



Chief Financial Officer's Report

Board of Regents

June 18, 2009

Core Financial Principles

- ◆ Conservative utilization of debt
- ◆ Adherence to long-range capital investment strategy, with emphasis on infrastructure renewal
- ◆ Preservation of endowment funds (spending rule)
- ◆ Disciplined operating budget strategy
- ◆ Sustained focus on cost controls
- ◆ Continue to diversify revenue streams

Focus on Internal Controls

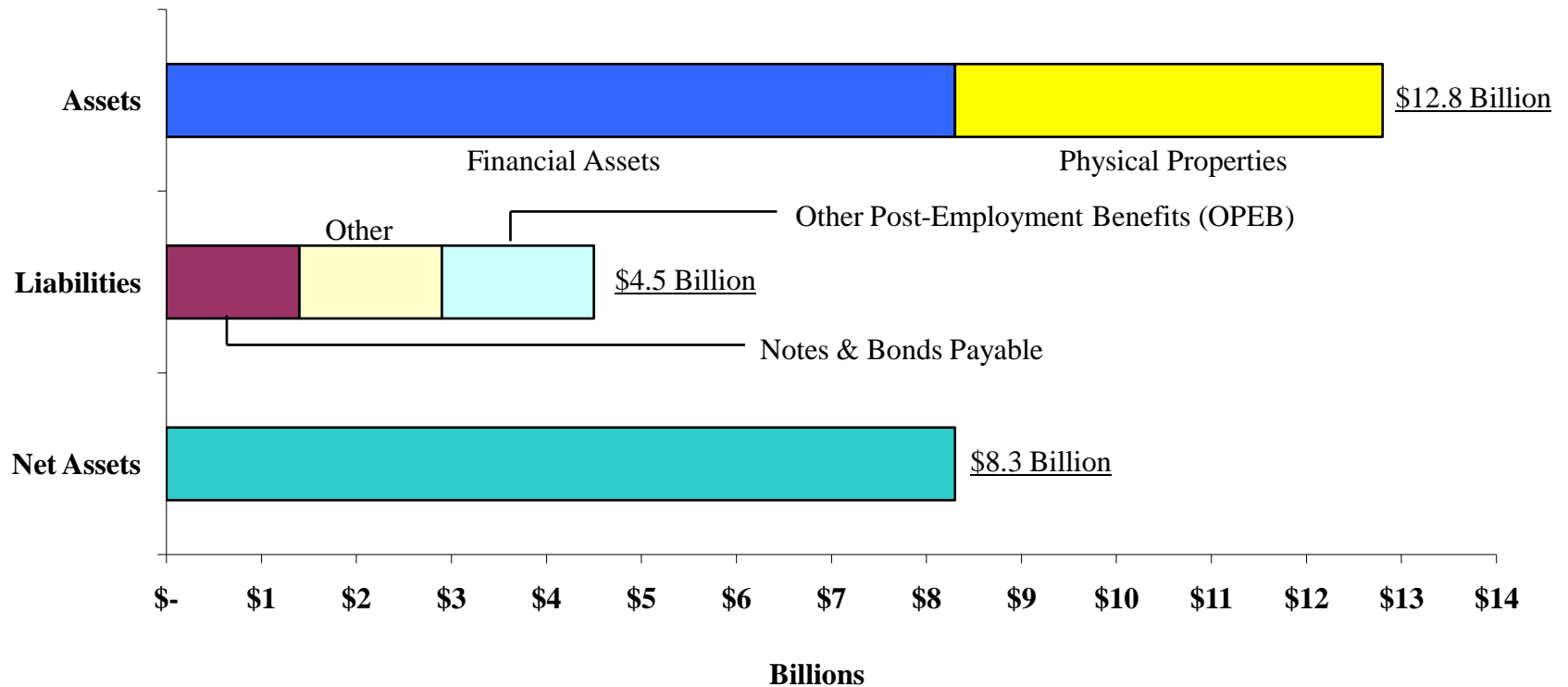
Strengthening internal controls with SOX best practices

- ◆ Annual certification for Deans and Directors of financial stewardship and internal controls
- ◆ Units performing annual internal control self-assessment review of select high leverage processes including employment, P-Card, journal entry and cash handling
- ◆ Utilizing web-based tool for management oversight control reports that highlight exceptions and trends
- ◆ Providing internal control training to increase awareness
- ◆ 4th year of robust, campus wide IT Security effort

