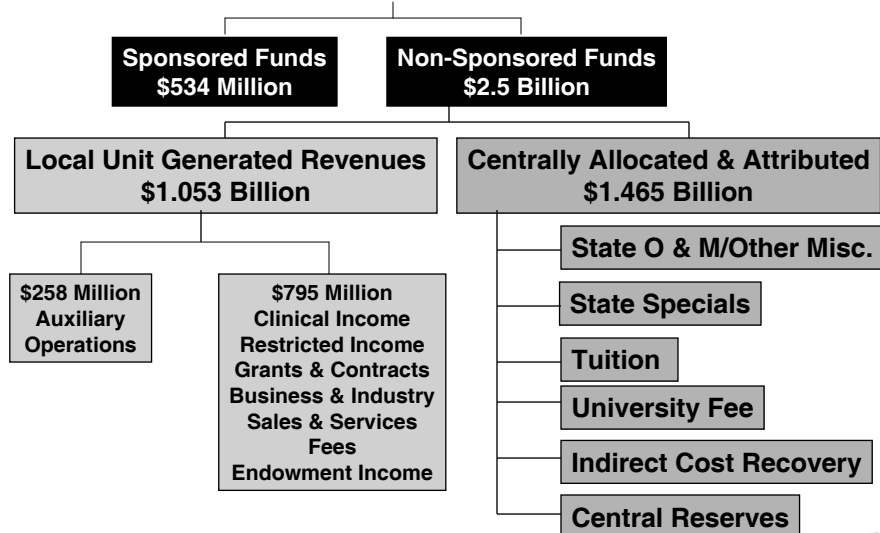
Fiscal Year 2007-08 Operating Budget

What is the amount of the University's annual budget?

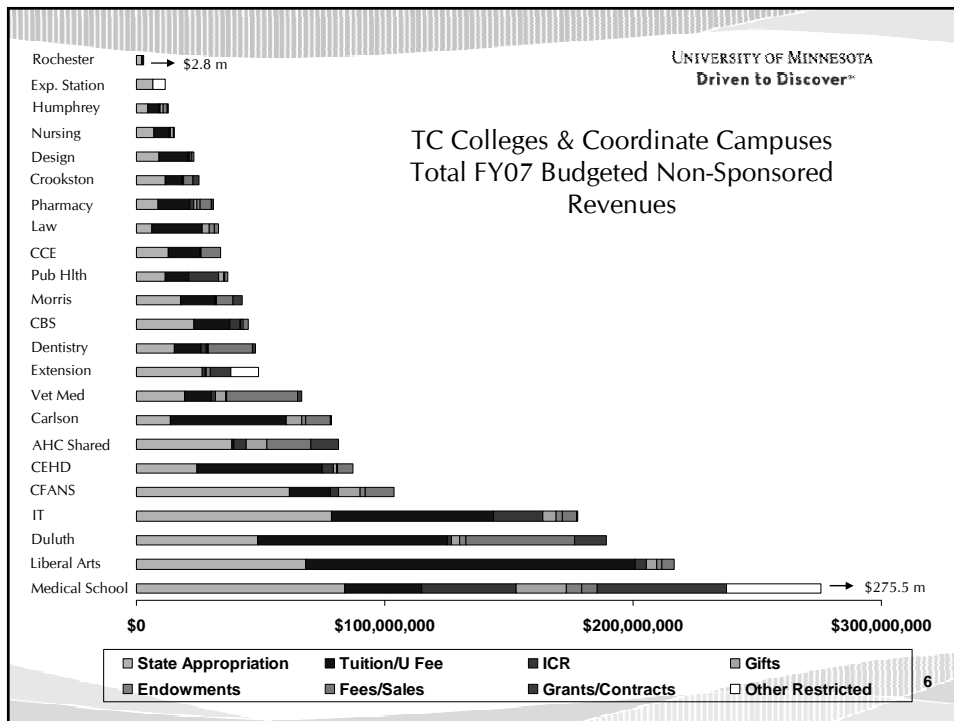
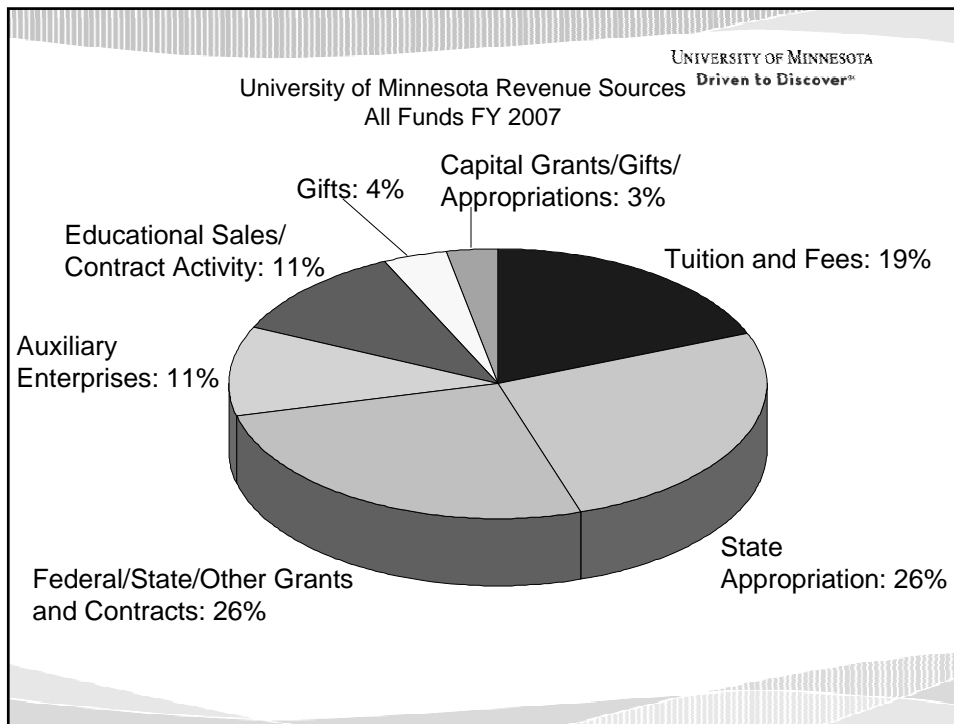
Current Non-Sponsored Expenditures & Mandatory Transfers	\$2,518,030,319
Current Sponsored Expenditures	<u>\$ 534,000,000</u>
Total Current Fund Operating Budget	\$3,052,030,319

