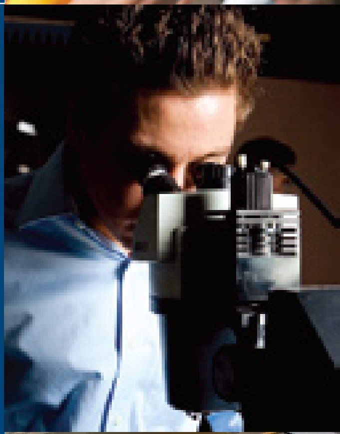
University of Michigan

Financial Report

YEAR ENDED | 06.30.2007



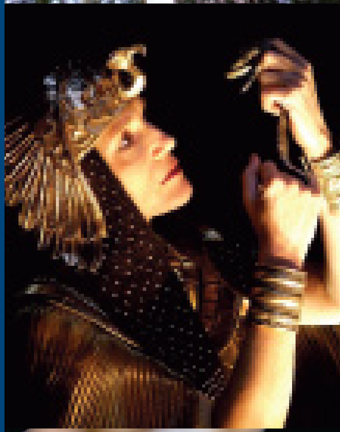
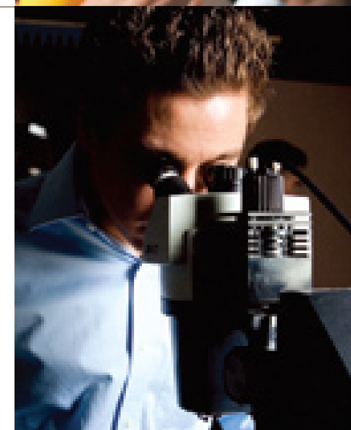
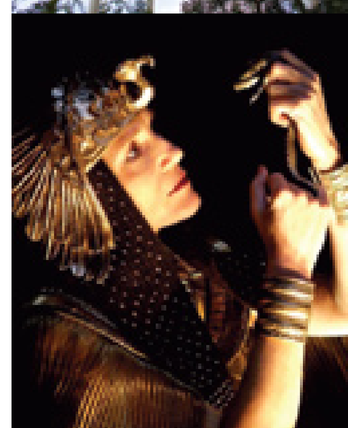
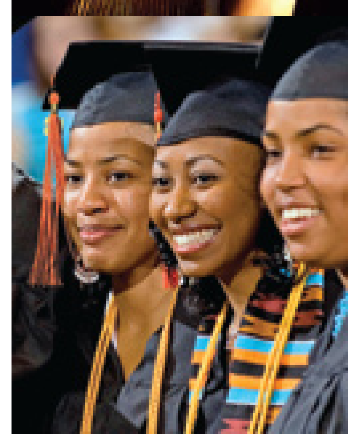



Table of Contents







Officers and Staff | as of June 30, 2007

REGENTS OF THE UNIVERSITY OF MICHIGAN

JULIA DONOVAN DARLOW, Ann Arbor

LAURENCE B. DEITCH, Bingham Farms

OLIVIA P. MAYNARD, Goodrich

REBECCA MCGOWAN, Ann Arbor

ANDREA FISCHER NEWMAN
Ann Arbor

ANDREW C. RICHNER, Grosse Pointe Park

S. MARTIN TAYLOR, Grosse Pointe Farms

KATHERINE E. WHITE, Ann Arbor

MARY SUE COLEMAN, *ex officio*

EXECUTIVE OFFICERS

MARY SUE COLEMAN, President

SALLY J. CHURCHILL
Vice President and Secretary of the University

STEPHEN R. FORREST
Vice President for Research

E. ROYSTER HARPER
Vice President for Student Affairs

ROBERT KELCH
Executive Vice President for Medical Affairs

MARVIN KRISLOV
Vice President and General Counsel

DANIEL LITTLE
Chancellor, University of Michigan-Dearborn

JERRY A. MAY
Vice President for Development

JUAN E. MESTAS
Chancellor, University of Michigan-Flint

TIMOTHY P. SLOTTOW, Executive Vice President and Chief Financial Officer

TERESA A. SULLIVAN, Provost and Executive Vice President for Academic Affairs

CYNTHIA H. WILBANKS
Vice President for Government Relations, Interim Vice President for Communications (effective June 1, 2007)

DEANS OF THE SCHOOLS AND COLLEGES

Ann Arbor

ARCHITECTURE AND URBAN PLANNING
Douglas S. Kelbaugh

ART AND DESIGN, Bryan Rogers

BUSINESS ADMINISTRATION, Robert J. Dolan

DENTISTRY, Peter Polverini

EDUCATION, Deborah Loewenberg Ball

ENGINEERING, David C. Munson

GRADUATE STUDIES, Janet A. Weiss

INFORMATION, C. Olivia Frost (Interim)

KINESIOLOGY (Division of), Beverly D. Ulrich

LAW SCHOOL, Evan H. Caminker

LITERATURE, SCIENCE, AND THE ARTS
Terrence J. McDonald

MEDICAL SCHOOL, James O. Woolliscroft

MUSIC, THEATRE, AND DANCE
Christopher Kendall

NATURAL RESOURCES AND ENVIRONMENT, Rosina M. Bierbaum

NURSING, Kathleen Potempa

PHARMACY, Frank J. Ascione

PUBLIC HEALTH, Kenneth Warner

PUBLIC POLICY, Rebecca M. Blank

SOCIAL WORK, Paula Allen-Meares

Dearborn

ARTS, SCIENCES, AND LETTERS
Kathryn Anderson-Levitt

EDUCATION, Paul N. Zionts

ENGINEERING AND COMPUTER SCIENCE
Subrata Sengupta

MANAGEMENT, Kim Schatzel (Interim)

Flint

ARTS AND SCIENCES, Dale J. Trela

EDUCATION AND HUMAN SERVICES
Susanne Chandler

HEALTH PROFESSIONS AND STUDIES
Augustine O. Agho

MANAGEMENT, I. Douglas Moon

BUSINESS AND FINANCIAL STAFF

HENRY D. BAIER, Associate Vice President for Facilities and Operations

L. ERIK LUNDBERG, CFA
Chief Investment Officer

MARGARET E. NORGREN
Associate Vice President for Finance

LAURA M. PATTERSON, Associate Vice President for Michigan Administrative Information Systems

CAROL SENNEFF, CMA, CIA
Executive Director of University Audits

CHERYL L. SOPER, CPA
Controller and Director of Financial Operations

GREGORY J. TEWKSBURY, CTP, Treasurer

LAURITA E. THOMAS
Associate Vice President for Human Resources and Affirmative Action

FINANCIAL STAFF

ROBERT L. BARBRET, Associate Director of Financial Operations for Sponsored Programs, Contract Administration, and Cost Reimbursement

ANTONY E. BURGER
Director of Financial Analysis

FREDERICK G. CARYL, Assistant Director of Financial Operations for Invested, Designated, General, Plant, and Auxiliary Funds

MICHELE J. EVERARD, CFA
Director of University Investments

RUSSELL R. FLEMING, CPA, Financial Manager of Financial Operations for Financial Reporting and Transaction Services

EDWARD J. JENNINGS, CPA
Tax Manager

DEBORAH S. MERO, Director of the Core Process Unit for Financial/Physical Resources

CHIP R. SIMPER, Assistant Director of Financial Operations for Student Loan Operations, Student Financial Operations, and Cashier's Office

JUDITH C. SMITH, Director of Procurement, Logistics, and Business Services

JOHN S. SULLIVAN, CFA
Financial Manager of Financial Operations for Investment Reconciliation

JOAN THOWSEN
Director of University Investments

NOREL C. TULLIER, Assistant Director of Financial Operations for Payroll

When the Class of 2007 gathered in Michigan Stadium for Spring Commencement, including an address by former President Bill Clinton, graduates and their families were treated to a spectacular speech by graduating senior Abdulrahman El-Sayed.

"I love Michigan," he told the crowd, "because the person who's leaving here today is better than the one who came."

Abdul's message stands as a metaphor for the myriad activities of the University of Michigan: we are a more exceptional institution today than a year ago. Our students, faculty, and staff have stepped forward with new research, engaging ideas, and thoughtful actions that continue to set U-M apart from other universities.

It is a privilege to lead such an extraordinary institution, and I am grateful for the support and enthusiasm of students like Abdul, as well as our dedicated faculty and staff. As I prepare to begin my second five-year term as president, it is rewarding to reflect on the University's accomplishments of the past fiscal year.

HARNESSING RESEARCH ENERGY

Among the University's research strengths is the interdisciplinary approach our faculty and research scientists take in exploring complex problems. This philosophy—and practice—of collaborative science is behind our new Michigan Memorial Phoenix Energy Institute (MMPEI).

Finding renewable sources of energy is one of our most urgent global problems, and the University is in a unique position to make an immense contribution to finding solutions. This is a natural fit for us—one that will pull together faculty from the sciences, technology, engineering, public policy, and economics.

We have tremendous expertise in automotive and nuclear energy research, and growing strengths in hydrogen research. Physically, MMPEI will be housed in the Michigan Memorial Phoenix Laboratory, which was built on North Campus in the wake of World War II to study the peaceful uses of nuclear energy, and which we are renovating to meet today's research needs. Intellectually, MMPEI will be an open laboratory, drawing on the expertise of all our schools and colleges, because the creation, use, and distribution of energy are issues that cut many ways.

GROWING THE ECONOMY

The University has long felt a special obligation to the great state of Michigan because of the decades-long support of the state's citizens. These are difficult days for our state, as leaders work to convert an economy deeply rooted in the manufacturing industry to one that capitalizes on the technologies and discoveries of the 21st century.

The University is eager to accelerate this transformation, and is taking numerous approaches to bolstering and expanding the state's economy. We played a key role in attracting Google to Ann Arbor, where the technology giant is creating some 1,000 jobs. A key factor in the company's decision to locate next door to the University was the availability of research talent and qualified graduates.

We are also working diligently to help the region address the unexpected departure of Pfizer's research and development headquarters from Ann Arbor. For example, we are committing $3 million over three years to attract and hire Pfizer employees into U-M research-track positions. Also, in response to Pfizer workers who want to stay in the community and become teachers, the School of Education has been working to help these workers make that transition and become certified to teach at either the elementary or secondary levels.

On a broader scale, the University—in partnership with Michigan State University and Wayne State University—launched the University Research Corridor (URC) in late 2006. This alliance intends to stimulate and strengthen the changing Michigan economy. We want to work with the state to leverage its remarkable R&D assets, and maximize the return on its significant investment in these research universities. At the URC, we are working to create a knowledge-based economy and a high quality of life for all Michigan residents.

WIDENING THE DOORS

Last fall, the state's voters approved Proposal 2, which bans the use of some forms of affirmative action, including its use in admissions and public hiring. In response, Provost Teresa Sullivan and I announced the formation of Diversity Blueprints, a campus-wide task force charged with identifying the best ideas for maintaining and expanding diversity at the University.