Protect and Strengthen the Balance Sheet

Assets vs. Liabilities

Projected June 30, 2009



Threats to the Balance Sheet

Future Liabilities

- ◆ Deferred maintenance of buildings
- ◆ Post retirement health benefits
- ◆ Increasing future debt liability

Other Major Threats

- ◆ Volatility of capital markets
- ◆ State of Michigan economy
- ◆ Rising health care costs
- ◆ Continued energy costs pressure
- ◆ Competitive Pressures
 - Faculty recruitment/retention
 - Financial Aid/Access
 - External research funding

Endowing the General Fund - Status

- ◆ In 2009, the General Fund was supplemented by \$190M from endowment (primarily scholarships, professorships and academic programs)
- ◆ To help absorb future reductions in State Appropriations, a strategic effort to incrementally grow endowment to support GF began 4 years ago
- ◆ The flagship of this effort was the President's Donor Challenge for undergraduate aid, professorships, graduate/professional scholarships and student global experience
- ◆ Other strategies to endow GF activities have included:
 - Gifts to endow building maintenance/operations for new buildings (Stamps Auditorium)
 - One time unrestricted investment income from working capital

Endowing the General Fund - Status

- ◆ President's Challenge: \$105M for need based aid and professorships
- ◆ President's Challenge – Phase II: \$60M for graduate and professional student support
- ◆ President's Challenge – Phase III: \$15M for student global experience
- ◆ Faculty Retention/Recruitment Fund: \$40M including 100 new faculty
- ◆ Other initiatives: \$3M including Stamps Auditorium Gift for Building Maintenance to ensure “Superior Building Performance”

Total Impact: \$223M Endowment, Annual revenue = \$11M

Other Revenue Strategies to Supplement the General Fund

- ◆ External Revenues - \$14M annual; \$25M one-time
 - Successfully increased federal research indirect cost rate (\$8M)
 - Directed portion of Big 10 TV revenue to financial aid (\$2M)
 - Restructured/redirected non-GF revenues to support GF activities (\$4M):
Late fees, vending machines, P-Card, vendor quick pay discounts,
Parking/FTA, Radrick Farms, and Veritas premiums
- ◆ Internal Reallocations - \$46M annual; \$15M one-time
 - Appropriately charge central services (Finance, HR, IT, Utilities) to auxiliary enterprises (\$26M)
 - Appropriately charge portions of accounting, treasury, development office expenses to endowment (\$19M)
 - Stop funding “vacation accrual” (\$1M)