3

All-Funds Budget Structure

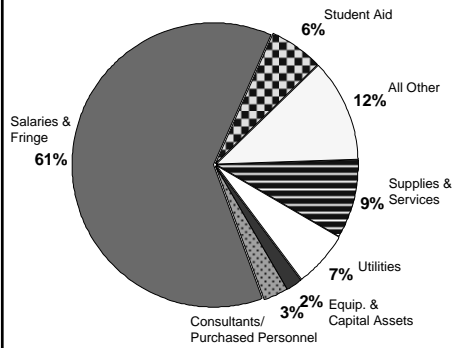


4

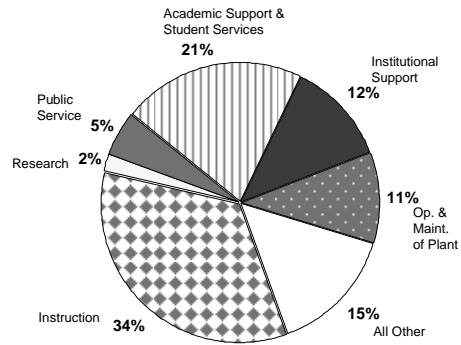


Current Non-Sponsored Funds Fiscal Year 2007-08 Expenditures / \$2.5 Billion

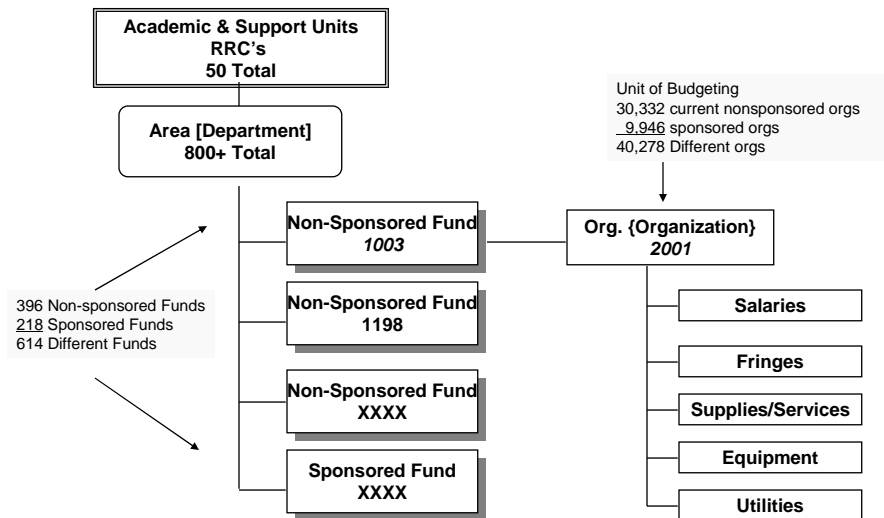
By Object of Expenditure



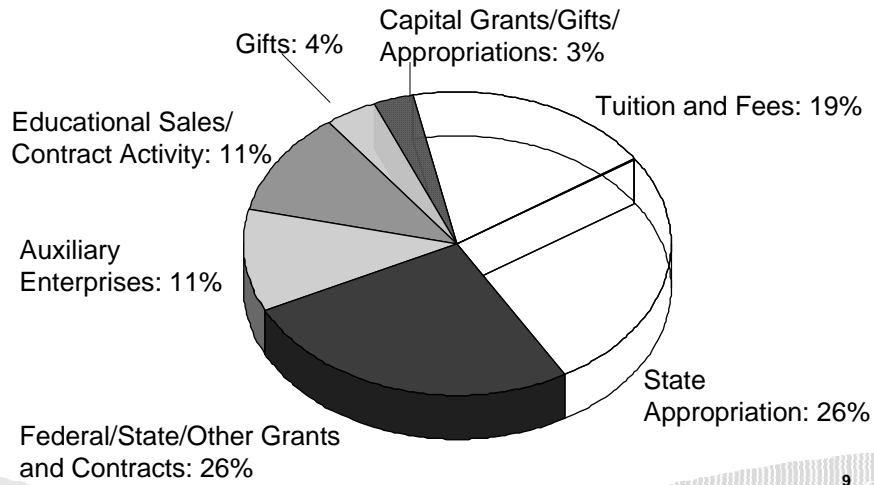
By Function