We are a great research institution because of the tremendous diversity of our faculty, students, and staff. The Diversity Blueprints report is vital to the future academic strength of U-M, and sets the foundation for a wide-ranging campus plan that builds upon this academic excellence and finds new ways to attract and retain individuals of all backgrounds.

Diversity Blueprints is a start, and we have a lot of hard work ahead of us. All of us must be vigilant about making the University an accessible and welcoming campus for all.

THE EVOLVING CAMPUS

It has been a robust year for opening new facilities and breaking ground for new structures. We dedicated the Junge Family Champions Center on the Athletic Campus; opened the doors of the School of Public Health's Crossroads Building; and moved into Joan and Sanford Weill Hall, the new home of the Gerald R. Ford School of Public Policy. We welcomed patrons to the Arthur Miller Theatre, a jewel in the Charles R. Walgreen, Jr. Drama Center, and began treating patients in the new Cardiovascular Center.

We broke ground for a stunning addition to the U-M Museum of Art, as well as new research and clinical space for the Kellogg Eye Center. We also began work on three complexes that are among the most significant in the University's history: the spectacular new C.S. Mott Children's and Women's Hospitals; a new learning complex for the Stephen M. Ross School of Business; and North Quad, the first new residence hall in more than 40 years and one that will feature unique living-learning space.

THE MICHIGAN DIFFERENCE

Advancing our institution would not be possible without the dedication and foresight of the University's loyal donors. In 2004, we publicly launched The Michigan Difference campaign and its historic goal of $2.5 billion. That goal was achieved in May 2007, and the entire University community is grateful to our supporters.

The campaign continues through December 2008 as planned, as we continue to have unmet needs, particularly in the areas of student financial aid and endowed professorships. In the fall of 2006, I announced the President's Donor Challenge to support our students and faculty, and the response was outstanding. In just eight months, more than 4,500 donors contributed almost $15 million in need-based student aid. Because the President's Office is matching those gifts, we now have an additional $29 million available for our students.

The President's Donor Challenge also included matching dollars for donor gifts that establish endowed professorships, which are vital for recruiting and retaining faculty. Again, our donors responded in great force, and we have added 20 new endowed professorships in engineering, medicine, law, chemistry, history, kinesiology, mathematics, public policy, business, and public health.

LEADERS & BEST

Every day brings headlines of accomplishment and achievement by members of the University community. A sampling of this good work includes:

William Bolcom, the Ross Lee Finney Distinguished University Professor of Composition whose accolades include the Pulitzer Prize, several Grammy awards, and investiture in the American Academy of Arts and Letters, was honored at the White House with the National Medal of Arts for his "significant and enduring contributions to the nation's cultural life."

Lyric Ingrid Chen, a 2006 graduate of the College of Literature, Science, and the Arts, received a prestigious Marshall Scholarship to study comparative politics at Oxford University.

NanoBio Corporation, a U-M spin-off company that develops therapies and vaccines against infections using a nanoemulsion technology developed at the University, received $30 million in venture capital funding from a Boston investor. NanoBio is the creation of James R. Baker, Jr., the Ruth Dow Doan Professor of Biologic Nanotechnology, and the capital infusion is one of the largest institutional investments in a biotech company in our state.

Grace York, librarian and coordinator of the University's pathbreaking Documents Center at the Hatcher Graduate Library, was the recipient of the James Bennett Childs Lifetime Achievement Award by the American Library Association for her "distinguished and sustained contributions to government documents librarianship."

The American Institute of Architects recognized the University and its partner, Polshek Partnership Architects, with its 2007 Institute Honor Award for Architecture for the Biomedical Science Research Building.

We cannot reflect on the past year without recalling the heroic work of six individuals who lost their lives while serving others. Members of Survival Flight and the U-M Transplant Team—**David Ashburn, Richard Chenault II, Dennis Hoyes, Ricky Lapensee, Bill Serra, and Martin Spoor**—perished June 4 on an emergency medical flight to transport organs to a desperately ill patient.

Their sacrifice is a somber reminder of the life-changing work carried out by members of the University community. We will honor them by working with enthusiasm, integrity, and a dedication to continually make the University of Michigan a stronger institution.

Mary Sue Coleman
President

I am pleased to report that the University of Michigan remains in excellent financial health. The continued financial health and resilience of U-M is due in large part to the University's 32,000 dedicated and innovative faculty and staff, who have kept their focus on the University's core missions and continued to build on U-M's strong foundation and long tradition of excellence, even as we face significant challenges.

Our disciplined budget approach, which balances current and emerging operating needs with cost saving opportunities, together with our diverse revenue, long-term investment strategy, positive operating margins at the Hospitals and Health Centers, and The Michigan Difference fundraising campaign all contributed to another strong year. These fundamentals are providing the University the wherewithal to make important investments in the facilities, programs, and people necessary to maintain academic excellence and define what it means to be one of the truly great public research universities in the world.

In summary, the University's total net assets (assets less liabilities) grew by $1.6 billion this year to $11.5 billion. This increase is a result of many factors including: rewarding capital markets, which added $1.2 billion to the endowment net of distributions for operations; generous donations of $160 million for capital and endowment purposes; a positive margin at the Hospitals and Health Centers resulting in a $62 million surplus for reinvestment in physical plant; a gain on the sale of M-CARE of $160 million; as well as successful cost-containment activities and gifts for operations. I will discuss these and other important contributors to the University's overall financial health in the following sections to provide context to the accompanying financial statements.

REVENUE DIVERSIFICATION

Revenue diversification has long been an important strategy for U-M to achieve financial stability in the face of unpredictable economic cycles—in the 1960s almost 80 percent of the University's general fund revenues came from state appropriations, compared to the projected 24 percent in the FY 2008 general fund budget. The current mix of revenues can be seen on the chart on page 7, which shows the FY 2007 operating revenue sources with and without the Health System and other clinical activities.

THE GENERAL FUND OPERATING BUDGET CHALLENGE

While the last five years demonstrate a clear trend away from dependence on the state appropriation, support from the State of Michigan remains a cornerstone of the University's strength. To put it in perspective, it would take an additional endowment of approximately $7 billion to generate a revenue stream which would equate to the current level of state support received by the University.

After four years of declining base appropriations, the State approved a 3 percent increase for FY 2007. However, continued economic difficulties led the State to approve a mid-year rescission and deferral of base appropriations in FY 2007 of $40 million. Since FY 2002, the University's base appropriations from the State have decreased $44 million, or 11 percent. In contrast, if our state appropriations had grown at the level of the Consumer Price Index, our base appropriations would have been $100 million higher in FY 2007.

As we look ahead, our general fund operating budget remains challenging. The State's uncertain financial circumstances and the University's commitment to academic excellence and access require a careful balance between fiscal discipline and the need to invest in our future. In adopting the budget for FY 2008, the University faced an unusual position of finalizing the budget without knowing the level of appropriation from the State. The approved budget for FY 2008 includes a moderate increase in tuition rates of 7.4 percent for both resident and nonresident undergraduates and a 5 percent increase for most graduate programs, along with an increased investment in centrally awarded financial aid for undergraduates of 11.5 percent to preserve access for our most vulnerable students. This budget is based on an assumption of little change in base state appropriations and our success in limiting expenditure growth. The University's deans, directors, faculty, and staff have been focused and diligent in reducing more than $21 million in recurring general fund expenditures for the coming year.

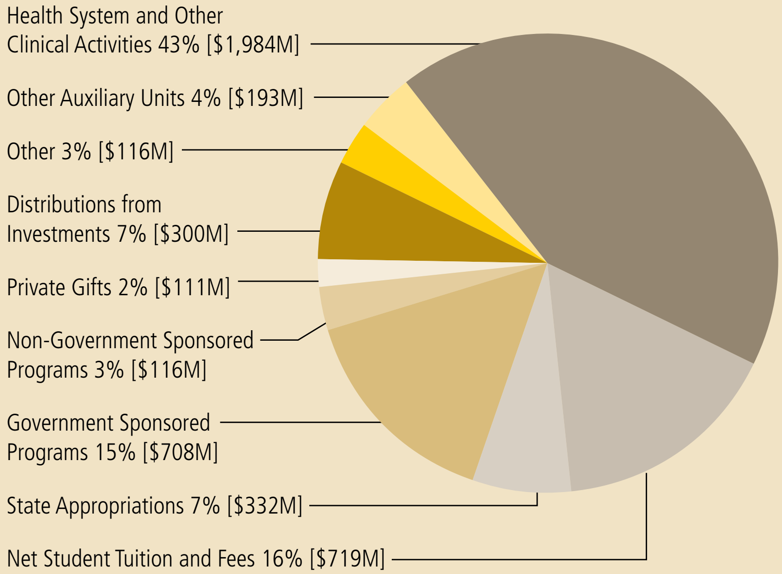
The graph on page 8 shows the historic inverse relation between changes in state appropriation and changes in undergraduate tuition.

TRANSFORMING RESIDENTIAL LIFE

To stay at the forefront, the University must continually find better ways to support residential life and its important intersection with the learning experience. The University is investing $286 million over ten years in a series of "Residential Life Initiatives." Most notable is the construction of the North Quad Residential and Academic Complex. Targeted for completion in summer 2010, North Quad will combine sophisticated classroom