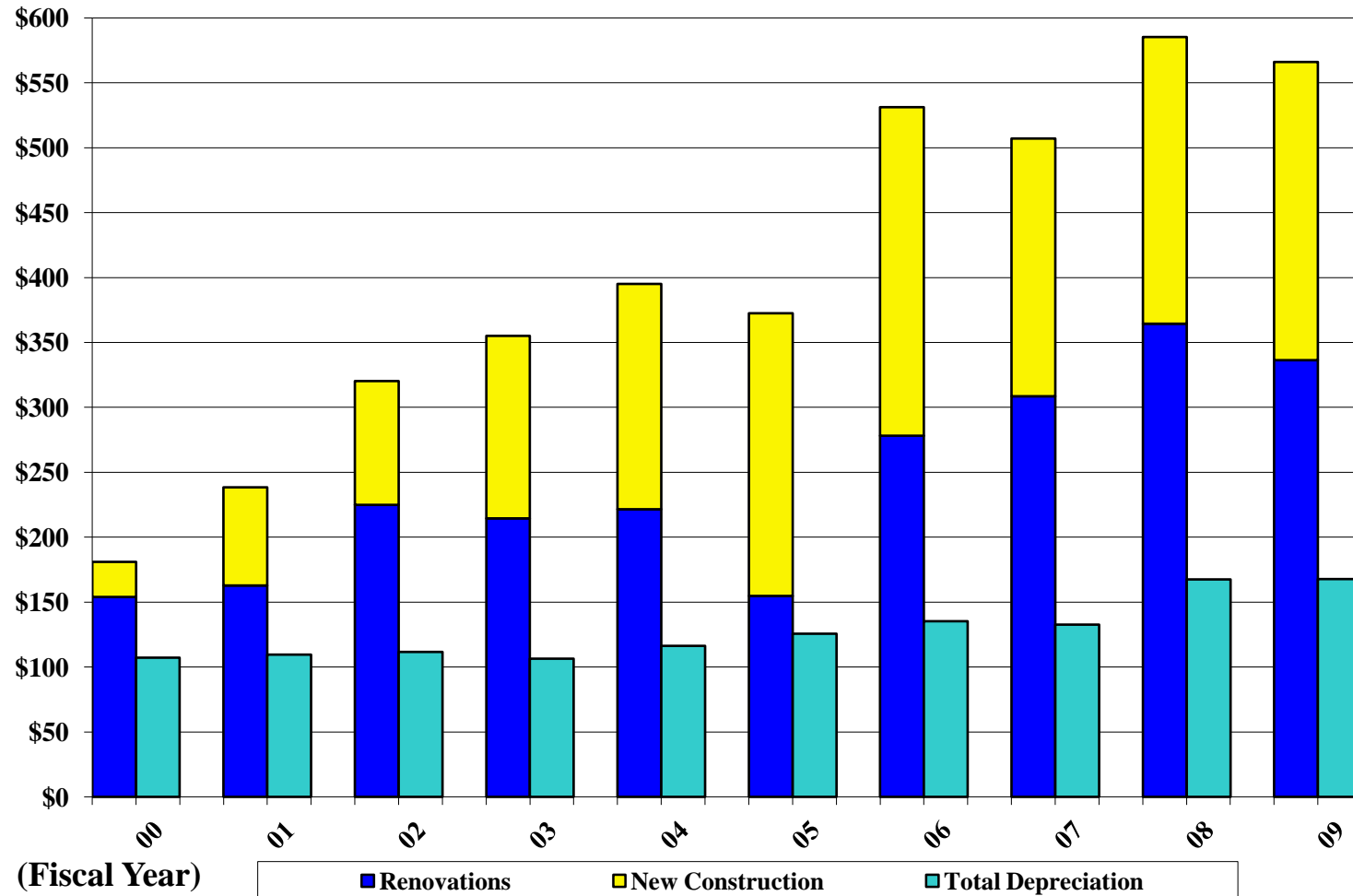
Total Impact = \$60M annual; \$40M one-time

Physical Plant: Ann Arbor

- ◆ 22 miles of roads and 4.2 million square feet of sidewalks, steps, and plazas
- ◆ 7 miles of utility tunnels and 156 miles of fiber optic cable
- ◆ 280 acres of parking lots/decks
- ◆ 547 buildings, 1,840 classrooms and instructional labs, 1,093 study rooms, and 5,183 research labs/rooms
- ◆ 29 million gross square feet of buildings and core infrastructure
- ◆ 509 elevators and escalators
- ◆ 14,005 trees and over 12 million square feet of turf
- ◆ 97,703 network desktop computers

Commitment to Renewal of Physical Plant

(Millions)