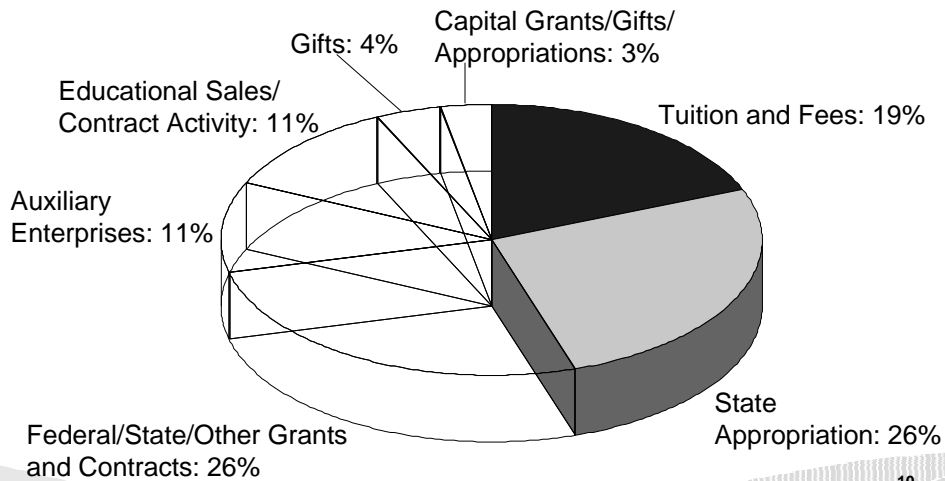
University of Minnesota: Sample Chart of Accounts



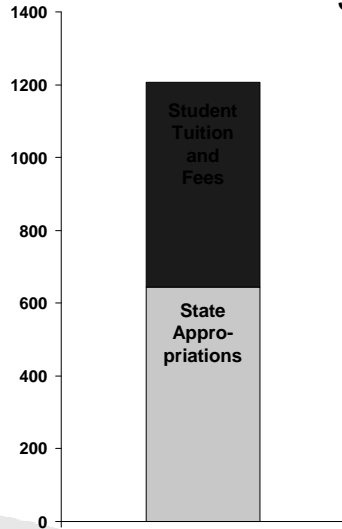
University of Minnesota Revenue Sources All Funds FY2007



University of Minnesota Revenue Sources All Funds FY 2007



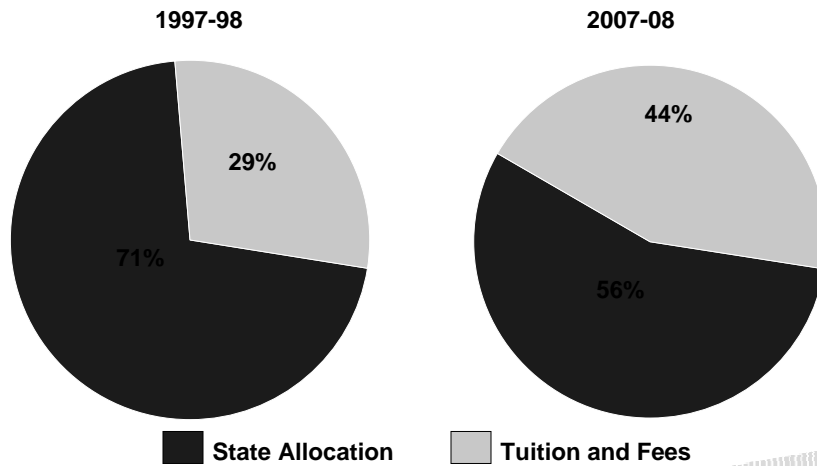
FY 2007-08 O&M and Tuition Revenues: \$1.2 billion