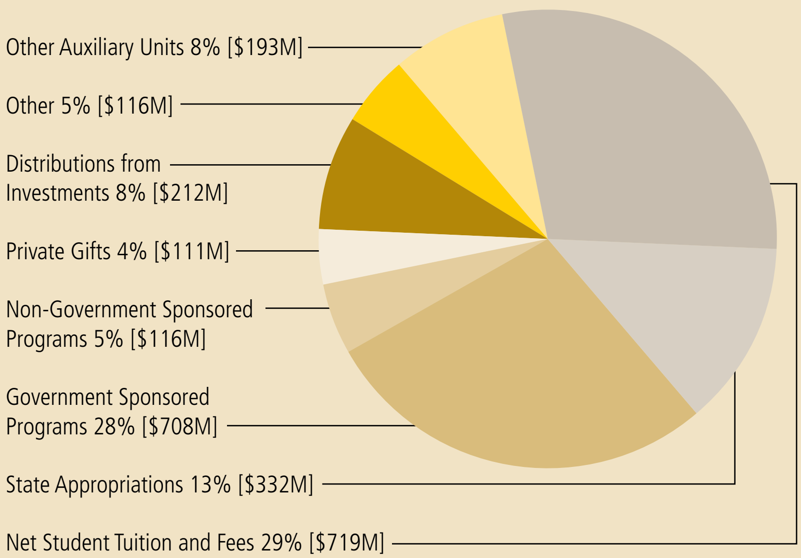
OPERATING ACTIVITIES

Total Revenue: $4,579 Million

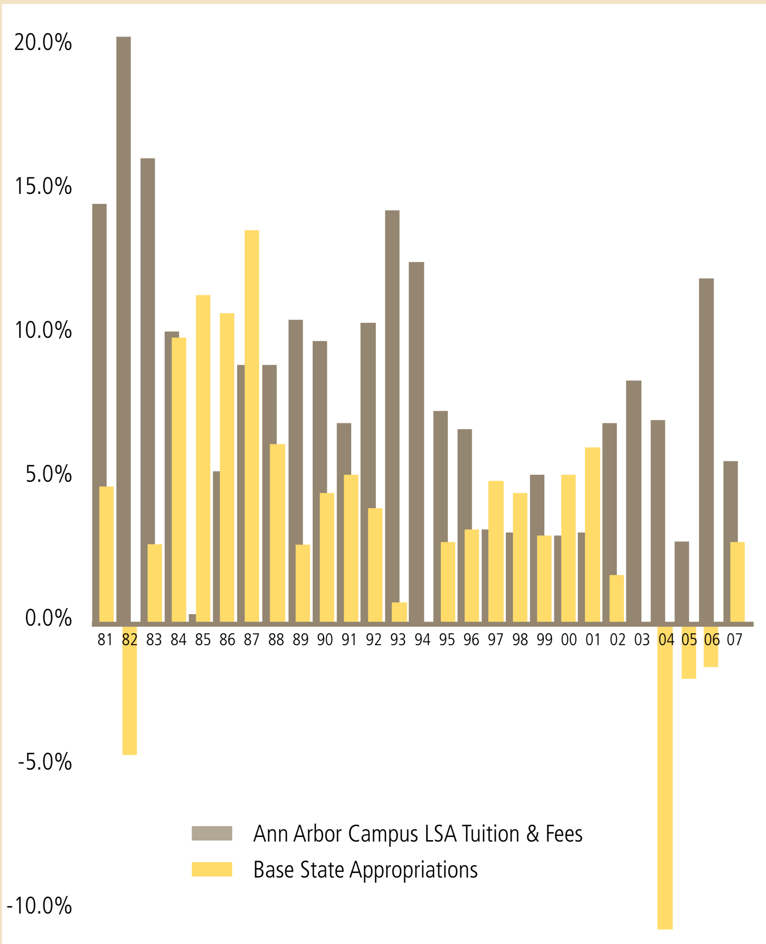


OPERATING ACTIVITIES EXCLUDING HEALTH SYSTEM AND OTHER CLINICAL ACTIVITIES

Total Revenue: $2,507 Million



PERCENTAGE CHANGE IN TUITION AND STATE APPROPRIATIONS



and academic space for five information and communications-related programs with residence space for 460 students. The result will be an exciting and engaging environment in which academic and residential life will be integrated more fully.

Renovating and enhancing our 19 residence halls, which range in age from 40 to 90 years old, to better service the needs of our students is another important element of the University's Residential Life Initiatives. This multi-year renovation program includes upgraded fire and life safety systems, improved technology infrastructure and other renovations focused on an improved living-learning experience. A comprehensive renewal and renovation of Mosher-Jordan Hall, the first U-M residence hall ever to undergo such a process, is currently underway, along with the creation of a Hill Dining Center which will enable the University to consolidate dining services for all of the Hill area residence halls.

An extensive renovation of Stockwell Hall is scheduled to commence in spring 2008. The renovation process preserves existing historic areas and details, while creating new community environments by reconfiguring current spaces and completing significant infrastructure upgrades.

On North Campus, a renovation of Bursley Residence Hall was completed, which included infrastructure updates as well as the addition of the Blue Apple—a dining emporium that combines convenient hours and a variety of fresh foods with access to the internet and a place to socialize. This created a community gathering space that not only is convenient for Bursley residents, but is also accessible to students who live in Baits Houses and the Northwood Apartments. UM-Flint has begun the transformation of its commuter campus to include a residential component with the construction of its first residence hall, which is scheduled to open in fall 2008.

THE HEALTH SYSTEM

The Health System, which integrates the Hospitals and Health Centers, Medical School, and Michigan Health Corporation under the direction of the Executive Vice President for Medical Affairs Dr. Robert Kelch, had an excellent year financially and continues to receive national recognition for its academic and clinical excellence. We take great pride in the fact that the Hospitals and Health Centers have experienced more than a decade of solid finances, while also improving the quality of the care we deliver to patients.

In FY 2007, the Hospitals and Health Centers achieved an operating margin of 3.9 percent ($62 million) on revenues of $1.6 billion. A positive operating margin is essential to fund critical facilities and programs that will enhance patient care for a growing patient population, as well as research and education. The new state-of-the-art Cardiovascular Center, which opened in FY 2007, addresses the need for the focused treatment of cardiovascular disease, the number one cause of death in the United States. Several major projects are also underway, including the C.S. Mott Children's and Women's Replacement Hospitals and the expansion of the Kellogg Eye Center, which will add clinical and research space to meet rising demand for services and better accommodate technology enhancements and clinical care innovations. Even with a challenging health care environment ahead, the Hospitals and Health Centers will target a 3 percent operating margin on budgeted revenues of $1.7 billion for FY 2008.

Twenty years after launching M-CARE to provide innovative and high-quality health plans to the community, the University completed the sale of M-CARE to Blue Cross Blue Shield of Michigan and its subsidiary, Blue Care Network of Michigan. Given the rapidly changing business climate in the insurance industry, this sale enables the Health System to focus on its critical missions of providing exceptional care to patients, educating tomorrow's health care professionals and scientists, and conducting groundbreaking research. This transaction also allows the innovative, high-quality plans and programs that M-CARE has built to be incorporated into an organization that shares many similar values and approaches to health coverage.

INVESTMENT PERFORMANCE	Return for twelve-month period ended June 30, 2007	Annualized three-year return	Annualized five-year return
Long Term Portfolio	25.6%	20.3%	17.2%
U-M's Benchmark	21.3%	16.3%	13.3%
Equity/Fixed Income Index (80/20)	19.8%	10.8%	10.0%

THE ENDOWMENT

The University realized meaningful growth in its endowment primarily as a result of generous donations and strong investment performance, which generated a return of 26 percent in FY 2007. This investment return is consistent with the goal of the University's long-term diversified investment strategy to generate a level of return sufficient to provide dependable support for operations, while at the same time protect and grow the corpus in real terms.

The table above shows the endowment's investment performance and results of the long-term strategy which has produced both extraordinary returns in the good years and limited the loss of capital in the more challenging years.

The 26 percent return in FY 2007 follows a 16 percent return in FY 2006 and is again high by historical standards. Relative to the performance of the capital markets, the Long Term Portfolio's annualized five-year return is nearly 4 percentage points above the customized market benchmark designed to capture the University's long-term diversified investment strategy and 7 percentage points over the undiversified benchmark consisting of major equity and fixed income indices in an 80/20 ratio. Over the same five-year period, the return of the S&P 500 stock index was 10.7 percent.

The University's endowment spending rule smooths the impact of volatile capital markets by providing for annual distributions of 5 percent of the moving average fair value of the endowment. Effective July 1, 2006, the moving average period was extended from three years to four years, and it is being extended by one quarter each subsequent quarter until it reaches seven years. This change is expected to reduce distribution volatility, as well as better preserve and grow the endowment corpus over time. The spending rule, along with the growth of the endowment, allowed for distributions to support operations of $205 million in FY 2007, for a total of $874 million over the past five years.

HEALTH BENEFITS

As employee and retiree benefits continue to represent a significant and rapidly escalating cost to U.S. employers, we have pursued a coordinated set of actions to manage the cost of our benefits. In addition to ongoing review of vendors and competitive pricing for our benefit plans, we are focusing increasing efforts on prescription drug costs. By encouraging the use of lower-cost generic medications, the U-M Prescription Drug Plan has achieved a 60 percent generic drug dispensing rate (GDR), representing an additional 3 percent gain over last year's rate. Greater utilization of generic drugs reduces out-of-pocket expenses for plan members and aggregate plan costs for the University. Each percentage point increase in the GDR reduces drug plan expenditures by as much as $466,000 per year.

Wellness as a Cost Control Strategy

Extraordinary participation and interest in the health and wellness programs offered by the Michigan Healthy Community initiative—known as MHealthy—have encouraged us to pursue greater integration of evidence-based wellness programming into our benefit programs. We believe improving the public health through targeted disease management efforts and careful attention to nutrition, fitness, workplace safety, and other wellness and prevention efforts can slow the rate of health care cost increases. A five-year strategic plan will be implemented starting in this fiscal year to integrate and evaluate these efforts in concert with benefit plans and strategies. Our work will be grounded both in evidence-based principles of health behavior and the results of our current health initiatives. To date, these efforts have included programs to:

- Increase the daily physical activity level of the entire faculty and staff community through team challenges that have attracted over 10,000 participants;
- Create safer, more efficient work environments through targeted ergonomic audit, training, and investment in programs to reduce risk of injury and lost productivity; and
- Improve nutritional health by making food and beverage choices that meet or exceed University-developed nutritional guidelines more readily available to faculty and staff.

Within the University community, we are also testing bold concepts in the delivery of care that have potential for improving the public health. One such program is MHealthy: Focus on Diabetes, winner of the Driving Value in Health Care Award sponsored by health care leadership organizations including the National Business Coalition on Health, The Leapfrog Group, and Bridges to Excellence. This groundbreaking two-year pilot program eliminates or reduces the cost of selected medications for employees and dependents with diabetes to encourage the proper and sustained use of specific drugs that help prevent or reduce long-term complications. Another pilot program, Focus on Medicines, is an intervention for those individuals with the greatest challenges in terms of medication cost and safety. This program offers several levels of help to the 3,000 individuals covered under the U-M Prescription Drug Plan who take nine or more prescription medications. The program provides comprehensive medication reviews by clinical pharmacists in the College of Pharmacy designed to protect against unwanted drug interactions, enhance the effectiveness of drug therapies, and reduce costs through greater utilization of generic medications. Focus on Medicines is helping to improve health while reducing medication costs for both patients and the University.

PHYSICAL PLANT

Even as we continue to address ongoing economic pressures from the State and escalating health care and energy costs, it is essential to invest in our future through strategic facility renovation and replacement. Our facilities play a critical role in meeting patient care needs; accommodating current technologies; and supporting growing academic, research, and clinical needs. Over the last decade, U-M has invested an average of $312 million per year for renovation and replacement of buildings and related infrastructure. This year was no exception as the University completed more than 421 projects across campus, an investment of more than $507 million.

In addition to the commitment to the residential life and clinical facilities discussed earlier, many transformational facilities to support the University's academic, research, and athletic functions have recently been completed or are currently under construction to meet these changing needs. In FY 2007, construction was completed on the School of Public Health's Crossroads and Tower Building renovation and expansion and the new Joan and Sanford Weill Hall for the Gerald R. Ford School of Public Policy. Projects underway include a new facility for the Stephen M. Ross School of Business, and additions to the Electrical Engineering and Computer Science Solid State Electronic Laboratory and the Kelsey Museum. Our focus on the arts is demonstrated by the construction of the new Charles R. Walgreen, Jr. Drama Center and the Alumni Memorial Hall Museum of Art addition. These important projects were largely made possible through generous gifts from alumni and friends.