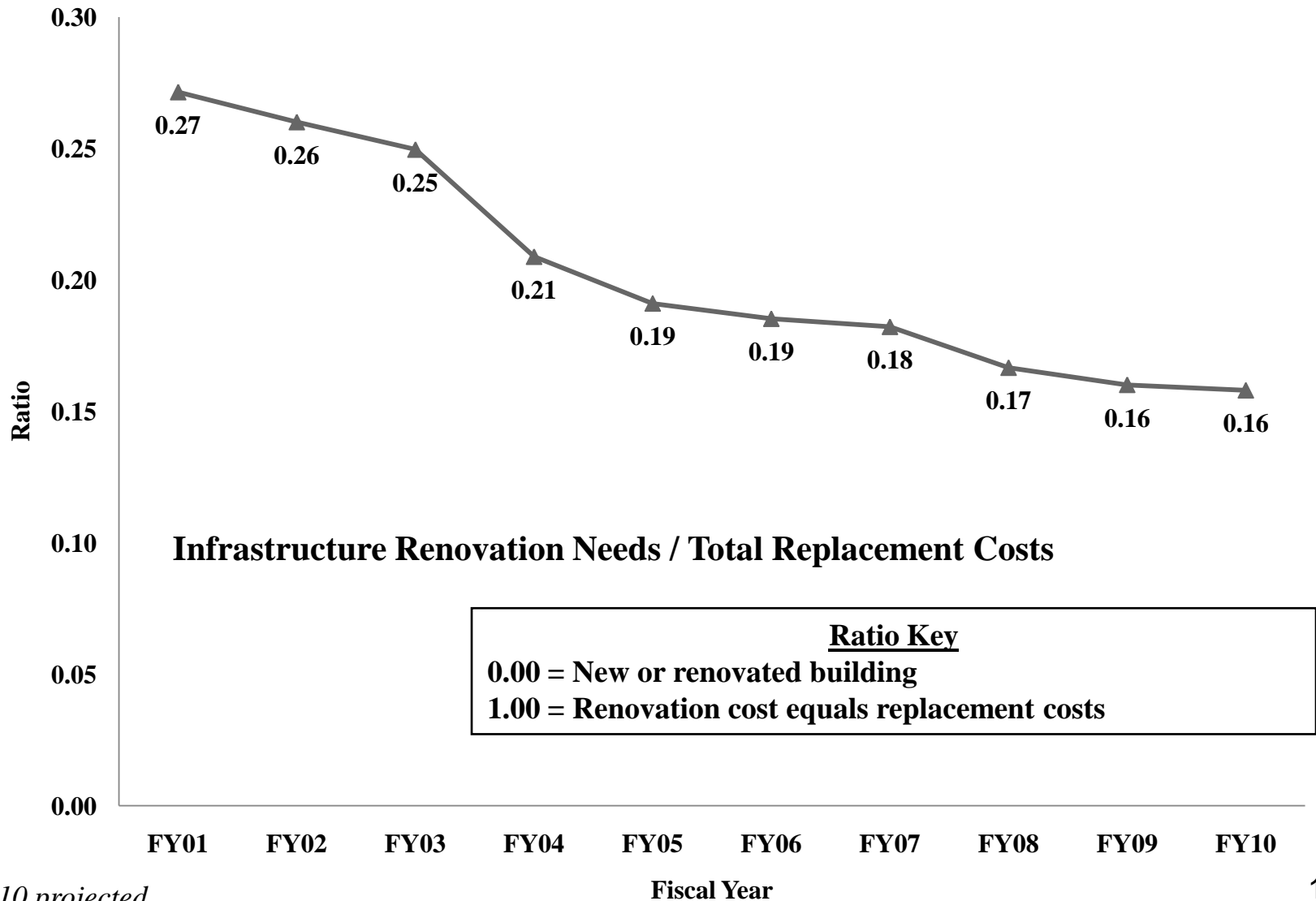
Renovations and new construction costs are expressed in 2009 constant dollars using the ENR Building Cost Index .

2009 Renovations, new construction and depreciation are based on actual activity thru April 2009.

FY2000-2009 10-year average for construction costs is \$396M.

Improving Facilities Condition Ratio

(Ann Arbor General Fund Buildings)



Human Capital: All Campuses

	Headcount	% Minorities	% Women	Avg Age	Avg Years – UM Service
Instructional, Clinical & Research Faculty (includes supplemental)	6,729	23%	40%	48	11
Regular Staff	28,535	20%	70%	43	10

UM Faculty & Staff - higher percentage of minorities than workforce in State (18%) and local region (14%)

UM Regular Staff - higher percentage of women than workforce in State (47%) and local region (47%)

Investing in Our Human Capital

- ♦ MHealthy
- ♦ Health Benefits Strategy
- ♦ Union Relations
- ♦ Childcare Initiative
- ♦ Voices of the Staff

Prudent Liability Management

- ♦ Highest possible credit rating
 - Ratings reaffirmed in May, 2009
 - Standard & Poor's AAA; Moody's Aaa
- ♦ Prudent debt management policy
- ♦ \$1,433 million debt as of May 31, 2009
- ♦ Aggressive interest expense management
- ♦ Insurance coverage maximization for lowest premium
- ♦ Management actions to reduce post-employment benefits liability

Conclusion

Annual operating budget is only one indicator of the University's financial condition

Proposed budget is consistent with maintaining the University's overall financial health

Standard & Poor's press release May 12, 2009 reaffirming 'AAA' rating:

University's overall credit profile reflects...National reputation for excellence in academics and research...Stable enrollment and a national draw for high-quality students...Strong financial resources...Positive financial performance... Limited dependence on state operating support ...Manageable pro forma debt...Exceptional record of fund raising

END