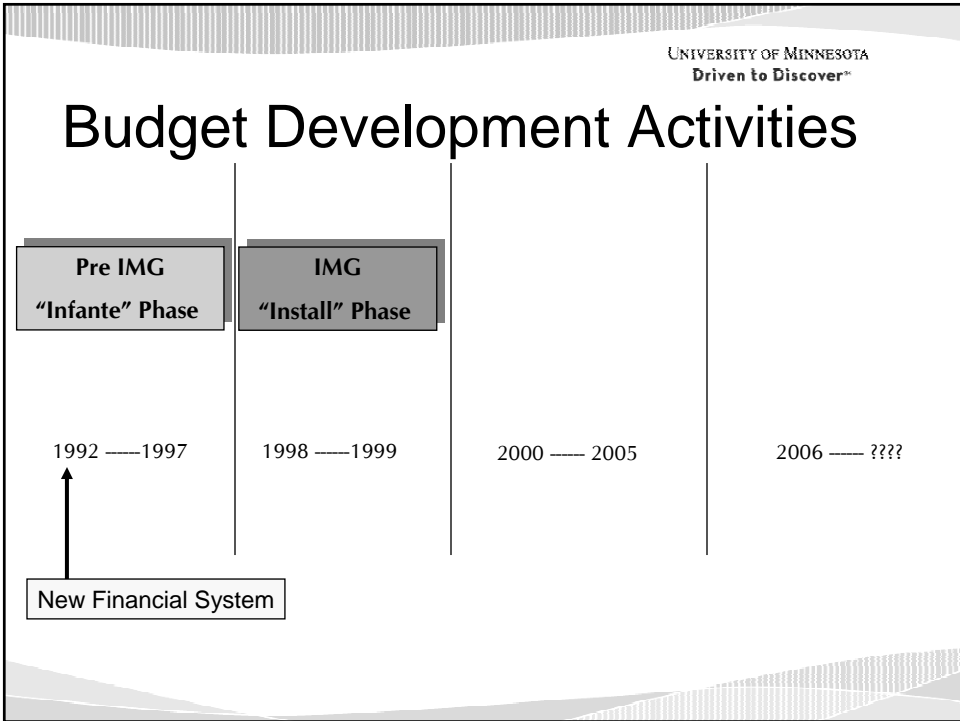
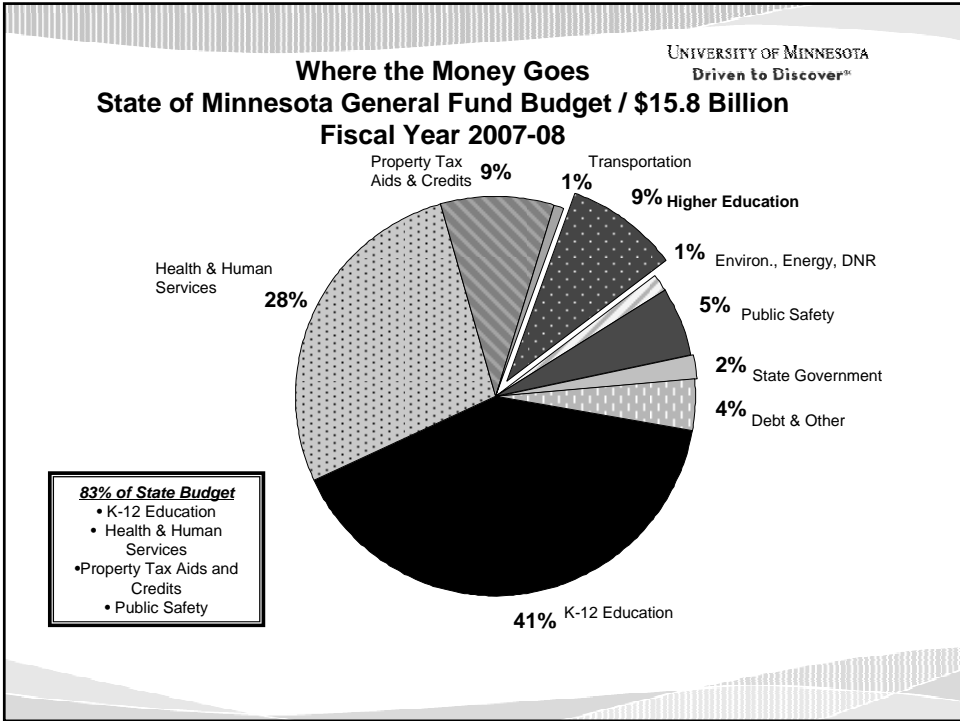


Why Are These Revenues So Important?

- 70% of total spending on instruction
- 77% of total spending on student services
- 72% of total spending on faculty compensation
- 93% of the total budget of CLA
- 78% of the total budget of IT
- 75% of the total budget of CFANS

State appropriation and tuition revenue mix: Changes in the last decade





“Why” Move to RCM?