Through prudent financial management and additional revenue sources such as those from the Big Ten Network and donor contributions, the Athletic Department is making significant investments in their facilities. Renovation and enhancement of the Wilpon Baseball and Softball Complex is underway.

Planned projects include a major renovation to our 80-year-old football stadium, a new indoor practice field for football, and new soccer fields.

Energy Efficiency as a Cost Control Strategy

A tremendous amount of work has been done, especially in recent years, to improve the efficiency of our building systems and implement energy conservation measures. In FY 2007, the University marked ten years of participation in the U.S. Environmental Protection Agency Energy Star Program. During this time, all general fund buildings were evaluated under this program, which resulted in more than 216 energy efficiency projects to upgrade mechanical and lighting systems to save energy, prevent pollution, and lower operating costs. Annual estimated energy cost savings from these projects total well over $4.6 million per year.

Participation in Google's Climate Savers program for information technology is the latest in an ongoing series of measures the University has taken toward creating a more environmentally sustainable future. As part of this program, we will work to ensure that units throughout campus buy computers with energy efficiency in mind, and will educate the campus about how to reduce information technology energy consumption. Energy efficient computers could make a $1.8 million difference in electricity consumption each year.

To build upon these efforts, a campus-wide Energy and Environmental Initiative was launched in April 2007 to more fully engage building occupants so we can better align building systems to meet their needs and, in turn, contribute to conservation efforts. Other components of this initiative include compilation and distribution of an annual report on consumption trends, research activities, and operations efforts; increased efforts to purchase electricity produced from renewable sources; maintenance and expansion of alternative transportation options for students, staff, and faculty; strengthening procurement offerings to ensure green products are prominently promoted; and revision of construction and renovation guidelines to improve energy efficiency.

FINANCIAL CONTROLS

Fueled by best practices from the Sarbanes-Oxley Act legislation, we have been working with units across campus to clearly define the risks and controls associated with our major financial processes. Although Sarbanes-Oxley focuses primarily on the need for controls to ensure accuracy of financial statements, the University is pursuing a broader vision for controls that also includes a focus on the effectiveness and efficiency of business processes. For example, during FY 2007 we implemented the first University-wide compliance hotline, added employment process controls to the annual certification now required by vice presidents and deans, and created new web-based report tools to support management oversight and review of key internal controls.

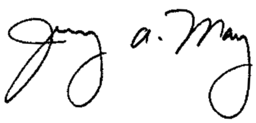
CONCLUSION

As a testament to our outstanding fiscal stewardship, the University maintains the highest credit ratings of both Standard & Poor's (AAA) and Moody's Investors Services (Aaa) even as we continue to face a challenging state economy. These ratings are important indicators of the University's strong financial health and outlook. In fact, the University is one of only three public universities in the country to maintain these highest possible ratings.

Once again, it is satisfying to receive an unqualified opinion from the University's external financial auditors. This opinion, found on page 47, signifies that the financial statements present fairly the financial position of the University. Included on page 46 is my certification of management's responsibility for the preparation, integrity, and fair presentation of the University's financial statements.

With this letter as a backdrop, I encourage you to read Management's Discussion and Analysis, starting on page 48. It tells a story of financial strength, prudent financial policy, and the ability to sustain the highest level of excellence in continuing to fulfill the University's mission for many decades to come.

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer



I am delighted to report that the University had another record year in private giving. More than 120,000 donors—individuals, corporations, foundations, and organizations—made gifts and pledge payments totaling $300 million. This surpasses last year's remarkable total by 16 percent.

We are also particularly pleased to note that matching gifts from corporations reached a new high of $3 million. It is so gratifying that corporations are joining at this remarkable level with donors to make an even bigger impact with gifts.

What an astounding vote of confidence in the students, faculty, researchers, and programs at the University.

In May 2007, we reached a real landmark in The Michigan Difference campaign. We met our $2.5 billion fundraising goal for the campaign that ends in December 2008. While we have met the overall goal, there are still a number of specific goals yet to be met, and we will continue to focus on these in the final year of the campaign.

Joining in the success of the fiscal year and the campaign were more than 14,800 faculty and staff who made gifts totaling more than $114 million, a tremendous testament to their loyalty and generosity. This is the first time the University has had a campaign specifically targeting faculty and staff, and we are greatly impressed by their response.

Along with reaching the campaign goal, we have had some other significant successes made possible by outstanding donor generosity. President Coleman, in an effort to reinforce the importance of both need-based financial aid for undergraduate students and endowed professorships, created the President's Donor Challenge. Beginning in October 2006, the University matched all donor gifts made towards need-based financial aid for undergraduate students. This Challenge lasts until December 2007, but already 4,500 donors have contributed nearly $15 million that will be doubled by the Challenge.

A gift of $2 million can create an endowed professorship with payments often spread out over five years. To inspire donors to create professorships and to speed up the process so that professorships could be filled more quickly, the President's Donor Challenge stated that the president would contribute $500,000 towards the creation of each of 20 professorships, when donors provided $1.5 million to be paid in full over three years. As soon as the donor made the first $500,000 payment, the president matched it. University guidelines permit a professorship to be filled once $1 million has been given, so the challenge means that these professorships could be filled sooner.

The response from donors was impressive with all 20 professorships created by May 2007. This will make a tremendous difference at the University, providing funding for research and other faculty projects and creating a much needed way to recognize top faculty at a time when U-M faculty are much sought after by competing institutions.

As we enter the final year of the campaign, we will be focusing on raising more money for financial aid for students and creating more endowed professorships. We are distinctly aware of how important endowed professorships are as a means of rewarding outstanding faculty, thereby retaining them at Michigan, or as a means of attracting the best faculty to Michigan. Our peer institutions use professorships to recruit our great faculty. Great professors attract top-notch students to study in their programs, and often these students require financial aid to make their dreams of attending Michigan a reality. And, in return, the prospect of teaching outstanding students is a great attraction in recruiting the best faculty to Michigan. It is a real win-win situation as these professors teach and conduct research that has benefits beyond the University while educating our students so they can go out into the state and the world to be the next generation of leaders.

We are incredibly grateful for the tremendous generosity of our donors who make all this happen.

While a financial report focuses on the dollars, our work really relies on people—individuals who make gifts to the University, support our programs, our faculty, our students, and make the University a stronger place for them. This year we lost two icons who were great supporters of the University as donors, volunteers, and as inspiration to others.

President Gerald Ford (AB ’35, HLLD ’74) and Bo Schembechler (HLLD ’05) were men whose integrity and honor, and commitment to Michigan, inspired not only our U-M community, but the world beyond our campus. Their love for the University made it a far better place. As leaders—one of our country and the other of our students and athletes—they have left a legacy that will be felt for generations.

Thank you for all that you do for the University of Michigan.

Jerry A. May
Vice President for Development

The Michigan Difference
CAMPAIGN FOR MICHIGAN

The University is grateful to the following individuals for serving as leaders of The Michigan Difference campaign:

CHAIR
Richard Rogel, Vail, CO

CO-CHAIRS
Maxine Frankel, Detroit, MI
Michael Jandernoa, Grand Rapids, MI
William Pickard, Detroit, MI
Sanford Robertson, San Francisco, CA
Stephen M. Ross, New York, NY
Penny Stamps, Miami, FL

HONORARY CHAIR
Mrs. Gerald R. Ford, Palm Springs, CA

HONORARY CO-CHAIRS
William Davidson, Detroit, MI
Allan Gilmour, Detroit, MI
Ingrid and Donald Graham, York, PA
Nicki and J. Ira Harris, Palm Beach, FL
Ann Lurie, Chicago, IL
Margaret Ann (Ranny) and John E. Riecker, Midland, MI
Joan Tisch, New York, NY
Mike Wallace, New York, NY
Helen and Sam Zell, Chicago, IL

HONORARY CHAIR IN MEMORIAM
President Gerald R. Ford, Palm Springs, CA

HONORARY CO-CHAIRS IN MEMORIAM
Bo Schembechler, Ann Arbor, MI
Preston R. Tisch, New York, NY

VICE CHAIRS
Bert Askwith, Harrison, NY
Robert M. Brown, Kalamazoo, MI
Stanley Frankel, Detroit, MI
David Frey, Grand Rapids, MI
Doreen Hermelin, Detroit, MI
Barrie Loeks, New York, NY
Waltraud Prechter, Detroit, MI
Joel Tauber, Detroit, MI
Marshall M. Weinberg, New York, NY
Robert Wood, Middlebury, CT

Campaign Update

THE MICHIGAN DIFFERENCE CAMPAIGN

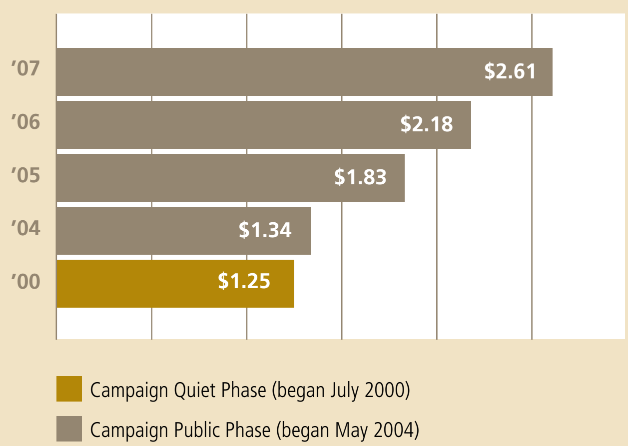
Progress through June 2007 by Purpose of Gift (in millions)

	Goal	Progress	Amount Left to Raise
Faculty Support	$425	$277	$148
Student Support	$400	$395	$5
Programmatic*	$775	$1,125	—
Buildings	$500	$418	$82
Total Cash and Pledges	**$2,100**	**$2,215**	**—**
New Bequests	$400	$390	$10
Total – All Gifts	**$2,500**	**$2,605**	**$245**

*Includes research and discovery

CAMPAIGN MILESTONES

Progress July 1, 2000 through June 30, 2007 (in billions)



The Michigan Difference campaign made great progress this fiscal year, reaching its $2.5 billion goal in May. During the remaining year of the campaign, schools and units will focus on their unmet goals as well as the overall goals that remain unmet, including faculty and student support and building goals. In addition, the campaign has $10 million to raise in bequest intentions, a vital campaign goal that provides future funding for the University and unit priorities.

Donor generosity to The Michigan Difference campaign has already made a significant difference in the lives of our faculty, students, patients, and community.

- 168 endowed professorships have been established during the campaign, bringing the total to 436 at the University.
- 1,000 endowed scholarships, both merit and need-based, have been established and students are experiencing the benefits.
- 14 building projects have met their campaign goals.
- Nine of those buildings have opened, providing faculty, patients, and the community with exceptional places to teach, study, conduct research, and receive care.

The University's first-ever faculty-staff giving campaign, the Heart of the Michigan Difference, has raised more than $114 million to date under the leadership of campaign chairs **PAUL N. COURANT,** professor of economics and public policy and director of the University library, and **STEPHANIE PINDER-AMAKER**, former associate dean of students. Almost 15,000 University employees have contributed to the campaign, which supports students, faculty, and programs, as well as helping to build and renovate facilities.