- Grow out of Budget Problems – State and National Changes
- Improve Transparency Surrounding Decisions
- Improve Accountability and Management of Resources
- Clarify Maze of Cross-Subsidies
- More Clearly Link Performance to Rewards

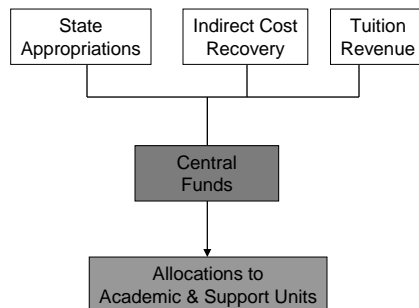


Incentives for Managed Growth (IMG)

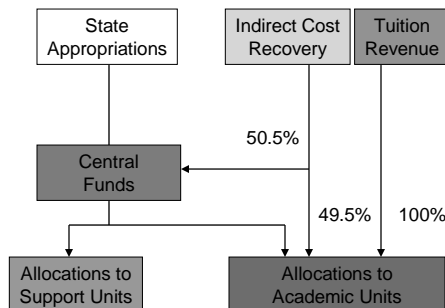
15

Reforming Resource Allocation Models for Revenue Distribution

Previous Model

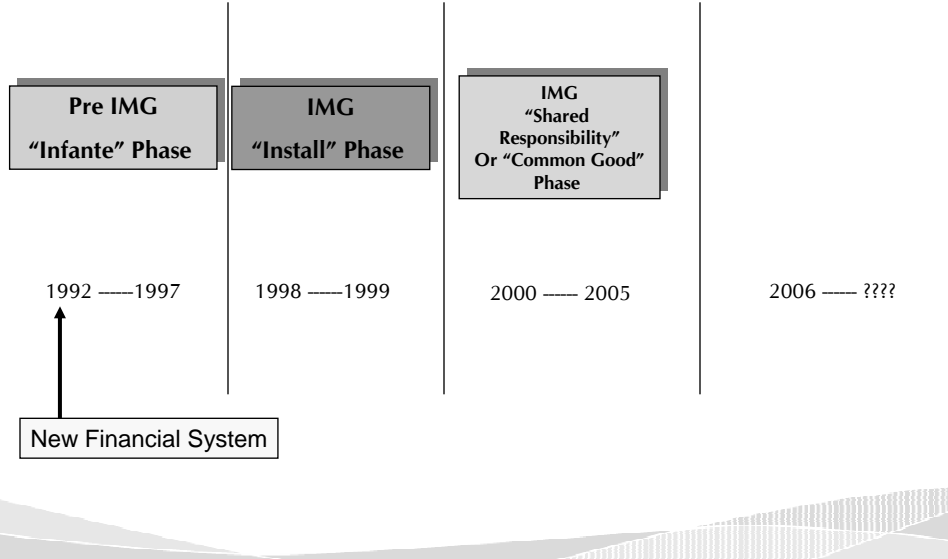


Current Model



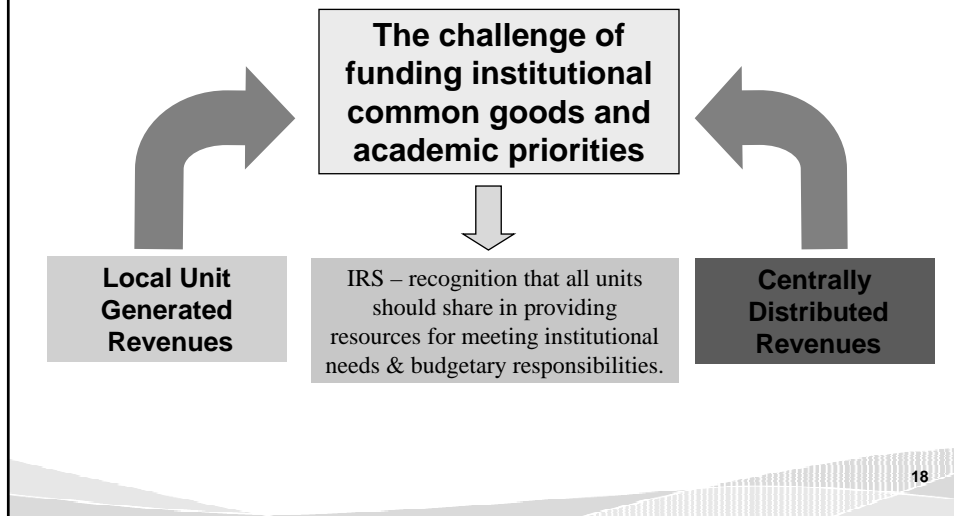
16

Budget Development Activities



Reforming Resource Allocation

Why Institutional Revenue Sharing?



Institutional Revenue Sharing Fiscal Year 2005-06 Approved Budget

Academic Institutional Revenue Sharing =
Total Revenues X 8.5%

Part 1

Calculate revenue
yield @ 3.75% of
“Sales & Services”
Revenue*

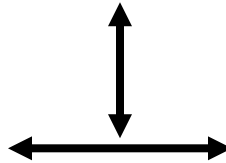
* [Includes Central
Support Units]

FY06 Yield = \$12.9 m

Part 2

Subtract “3.75%
Sales & Services”
Assessment from
8.5% IRS and collect
remaining
assessment from
collegiate/campus
units

FY06 Yield = \$86.1 m



Why Build Upon the IMG Model? IMG Largely A Success - *However*

NEED MORE

- Transparency
- Simplicity/Fewer Levers
- All-Funds/All Costs Analysis
- Accountability – Units & Leadership

NEED LESS

- Internal Assessment
- Base + / - Methodology

Utilities, Debt, Leases, Custodial
Operations, Technology,
Libraries, Student Services,
Classrooms, Research Support,
Admin. Units



Indirect
Costs



What does it really cost to
operate an academic unit?

Direct
Costs



Collegiate Units &
Campuses

Budget Development Activities

Pre IMG
"Infante" Phase

IMG
"Install" Phase

IMG
"Shared
Responsibility"
Or "Common Good"
Phase

"Earned Income
&
Full Cost
Model"

1992 — 1997

1998 — 1999

2000 — 2005

2006 — ???

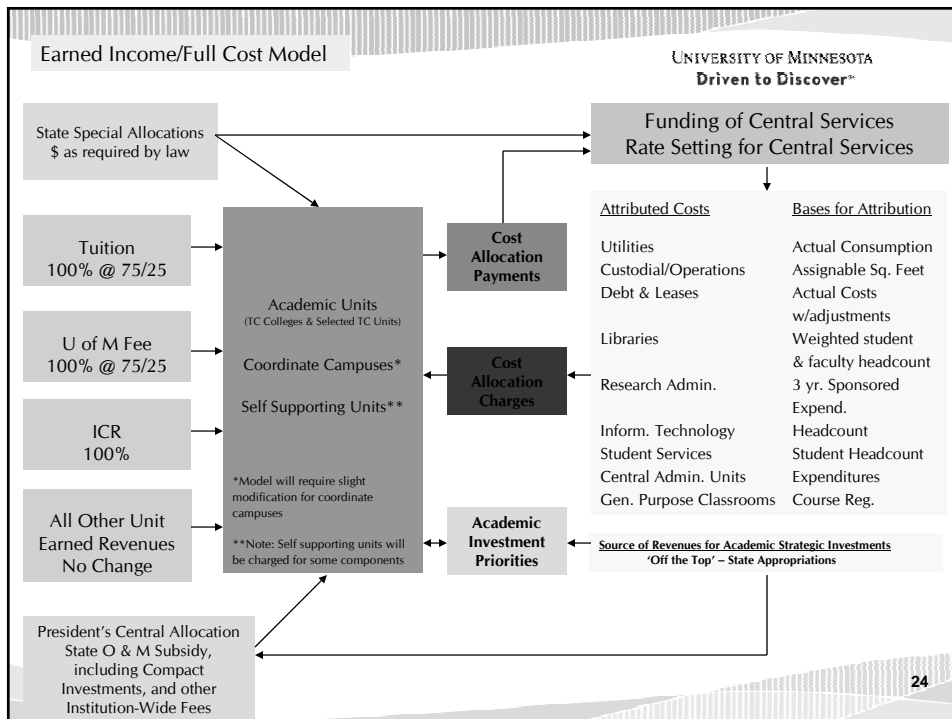
New Financial System



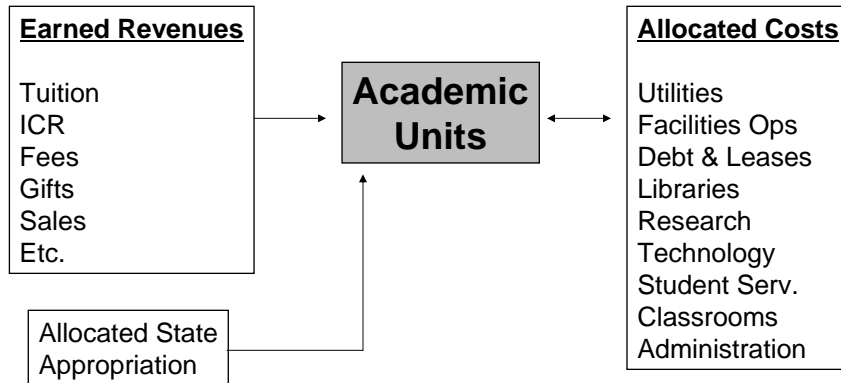
Working Principles – Internal Budget Model

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- 1) **Mission and Goals** – Model should encourage behaviors that support the University’s mission and goal to be one of the top three public research Universities in the world and the actions and strategies necessary to achieve that goal. Specific attention should be given to supporting efforts at crossing disciplinary and collegiate boundaries in working toward that goal.
- 2) **Transparency** – Model should make budget decisions related to subsidies, investments, reallocations, etc., transparent and acknowledge that no units are “tubs-on-their-own-bottoms”.
- 3) **Efficiency/Cost Control** – Model should optimize the use of the University’s physical, financial and technological resources; encourage excellence, service and continuous improvement; and provide clear incentives for member of the University community to control costs.
- 4) **Revenue Enhancement** – Model should provide incentives where appropriate to enhance revenues.
- 5) **Simplicity** – Model should be as simple as possible to understand and administer.
- 6) **Predictability** – Model should result in predictable rules, consistent application of policies and clear outcomes.
- 7) **Adaptability** – Model should be responsive to external “shocks”.
- 8) **Central Investment** – Model should support the ability of the President to “steer the ship” through reallocations and central investments.
- 9) **Information Rich** – Model should foster an all-funds discussion using detailed information related to true costs and service levels and provide good information to support fact-based decision making at all levels of the University.
- 10) **Implementation** – Model should be as easy to implement as possible.
- 11) **Risk** – The model should place the management of financial risk at the level of the institution that can best control the contributing factors and act to address them.