The **MICHIGAN FACULTY SENATE** has endowed the need-based U-M Faculty Undergraduate Scholarship to support Michigan students selected by the Senate Advisory Committee on University Affairs (SACUA). Gifts from more than 55 faculty members, totaling more than $25,000, have been matched by the President's Donor Challenge. The largest contributions were made by SACUA Chair and Pharmacology Professor **DR. CHARLES B. SMITH** and his wife, Emerita Research Professor **PEGGIE J. HOLLINGSWORTH** (PhD '83), Psychology Professor Emeritus **DONALD R. BROWN** and his wife, **JUNE** (AMLSA '69), and the Roger L. McCarthy Professor of Mechanical Engineering **NOBORU KIKUCHI.**

Fiscal Year Update

In February, the University of Michigan lost two of its most devoted alumni donors, **CHARLES R. WALGREEN, JR.** and **EDWIN MEADER.** The volunteer leadership of **CHARLES R. WALGREEN, JR.** (PHC '28, HMS '51, HLHD '92) of Chicago reached back to the 1950s campaign for the Michigan Memorial Phoenix Project—one of the first fundraising campaigns ever organized by a public university, in support of one of America's first efforts to research peacetime uses of atomic energy. He served on the national committee of the successful 1964–67 campaign, which raised $72 million, and the first Campaign for Michigan in the early 1980s, which generated $187 million. He was also national chair of the College of Pharmacy's steering committee and served on its dean's advisory committee until his death. A recent $10 million gift from Mr. Walgreen and his wife, **JEAN,** established the new Charles R. Walgreen, Jr. Drama Center, completed in spring 2007.

EDWIN MEADER (AB '33) of Kalamazoo had most recently expressed his lifelong passion for archaeology through an $8.5 million leadership gift with his wife, **MARY UPJOHN MEADER,** to construct the new William E. Upjohn Exhibit Hall for the Kelsey Museum of Archaeology. The renovation will dramatically increase the museum's exhibit space and create valuable research and study facilities. The Meaders' history of Michigan philanthropy also includes a $10 million gift to the Depression Center, housed in the new Rachel Upjohn Building. It is the first center in the U.S. devoted entirely to research and treatment of depression and related disorders. Edwin Meader was also a benefactor of the University Musical Society, Hill Auditorium, the Department of Chemistry, the Kellogg Eye Center, the Medical School, and the School of Music, Theatre & Dance.

President Coleman's **PRESIDENT'S DONOR CHALLENGE** for need-based scholarships and endowed professorships began on October 1, 2006. In the ensuing eight months, the Challenge attracted almost $15 million for need-based financial scholarships, all of which will be matched dollar for dollar. The program, which continues through December, has also already reached its goal of creating 20 new professorships by the end of 2007.

The passage of the **PENSION PROTECTION ACT OF 2006** has been a boon for donors to Michigan. The Act enables friends of the University to make gifts from their IRAs through the end of 2007 without including those funds in their calculation of gross annual income. So far 178 donors have taken advantage of this program, giving a total of $4 million in gifts.

Charles R. Walgreen, Jr.

Edwin Meader

LT. COL. JOHN O. ROBERTSON of Palm Bay, FL, established seven gift annuities for U-M, bringing his total gift annuities for the campaign to 28, for a total value of $128,000 by the close of fiscal year 2007. Robertson had previously established two charitable remainder unitrusts and a bequest for the benefit of the University. All of his gifts are dedicated to the Ruth Lobdell

Scholarship Fund. The Fund provides scholarships to students from select Mississippi community colleges.

WILLIAM AND REBECCA (CERTT EDUC '56; CERTT EDUC '61, AM '62, PhD '80) **HORVATH** of Ann Arbor have created a $300,000 deferred charitable gift annuity for the Matthaei Botanical Gardens.

The **DTE ENERGY FOUNDATION** committed $1.5 million to the College of Engineering and the Michigan Memorial Phoenix Energy Institute, U-M's hub for the study of alternative energy technologies, to create the DTE Energy Professorship of Advanced Energy Research. The professorship will foster knowledge and expertise in areas such as alternative energy sources, storage and conversion, transportation and fuels, and sustainability, affirming Michigan's leadership in multidisciplinary, energy-related research and the Foundation's commitment to energy solutions. This gift brings DTE's corporate and foundation giving to a total of well over $3 million for the campaign.

A series of three further gifts from the **DTE ENERGY FOUNDATION** will fund key initiatives at UM-Dearborn: $150,000 to launch the School of Management's new Executive MBA program, which will focus on the needs of the greater Detroit regional business community with an emphasis on program quality, flexibility, and affordability; $50,000 to fund the Environmental Interpretive Center's production of videos about the Rouge River watershed, which will be used to educate southeast Michigan citizens and schoolchildren about the ecology of the region; and $20,000 (the second of two such gifts from the Foundation) to the Institute for Local Government, to support the development and marketing of leadership training seminars for newly elected officials.

Ann Arbor-based **NSF INTERNATIONAL** has donated $1.5 million to establish the NSF International Department Chair in Environmental Health Sciences at the School of Public Health. NSF, which was founded at the School more than 60 years ago, is a not-for-profit organization that develops national standards and certifies food, water, and consumer goods. The NSF International Department Chair will be held by the seated department chairperson. NSF CEO and President **KEVAN LAWLOR** is a member of the School of Public Health Dean's Advisory Board.

A six-year, $1.97 million grant from the **ANDREW W. MELLON FOUNDATION** to the Horace H. Rackham School of Graduate Studies will enable U-M to launch a postdoctoral program preparing recent PhDs for careers in the humanities and social sciences. Beginning in fall 2008, the three-year fellowships will provide recipients with financial support to prepare the major publication typically required of them in order to obtain a tenured faculty position.

Grateful for the opportunities their son discovered during his education at UM-Flint, **BARRY** (BBA '74) and **DENISE TRANTHAM** of Flushing, MI, gave $25,000 to Flint's innovative Challenge Program. The Tranthams' gift will pay the cost of student materials for Flint's Challenge 101, which matches incoming students with upperclass mentors, conveys an awareness of academic resources, promotes discussions about the personal and social aspects of college life, and encourages dialogue between students and faculty.

As a trustee of the **BEN BRYER FOUNDATION, BESS HURAND** of Flint and her husband, **ARTHUR,** fulfilled her late brother's wishes through a $500,000 gift to UM-Flint creating the Dr. Ben F. Bryer Foundation Medical Research Fund. The Fund supports medical and biomedical projects that advance knowledge of disease prevention and control, with priority given to cancer research. A further gift of $60,000 from the Foundation has created the Ben F. Bryer Endowed Scholarship Fund for the benefit of Flint students pursuing their nursing degrees. The Hurands made both gifts in honor of Dr. Bryer, an accomplished surgeon, scientist, educator, author, and humanist.

STEPHEN M. ROSS (BBA '62) of New York, co-chair of The Michigan Difference campaign, has given $5 million for the expansion of Michigan Stadium. The expansion will modernize the 80-year-old structure by adding 83 suites, 3,200 club seats, and new entry and exit points.

A $4 million gift from former U-M Regent **DAVID BRANDON** (ABED '74, CERTT EDUC '74) and his wife, **JAN,** of Ann Arbor—co-chairs of the C.S. Mott Children's Hospital and Women's Hospital campaign—will support an exceptionally varied range of campus initiatives. The Brandons' gift includes $2 million to construct the new Mott Hospital's neonatal intensive care unit; $500,000 to create a Brandon Professional Resource Center and Archive at the School of Education; $250,000 toward construction of the Stephen M. Ross School of Business; another $250,000 to establish the David and Jan Brandon Prostate Cancer Survivor Fund in support of the Department of Urology's Prostate Cancer Survivorship Clinic; $750,000 to the Department of Athletics, of which $500,000 will support facilities and operations, and $250,000 will endow the David and Jan Brandon Scholarship Fund for student athletes; and $250,000 for the expansion and restoration of the University of Michigan Museum of Art.

FRED (AB '58) and **JUDY WILPON** (AB '58) of New York have given $12 million on behalf of the Fred Wilpon Family Foundation, to be divided among three areas of the University. The Wilpons' $5 million leadership gift to the Department of Orthopaedic Surgery and the Division of Kinesiology will create the Sport Injury Prevention Center, where an interdisciplinary roster of experts will research the causes of sports injuries and promote their prevention. A second leadership gift of $4 million to the Department of Intercollegiate Athletics will support renovation of the baseball and softball stadiums, to be renamed the Wilpon Baseball and Softball Complex in honor of Fred's parents, Frances and Nathan Wilpon. Finally, the Wilpons have given $3 million to the College of Literature, Science, and the Arts (LSA) to fund the Irene and Morris B. Kessler Presidential Scholars Fund, a need-based scholarship established in memory of Judy's parents, and in celebration of the Wilpons' 50th U-M reunion, which they will celebrate this year. Their gift to the Fund will be matched by the President's Donor Challenge.

MedSport Director and Sports Medicine Chief Edward Wojtys, M.D.; Fred W. Wilpon; Kinesiology Dean Beverly Ulrich; and Professor James Ashton-Miller, Biomechanics Research Laboratory director.

DAVID BARGER of New York City, the founder, COO, and president of JetBlue Airlines, who attended U-M in the early 1980s, has given $4.5 million to endow the Barger Leadership Institute in the Organizational Studies Program at the College of LSA. The Institute will be one of the first programs in the nation to offer leadership-learning experiences to undergraduates through specially designed fellowships, internships, and research. Through the President's Donor Challenge for faculty support, Barger's gift will also endow a new professorship in Organizational Studies.

THE ROLLICKING CREW (pictured above), an informal group of graduates including **JIM DERLETH** (BBA '80), **MIKE LEVITT** (BBA '80, JD '83), **JERRY KOWALSKI, KEVIN DUFFY** (AB '80), **JEFF YAPP** (BBA '80), **JOHN CADARETTE** (BBA '80), **DAVE DEPOY** (BGS '80) and the late **VIC RAY** (BS '81), have been making regular contributions to the Rollicking Crew Scholarship Endowment over the course of more than 25 years, including $16,000 in FY 2007 alone. The Crew's endowment is now valued at more than $300,000, funding valuable need- and merit-based scholarships for LSA students.

Two weeks after its June 11 opening, U-M's Cardiovascular Center (CVC) announced an extraordinary $50 million gift from an **ANONYMOUS DONOR.** The gift will support the CVC's innovative model of care, emphasizing cooperation, excellence, and results in all areas of its clinical operations. The donor and the CVC have established a series of benchmarks on indices related to customer satisfaction, collaboration among scientists and physicians, clinical outcomes, research contributions, and excellence in education.

JUDITH J. FIELD (BBA '61, AMLS '63, MBA '69) of Northville, MI, a senior lecturer in Wayne State's Library and

Information Science Program, made a $100,000 gift establishing the Judith J. Field Scholarship Fund at the School of Information—one of the largest gifts ever received by the School from an individual donor.