Minnesota's Budget Development Story Earned Income-Full Cost



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Bases for Cost Allocation:

Discussions on cost allocation have resulted in three different types:

- 1) **Consumption Based Allocation** – cost allocated based on actual measurement of use
 - *creates direct incentive toward desirable behavior*
- 2) **Cost Driver Based Allocation** – cost allocated based on relative share of identified cost driver variable
 - *variable acts as a “proxy” for use – no measurement of actual use*
 - *no direct incentive toward any behavior – provides better management information*
- 3) **Common Good Based Allocation** – cost allocated based on a variable accepted as reasonable measure of participation in the University community
 - *no direct or primary connection to incentives – just a reasonable way to fairly allocate a shared cost*

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Facilities Operations & Maintenance Cost Allocations

Charges Allocated by ASF

- Building Services
 - Custodial
 - Waste
 - Recycling
- Maintenance
- Landcare/Grounds
- R&R

Charges Allocated by Consumption

- Energy Management
 - Steam
 - Chilled Water
 - Electricity
 - Water/Sewer

Charges Allocated as part of System-wide Administrative Cost Pool: BSAC

Charges Allocated based on Time & Materials: Services beyond 'Basic Services Standard' (This standard to be agreed to annually within the annual budget and compact processes.) Working assumption-units "opt-in" to services unless there is a confirmed business case to "opt-out".

Summary of Cost Allocation Recommendations

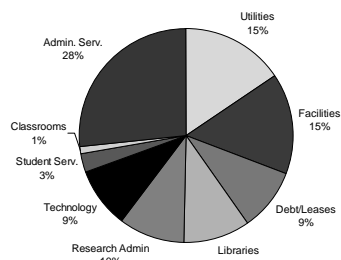
X = Primary "type" assignment

	Utilities	Facilities O&M	Debt & Leases	Tech	Admn Serv	Libraries	Research	Student Serv	Gen. Purpose Class-rooms
Consumption Based Cost Allocation	X		X						
Cost-Driver Based Cost Allocation		X		X		X	X	X	X
Common Good Based Cost Allocation					X				

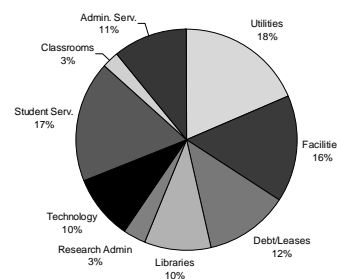
9 Cost Allocation Pools

- **Facilities – Operations & Maintenance**
(ASF/Space Data Base/Twin Cities/Standard Service Levels)
- **Utilities -** (Consumption by Building/Buildings Metered/Monthly Bill)
- **Debt & Leases -** (Occupancy/General Purpose Classrooms)
- **Office of Information Technology**
(Centrally Allocated/Unweighted Headcount/Tiered)
- **Administrative Service Units -** (Total Expenditures/Tiered)
- **Research**
(Sponsored Services/3 Yr. Rolling Avg. Sponsored Expenditures)
- **Libraries -** (Weighted Student & Faculty Headcount/Law Library Nuance)
- **Student Services**
(3 “buckets”/Primarily Student Headcounts/Aid Programs Included)
- **General Purpose Classrooms**
(Student Course Registrations/Future Incentive Refinements)