The **TOYOTA USA FOUNDATION** has awarded $200,000 to the High School Beginning Algebra Academy, a joint project of UM-Dearborn's Center for Mathematics Education and the Wayne County Regional Educational Services Agency. The Academy will use the grant to improve math understanding and instruction among high school teachers in Wayne County, where less than 25 percent of high school students complete a college-preparation sequence in math every year.

FROM LEFT | Dearborn Chancellor Daniel Little, former Governor John Engler, Waltraud Prechter, President Mary Sue Coleman, CECS Dean Subrata Sengupta, and Regent Andrew Richner (BBA '82, JD '86).

University officials joined with **WALTRAUD (WALLY) PRECHTER** (ABED '79) to honor the memory of her late husband, **HEINZ PRECHTER,** by naming the Heinz C. Prechter Engineering Complex at UM-Dearborn in his honor.

A $2 million gift from **JOHN S.** (MBA '80) and **DR. ANNETTE** (BS '81) **VINCENT** of River Forest, IL, and **BURTON J. VINCENT, JR.** of New York City via the **MARILYN H. VINCENT FOUNDATION** will be divided between a $500,000 addition to the existing Burton J. Vincent Scholarship Fund for students enrolled in programs at the Erb Institute for Global Sustainable Enterprise, a joint enterprise of the Ross School of Business and the School of Natural Resources and Environment; and a $1.5 million gift to endow the new Marilyn H. Vincent Professorship in the Medical School.

KENNETH (AB '64) and **FRANCES** (ABED '64, CERTT EDUC '64) **EISENBERG** of Bloomfield Hills, MI, have given $5 million, the largest ever received by the Department of History, to name and support the Frances and Kenneth Eisenberg Institute for Historical Studies. The Institute will use the funds to attract renowned historians and scholars who will interact with U-M students, faculty, and the broader community through programs, seminars, and lectures. The gift will also be used to sponsor outreach activities for teachers of history at the pre-college level.

TWINK FREY (ABED '61, CERTT EDUC '61, AM '70) of Grand Rapids, MI is helping to ensure the continued vitality of the Center for the Education of Women (CEW) through an estimated $10 million bequest. Her gift is the largest contribution ever received by CEW. A portion of the bequest will be directed to the Twink Frey Social Activists Award Fund, which she and her husband, **JAMES MCKAY,** created in 2005 to underwrite the annual CEW residency of a social change activist. The remainder of the bequest will establish the Twink Frey Research, Advocacy, and Policy Fund, supporting research on gender equity issues and the implications of policy; advocacy for disadvantaged constituencies; and teaching, training, and mentoring for new advocates.

The late **VIVIAN A. CURTIS** (MSW '48) and her husband, **DR. JAMES L. CURTIS** (MD '46), created a charitable remainder trust valued at almost $600,000 to support masters and doctoral students in the School of Social Work. The trust enhances the Curtises' previous gifts for the same purpose, as well as their gifts of African American art to the University of Michigan Museum of Art. The School's research center will be renamed the Vivian A. and James L. Curtis School of Social Work Research and Training Center in recognition of their generosity. The gift recognizes Mrs. Curtis's career in social work and her affection for the School.

A $5 million leadership gift from **JAMES A. VAN SWEDEN** (BARCH '60) of Washington, DC, will be divided between the School of Natural Resources and Environment and the A. Alfred Taubman College of Architecture + Urban Planning. It contributes to the existing endowments of the James A. van Sweden and Johanna and Anthony van Sweden Scholarship Funds, and creates James A. van Sweden professorships in both landscape architecture and architecture.

New Appointments

Coleman Begins Second Term

MARY SUE COLEMAN began her second five-year term as U-M president in July 2007. She received unanimous support for reappointment from the Board of Regents following an extensive performance review that included input from faculty, staff, students, and others engaged with the University.

The Regents praised Coleman for her "exemplary" leadership, citing her track record of outstanding accomplishments. As president, Coleman has enhanced the University's international reputation as an institution dedicated to excellence in teaching, pathbreaking research, and public service that changes lives.

"I have the best job in higher education. The University of Michigan is just unparalleled," said Coleman in thanking the Board. "This institution has historically played a critical and pivotal role in higher education, and it's going to assume even more leadership responsibilities as we move forward."

Coleman joined the University in the summer of 2002 after serving as president of the University of Iowa for seven years.

DR. ROBERT P. KELCH'S position as U-M executive vice president for medical affairs and the Health System's chief executive was extended for one year to September 2009. During his tenure, the Health System has experienced unprecedented expansion and has seen notable, nationally recognized achievements in research collaborations, strategic planning, and quality improvements.

DAVID LAMPE was named vice president for communications, effective September 7, 2007. Lampe is the former executive director of marketing and communications at Harvard Business School, a position he held since 2002. Prior to that he held marketing and communications directorships at Arthur D. Little, Inc., Boston University, and the Massachusetts Institute of Technology.

SUSAN M. COLLINS was named the Joan and Sanford Weill Dean of Public Policy at the Gerald R. Ford School of Public Policy, effective September 1, 2007. Prior to her appointment, Collins held positions at Georgetown University, Harvard University, and the Brookings Institution. Her area of expertise is international economics, including issues in both macroeconomics and trade. Collins has published extensively in professional journals and volumes.

New Appointments

PAUL N. COURANT, U-M provost from 2002–2005, was chosen as University librarian and dean of University Libraries, effective March 1, 2007. The position oversees 19 libraries on the Ann Arbor campus. Courant currently is the Harold T. Shapiro Collegiate Professor of Public Policy in the Gerald R. Ford School of Public Policy, Arthur F. Thurnau Professor, professor of economics in LSA, and professor of information in the School of Information.

DAVID MUNSON, JR. was named the Robert J. Vlasic Dean of Engineering, effective July 1, 2006. He joined U-M as professor and chair of the Electrical Engineering and Computer Science (EECS) department in 2003. At EECS, he increased the commitment to education programs, planned extensive renovation and expansion of laboratories, and increased relationships with alumni and industry. Previously, he was on the faculty of the University of Illinois at Urbana-Champaign.

DR. ROBERT A. WINFIELD was appointed to the newly created position of chief health officer in September 2006. Winfield, the director of the University Health Services (UHS), will continue to serve in that capacity while taking on the responsibilities of this new role. He served as a physician and administrator with UHS since 1980 and as its director since 1999. For many years, he led the UHS Periodic Health Appraisal Unit, which developed ways to improve health and wellness for U-M employees.

JOHN HELMUTH II was appointed the new dean for the UM-Flint School of Management, effective July 1, 2007. Helmuth served since 2002 at Niagara University, NY, as the dean for the College of Business Administration. Prior to his appointment at Niagara, Helmuth served from 1996–2002 at UM-Dearborn as chair of the Department of Accounting and Finance and as acting assistant dean. He has published three books and numerous journal articles.

MARTHA POLLACK, professor of electrical engineering and computer science, has been named dean of the School of Information, effective August 1, 2007. Pollack joined the College of Engineering in 2000, and since 2004 has served as associate chair for computer science and engineering. Pollack recently was honored with a 2007 Sarah Goddard Power Award for her contributions to the betterment of women at U-M and globally.

DR. JAMES O. WOOLLISCROFT will serve a five-year appointment as dean of the U-M Medical School, effective July 1, 2007. During his tenure as interim dean, he oversaw the expansion of state-of-the-art facilities, a rise in NIH funding, an increase in the permanent endowment, and a top-10 rank in *U.S. News & World Report.* An internationally recognized medical educator, he played major roles in the training of U-M medical students, residents, and fellows.

Diversity Blueprints: U-M Responds to Challenges of Proposal 2

In November 2006, Michigan voters passed Proposal 2, which amends the Michigan constitution to ban public institutions from discriminating against or giving preferential treatment to groups or individuals based on race, gender, color, ethnicity, or national origin. As a result, U-M changed its admissions and financial aid processes so that these factors no longer are used in decision-making.

The following month, U-M President Mary Sue Coleman asked Provost Teresa A. Sullivan and Senior Vice Provost Lester P. Monts to co-chair a University-wide Diversity Blueprints Task Force. Its mission was to identify innovative strategies to sustain and improve effectiveness in recruiting, retaining, and supporting a diverse student body, faculty, and staff, and to enhance the University's educational outreach and engagement.

After evaluating hundreds of ideas and hours of input, the 55-member Task Force presented its findings in a public meeting on March 28 at Forum Hall in Palmer Commons. The final report recommends seven strategies built around educational outreach and public engagement; admissions, financial aid, and academic support; and campus climate and the University experience.

"The diversity of our faculty, staff, and students is vital to our future academic strength," Coleman said. "This report presents us with some immediate actions, and a process for moving forward."

THE MICHIGAN DIFFERENCE

U-M Launches Economic Initiatives

This past year, U-M responded to Michigan's declining manufacturing sector and soft employment market with multiple initiatives to help bolster the state's economic recovery.

- Three projects administered by the U-M Business and Industrial Assistance Division and funded by various state and federal agencies will provide over $5 million to assist Michigan communities facing major plant closures, help manufacturing firms survive in a highly competitive environment, and identify Michigan companies that are creating jobs of the future for which dislocated workers can be trained.
- Soon after Pfizer Inc. announced in January 2007 that it would close its 177-acre Ann Arbor facility by 2008, the University, the State of Michigan, Ann Arbor SPARK, and Ann Arbor area leaders formed the Pfizer Strategic Working Action Teams (SWAT) to aid the more than 2,100 workers who will be displaced.
- In November 2006, U-M, Michigan State, and Wayne State universities created the University Research Corridor, an alliance to transform, strengthen, and diversify Michigan's economy. The three universities, which annually receive about $1.3 billion in external grants, will reach out to businesses, policymakers, and investors to speed up technology transfer, make resources more accessible, and help attract new jobs to the state.





Campus Initiatives in Brief

The University aims to quadruple its enrollment of low- and moderate-income **COMMUNITY COLLEGE TRANSFER STUDENTS** over the next four years with the assistance of a $1 million grant it received from the Jack Kent Cooke Foundation in 2006. U-M will invest an additional $3.79 million from its own resources for the initiative.

ARTS ON EARTH, launched in January 2007, is a University-wide initiative that stimulates, explores, and celebrates the dynamic relationship between people and their arts worldwide.

In the summer of 2006, a new U-M Library online catalog called **MBOOKS** made available full, searchable text of works digitized through the U-M/Google Digitization Partnership.

In May 2007, U-M took part in a state-wide **PANDEMIC DISEASE PLANNING EXERCISE** that included all three campuses, executive officers, and activation of the Emergency Operations Center.

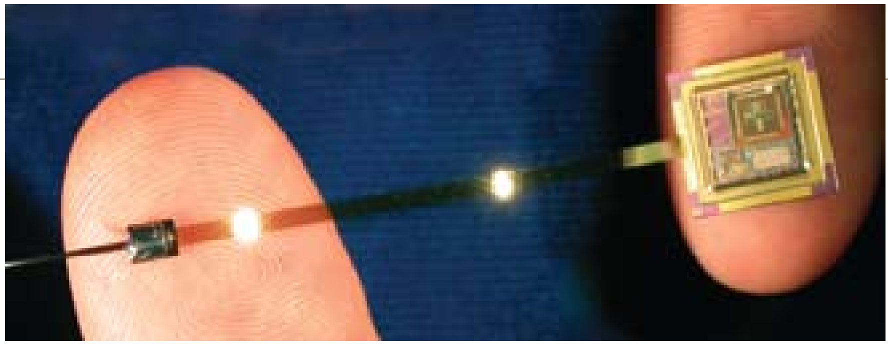
With the goal of transforming the environment of the Ann Arbor campus and integrating the visual arts more fully with its educational and research mission, the University established a new **PRESIDENT'S ADVISORY COMMITTEE ON PUBLIC ART.**

The U-M Office of Institutional Equity's new **CAMPUS COMMITMENT** program will encourage a welcoming climate built on mutual respect for all members of the University community through educational programs for students, faculty, and staff.

Thirty students from Flint's Whittier Classical Academy participated in the **MICHIGAN STUDENT CAUCUS,** a unique program at UM-Flint that engages students of all ages in the political process.

The U-M **BUSINESS INTELLIGENCE COMMUNITY OF EXPERTS** (part of a University-wide business intelligence initiative) gave out its first innovation awards to U-M teams who demonstrated creative uses of data to support their decision-making processes.

In September 2006, U-M launched an ambitious, multi-year **SPACE AND FACILITIES UTILIZATION INITIATIVE** that aims to maximize the use of physical resources on the Ann Arbor campus.



Enhancing Relationships with Industry

An enhanced culture of innovation and collaboration on the U-M campus will allow research knowledge to be applied to major societal needs, spur regional economic development and new jobs, give students valuable learning experiences, and help the University procure resources and expertise. However, changes in the global economy require that U-M broaden its already strong connections with industry in order to build a better future, according to two campus committees that recently analyzed University-industry partnerships at the request of Stephen Forrest, vice president for research.

The committees—one comprised of faculty and the second of administrators—were asked to develop steps the University can take in order to rejuvenate and strengthen its connections with industry. The plans include many suggestions, from ways to make industry engagement a visible and central element of University life to improving coordination across the campus of these kinds of partnerships. The committees presented ideas to encourage faculty to engage in entrepreneurial activities and new companies, and to revise research policies to make industry-sponsored projects more appealing and efficient for faculty. And, importantly, the report recommended that the entire campus must become more cognizant of the time pressures facing industry and act accordingly in setting up relationships.

The report also called for the creation of a business engagement center that would serve as a central and highly visible point of focus for existing and new relationships between campus units and industry partners. By coordinating the U-M's industry relationships from a single physical location, the University can leverage its efforts to raise awareness among potential partners, provide a simpler means of access to campus research and faculty expertise, and work more efficiently with regional and state economic development efforts.

MSU, U-M, Wayne State Create University Research Corridor

In November 2006, Michigan State University, the University of Michigan, and Wayne State University announced the creation of the University Research Corridor (URC), an ongoing alliance that will work to transform, strengthen, and diversify the state's economy.

Research Corridor universities are a magnet for investment and jobs, and bring more than $1.3 billion in external research grants into Michigan each year. By marshalling their resources, the presidents of the three universities are reaching out to businesses, policymakers, innovators, investors, and the public to speed up technology transfer, make resources more accessible, and help attract new jobs to the state.

Over the past five years, the universities—which together bring 95 percent of federal academic research dollars to Michigan—have announced an average of one invention every day. Collectively these discoveries have led to more than 500 license agreements for new technologies and systems.

URC partners work in collaboration on many projects, both among themselves and with business communities, ranging from technology transfer and commercialization to entrepreneurship and urban policy. Michigan's resulting "brain gain" is a prime example of research as a magnet for economic development.

"We have an absolute responsibility to the state to help transform an economy that is flagging," said U-M President Mary Sue Coleman. "Together we have achieved much. But we must set our sights higher and do even more to turn ideas into action."

Research Expenditures Reach $823 Million

U-M spent $823 million on research activities in fiscal 2007. The most recent National Science Foundation (NSF) survey, which is based on FY 2005 data, places U-M second in the nation for total research expenditures. Only Johns Hopkins University, which has a federal lab associated with it, leads U-M.

Research activities at the University make a huge difference in the quality of life and economic progress for people in the state of Michigan and beyond. The development and application of new technologies will play an increasingly pivotal role in the formation of new industries and markets, and in the creation of high-paying jobs.

As the most exciting breakthroughs will increasingly occur at the intersections of disciplines, future discoveries will likely depend on some combination of biology, nanotechnology, information science, physical science, medicine, and engineering. U-M's enthusiastic embrace of a multidisciplinary approach to both education and research means that it will continue to be a valuable resource to both the state and the nation as a leader of learning, discovery, and innovation.

THE MICHIGAN DIFFERENCE

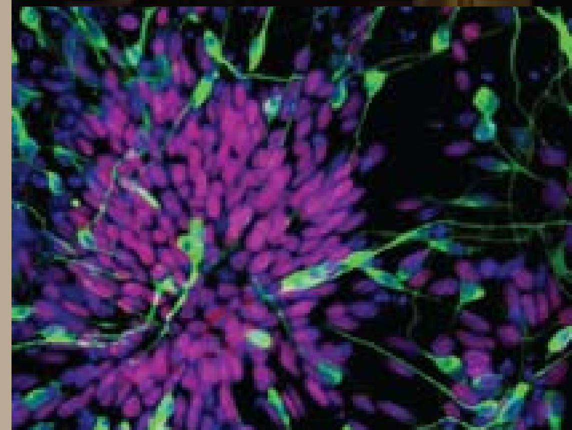
U-M Launches Michigan Memorial Phoenix Energy Institute

In September 2006, U-M announced a significant expansion of its efforts in energy research with the creation of the Michigan Memorial Phoenix Energy Institute (MMPEI). The Institute will coordinate activities; serve as an international authority and resource in energy-related issues; assist in developing funding sources and attracting faculty; manage the facilities; engage industry; and provide a unified voice and focal point on energy research, policy, and education.

The University is launching MMPEI with $9 million and plans to recruit top-tier energy research faculty. Additional funds from the College of Engineering (CoE); Literature, Science, and the Arts (LSA); and most recently, the DTE Energy Foundation, will help establish several new, chaired faculty positions. Graduate fellowships in energy research will be created in partnership with the Rackham Graduate School. The new Institute will be housed in the Michigan Memorial Phoenix Laboratory, now under renovation with $11 million in state capital outlay and U-M funding.

Under the leadership of CoE faculty member Gary S. Was, MMPEI will coordinate existing energy research that is distributed across campus in a variety of disciplines and locations. The lab will provide resources and a common space for faculty pursuing energy-related research. The third floor of the Phoenix Laboratory will house the Hydrogen Energy Technology Lab, led by Professor Levi Thompson.

Research in Brief



The State of Michigan's **21ST CENTURY JOBS FUND** awarded over a third of its 2006 monies to U-M academic research, spinout companies, and research collaborations. U-M faculty received $5.8 million while U-M-affiliated companies garnered $16.4 million. The State estimates that these investments will result in more than 1,200 new jobs.

The schools of Medicine, Dentistry, Nursing, and Pharmacy launched a new **MASTER OF SCIENCE IN CLINICAL RESEARCH** program. The degree, awarded by the School of Public Health, aims to increase the ranks of those who focus on turning clinical research into treatments and cures. The first cohort of six medical and nursing students matriculated in September 2006.

Donors have raised over a quarter of a million dollars in private funds to support a project on human embryonic stem cell research currently not eligible for federal funding. The project will be part of the **U-M CENTER FOR STEM CELL BIOLOGY**, which was launched last year with $12M in start-up funding from U-M and is based in U-M's Life Science Institute.

More than 2,000 students in U-M housing took part in a **FLU STUDY** to determine whether wearing masks and washing one's hands could help prevent the spread of the disease. The U-M School of Public Health led the investigation, which began in January 2007 and was funded with a $1.3 million federal grant.

U-M's **TECHNOLOGY TRANSFER** efforts remained strong during fiscal year 2007, recording 329 new invention disclosures, an increase of 14% over fiscal year 2006. U-M filed 144 new patent applications and negotiated 91 license/option agreements, including seven new business startups in 2007. Although no equity was sold in 2007 compared to $9.6 million in 2006, royalty income increased 19% from $10.8 million to $12.8 million.

Mohammed N. Islam, a faculty member in the Department of Electrical Engineering and Computer Science, received U-M's first **DISTINGUISHED UNIVERSITY INNOVATOR AWARD** in March 2007 for his advancements in telecommunications and subsequent success in bringing the new technology to market through a start-up company, Xtera Communications, Inc.

U-M atmospheric scientists simulated gusting winds and blowing dust on Mars' surface to determine whether they would affect the ability of NASA's **PHOENIX LANDER** to collect soil samples. The experiments, funded by NASA and Lockheed Martin, were conducted at the U-M Space Research Building. The spacecraft launched on August 4, 2007.

A team led by U-M's Kensall D. Wise, director of the NSF Engineering Research Center for Wireless Integrated Microsystems, developed a **COCHLEAR IMPLANT** using thin-film electrode sites that could greatly improve hearing for the profoundly deaf and help minimize damage to healthy ear tissue.

A study published by Daphna Oyserman, a professor of social work and psychology at the U-M **INSTITUTE FOR SOCIAL RESEARCH**, shows that minority youths get better grades in school when they see links between school achievement, racial identity, and future accomplishment in life.

President's Donor Challenge Raises $45 Million

U-M students and faculty are recognized around the world as the leaders and best. To continue bringing the brightest minds to the University, President Mary Sue Coleman launched the President's Donor Challenge to support need-based financial aid and create endowed professorships. The initiative —which runs from October 1, 2006 through December 31, 2007—raised $45 million as of June 30, 2007.

The President's Challenge brought in almost $15 million from 4,500 donors to provide aid to students with financial need. This aspect of the program provides a match for each donor gift for a total impact of $29 million in fiscal 2007.

U-M provides a wide range of programs to help meet the financial needs of students. The M-PACT program increases scholarships and helps reduce loan aid to Michigan residents. Michigan Tradition awards provide renewable $10,000 grants for students from underrepresented high schools, geographic areas, and socioeconomic populations while Michigan Achievement Awards provide renewable $5,000 grants to economically disadvantaged students. In addition, U-M was one of a few top institutions chosen to participate in the Jack Kent Cooke Foundation program, which provides scholarships to transferring community college students.

In addition to student aid, the President's Challenge raised $30 million to create 20 fully endowed professorships. The professorships cover a wide range of schools and disciplines, and demonstrate the breadth of donors' interests.