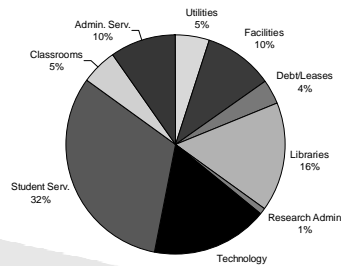
Medical School



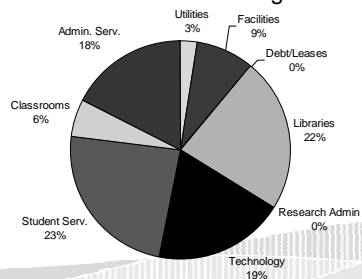
College of Biological Sciences



College of Liberal Arts



Carlson School of Management



		Column A	
		2005-2006 Budget Restated	
1	University of Minnesota		1
2	Institute of Technology		2
3			3
4	Total Earned Operating Revenues (sum line 5 to 10)	\$ 102,752,417	4
5	Tuition	\$ 57,875,674	5
6	University Fee	\$ 5,661,223	6
7	Student Fees	\$ 2,679,037	7
8	Indirect Cost Recovery	\$ 19,363,150	8
9	State Specials	\$ 1,387,000	9
10	All Other Income	\$ 15,786,333	10
11	Total Budgeted Direct Expenditures (sum lines 12 to 14)	\$ 128,312,047	11
12	Salaries	\$ 75,434,030	12
13	Fringe	\$ 27,000,375	13
14	All Other	\$ 25,877,642	14
15	Indirect Expenditures (sum lines 16 to 25)	\$ 53,104,289	15
16	Utilities	\$ 7,032,411	16
17	Facility Operations & Maintenance	\$ 11,032,609	17
18	Debt	\$ 330,903	18
19	Leases	\$ 569,479	19
20	Libraries	\$ 5,862,838	20
21	VP Research	\$ 2,785,593	21
22	Information Technology	\$ 5,362,693	22
23	Student Services	\$ 9,240,304	23
24	Classrooms	\$ 1,669,368	24
25	Administrative Service Units	\$ 9,218,091	25
26	Total Direct & Indirect (sum lines 11 + 15)	\$ 181,416,336	26
27	Net Operating Profit(Loss) Position (line 4 minus line 26)	\$ (78,663,919)	27
28	Nonoperating Revenues(Expenses) (sum lines 29 + 30)	\$ 67,538,435	28
29	Transfers In(out)	\$ (7,667,806)	29
30	Operations & Maintenance Allocation	\$ 75,206,241	30
31	Net Increase(Decrease) (sum lines 27 + 28)	\$ (11,125,484)	31
32	Net Assets		32
33	Beginning of the Year	\$ 53,616,666	33
34	End of the Year (sum line 33 + 31)	\$ 42,491,182	34

VESOTA

ver™

Earned Income

Direct Expense

Indirect Expense

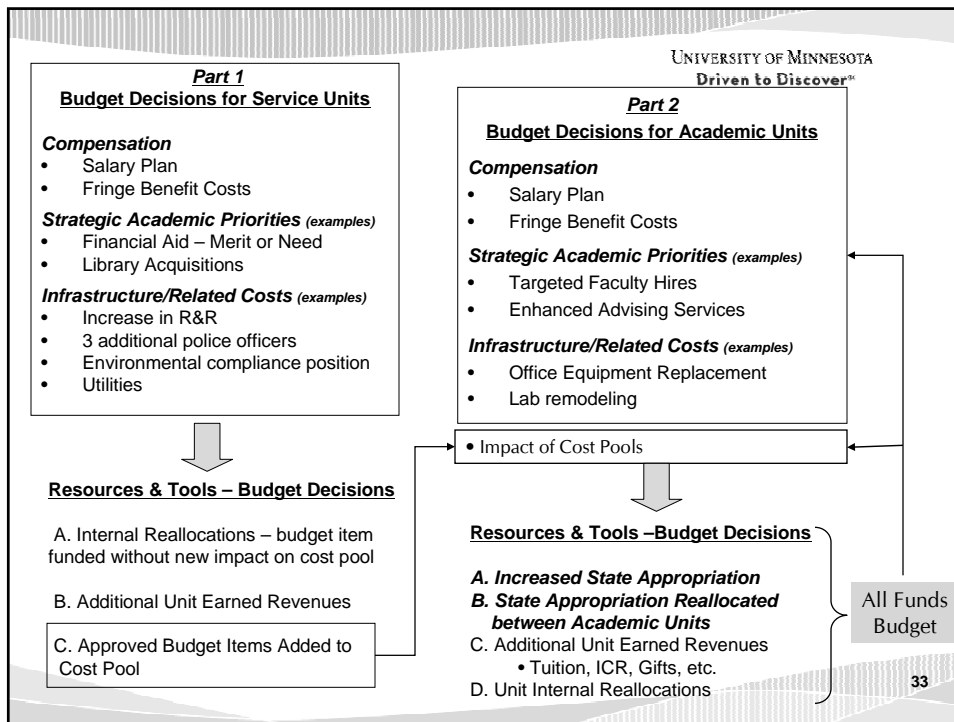
State Appropriation

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Notes on Allocation of the State Subsidy

- Annual decision by the President
- Strategic decision each year used to implement University priorities: leadership to be held accountable for addressing priorities through the budget
- Allocations made in support of unit level performance agreements, based on programmatic outcomes and financial management – decisions supported through unit level analysis
- Budget process, information and formatting will all be consistent across units to support decision making
- Total annual allocations cannot exceed the available state resources
- Allocation decisions cannot force a unit into a deficit for the year, but can force discussions about alternate levers in revenues and cost allocation categories.

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Contacts for Budget and Financial Information

Budget Office Web Site: www.budget.umn.edu

Budget Office Phone #: 612-626-4517

Controller's Org Phone #: 612-624-0874

Institutional Research & Reporting Web Site:
www.irr.umn.edu

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UNIVERSITY OF MINNESOTA Financial Overview