NEW STUDENT PROFILE

The 5,400 first-year students who enrolled in September 2006 came from 41 countries and all 50 states. They were selected from a group of 26,000 well-qualified applicants.

ACADEMICS

67% had 3.8 or higher GPA | 28% had a perfect 4.0 high school GPA | 92% ranked in the top 10% of their graduating class | 36% had an ACT composite score between 30 and 36 | 43% were members of a high school academic honor society.

ACTIVITIES

56% play a musical instrument | 28% were elected to at least one student government office | 20% had writing published or were editors of high school publications | 30% have won awards for community service | 10% have started their own businesses | 25% have won all-city, regional, state, or national athletic awards.

2006 FALL TERM ENROLLMENT

	Undergraduate	Graduate	Total
Ann Arbor	25,555	14,470	40,025
Dearborn	6,612	1,954	8,566
Flint	5,600	927	6,527
All Campuses	37,767	17,351	55,118

2005–06 DEGREES GRANTED

	Undergraduate	Graduate	Total
Ann Arbor	5,614	4,809	10,423
Dearborn	1,149	620	1,769
Flint	875	253	1,128
All Campuses	7,638	5,682	13,320

THE MICHIGAN DIFFERENCE

U-M Leads Nation with Teaching Volunteers

Teach For America recruits recent college graduates to teach in underserved rural and urban schools. Their mission: to enlist our nation's most promising future leaders in the movement to eliminate educational inequality. U-M currently leads the nation, with more than 300 students volunteering for the program and 110 graduates currently teaching.

U-M Teach for America volunteers, who come from a wide range of backgrounds and academic programs, have an equally wide range of personal motivations for joining the program. For 2007 LSA graduate and Teach for America campus campaign manager Grace Chen, fond childhood memories of listening to her mother read to her sparked a lifelong passion for learning.

Chen plans to spend two years working with underprivileged students in rural North Carolina. The Shipman Scholar and member of the Alpha Delta Pi sorority graduated Phi Beta Kappa with degrees in organizational studies and psychology. She says Teach for America will give her an opportunity to use her organizational skills and further her enthusiasm for education.

Growing up in Ohio, Chen saw the difference education made in the lives of her parents, both immigrants from Taiwan. "Education is an issue I'm very passionate about," she says. "A lot of societal problems can be solved through education. Every child deserves a good education."

U-M Continues Commitment to Interdisciplinary Education

To prepare for a life of productive endeavor in the 21st century, tomorrow's leaders must learn problem solving across disciplines and have the skills and confidence to explore uncharted territories of knowledge and practice. U-M continues to provide students with interdisciplinary opportunities as a regular part of their intellectual training, particularly at the undergraduate level.

For example, the President's Multidisciplinary Learning and Team Teaching initiative launched or approved funding for several new programs and courses in fiscal 2007:

- The Program in Informatics
- Practicum in a Multidisciplinary World
- Applied Complex Systems: Emergent Challenges
- Public Policy 201—Systematic Thinking About the Problems of the Day
- Interdisciplinary Undergraduate Course on Contemporary Social Issues in Southeast Asia

Michigan Student Experience in Brief

Demolition of the Frieze Building and site preparation continued for construction of **NORTH QUAD RESIDENTIAL AND ACADEMIC COMPLEX,** U-M's first new residence hall in more than 40 years. Combining sophisticated academic areas with living space for 460 students, North Quad will house five information- and communications-related programs.

A crowd of about 700 joined the groundbreaking celebration on July 16, 2007 for the **FIRST STUDENT RESIDENCE HALL ON THE UM-FLINT CAMPUS.** The Board of Regents approved the 310-bed facility in October 2006. The 100,000-square-foot, four-story building will feature two- and four-bedroom apartment-style units.

The new **OFFICE OF GRADUATE STUDENT SUCCESS** at the Rackham Graduate School will combine existing campus resources to support graduate students with the latest research, best practices information, and data about conditions that promote student academic and professional success.

In spring 2007, UM-Dearborn launched the **LOCAL GOVERNMENT MANAGEMENT INITIATIVE,** an Internet-based graduate program geared toward providing professional development opportunities for the more than 1,700 local government administrators in the state of Michigan.

The **U-M SCHOOL OF NURSING** began a pilot program in which first- and second-year nursing students must fulfill a community service requirement, such as volunteering at shelters, soup kitchens, and schools. The program seeks to increase students' understanding of society and prepare them to be engaged citizens and health professionals.

Twenty-one students from U-M won **FULBRIGHT FELLOWSHIPS** for 2006–07. More than 1,300 students nationwide competed for the honor, including 76 applicants from U-M. Only Yale, Harvard, and Brown universities produced more Fulbright winners this year.

The Division of Student Affairs and the U-M Health System have teamed up to help students who suffer from serious mental and physical illnesses to continue or resume their studies. The innovative program, called **MTHRIVES,** completed a successful pilot in 2005–06.

Preliminary figures from the Office of Undergraduate Admissions reflect **A RECORD-SETTING NUMBER OF APPLICATIONS** received for 2007–08. Overall, applications are up 6.4 percent, totaling more than 27,400—the highest number of undergraduate freshman applications in U-M's history. Among underrepresented minority students, freshman applications are up 6.7 percent.

The National Association of College and University Food Services awarded **UNIVERSITY HOUSING'S RESIDENTIAL DINING SERVICES'** Blue Apple emporium in Bursley Hall a gold prize for a single stand-alone retail sales outlet. The Blue Apple, which opened in 2006, also earned an honorable mention as Best in Business Convenience Store.

Lyric Ingrid Chen, a 2006 LSA graduate with a bachelor of arts degree in political science and economics, won a prestigious **MARSHALL SCHOLARSHIP** to study comparative politics at Oxford University.

"President Ford honored us by giving us his name and, in turn, we strive to honor his legacy through the excellence of our programs and our commitment to public service.

Rebecca M. Blank
Dean, Ford School of Public Policy

He was a giant of a coach and a giant of a man. His energy fueled not only athletic success, but the incredible pride of all Michigan fans.

Bill Martin
U-M Director of Athletics"

Year Marks the Passing of Two U-M Icons

The University said goodbye this year to two of its most famous, admired, and colorful figures: former President Gerald R. Ford and famed football coach Glenn E. "Bo" Schembechler.

PRESIDENT GERALD R. FORD, distinguished alumnus and the 38th president of the United States, died on December 26, 2006 at the age of 93. He proudly supported the University throughout his life, making regular visits to the campus.

Ford attended U-M from 1931–35. A gifted athlete, he played center on the national championship football teams in 1932 and 1933, and was voted the Wolverines' most valuable player in 1934. He graduated with bachelor's degrees in economics and political science, and went on to earn a law degree from Yale in 1941.

After an illustrious political career, Ford taught several courses as a visiting professor at U-M. He donated volumes of material to his presidential library, which opened in 1981 on North Campus. In 1999, the Board of Regents renamed the U-M School of Public Policy as the Gerald R. Ford School of Public Policy. The dedication of the School's new Joan and Sanford Weill Hall took place in October 2006, just two months before his death.

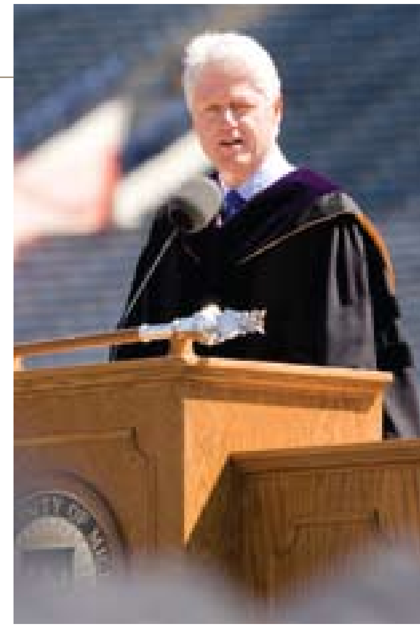
BO SCHEMBECHLER, the winningest head football coach in U-M's history, died November 17, 2006. He was 77. His death came on the eve of a match-up with perennial rivals, the Ohio State Buckeyes, and on the same day the Board of Regents approved designs for the renovation of Michigan Stadium.

During his 20-year tenure, Schembechler racked up 194 wins, 13 Big Ten championships, and two Rose Bowl victories. After retirement, he maintained a strong relationship with the University. Schembechler Hall, a training and athletic administration building, is named for him. He also established the Millie Schembechler Professorship of Adrenal Cancer, named after his wife who died of the rare disease in 1992.

Schembechler received an honorary degree from U-M in 2005. His many other honors include induction into the Michigan Sports Hall of Fame, the U-M Hall of Honor, the Rose Bowl Hall of Fame, and the National Football Foundation Hall of Fame. The American Heart Association posthumously named Schembechler the 2007 winner of its Lifetime Achievement Award.

At the January 1, 2007 Rose Bowl game in Pasadena, California, the Wolverines wore a sticker with the number 48 (Ford's retired jersey number) and "Bo" on their helmets to honor these famous "Michigan Men."

Clinton Urges Grads to Help Solve World Problems



More than 59,000 parents, alumni, and friends gathered in Michigan Stadium on April 28, 2007 to honor some 6,500 members of the class of 2007. Many were also looking forward to hearing the keynote speaker, former President **WILLIAM JEFFERSON CLINTON.**

Clinton challenged graduates to strive not only to do well in their chosen professions, but also to make the world a better place. "Whether you leave here as a scientist, a writer, an engineer, a businessperson, or an artist, remember this: you must be a citizen," he said. "It's more important now than ever before, but it has always been the truth that the world you live in is interdependent. You do not exist as a totally separate being in a society."

Clinton received an honorary doctor of law degree for his life of public service and support of humanitarian causes. Other honorary degree recipients included: J. Max Bond, Jr., doctor of fine arts; Philip Converse, doctor of science; and Irma Wyman, doctor of engineering.

THE MICHIGAN DIFFERENCE

The University Reaches Out to Detroit

At any given time, U-M is engaged in at least 100 projects involving the city of Detroit, many of which operate out of the U-M Detroit Center, a 10,500 square-foot facility located on the ground floor of Orchestra Place. Just a few examples:

The **TAUBMAN COLLEGE OF ARCHITECTURE + URBAN PLANNING** sponsors several design projects and workshops focusing on downtown and community redevelopment.

The many Detroit-related activities of the **SCHOOL OF EDUCATION** include placing its students into teaching roles with the Detroit Public Schools and collaborating with middle school teachers and administrators to explore education reform.

The **SCHOOL OF PUBLIC HEALTH** collaborates in 15–20 programs including community-based public health initiatives and projects serving the metro area's Arab-American and Hispanic populations.

The **SCHOOL OF SOCIAL WORK** manages multiple Detroit projects through the Center for Urban Innovation, which seeks to increase community access to technology equipment, skills, and knowledge.

Campus Happenings in Brief

The **CHARLES R. WALGREEN, JR. DRAMA CENTER** and **ARTHUR MILLER THEATRE** celebrated its grand opening on March 29, 2007. Located on North Campus, the theater is the world's only venue named for the playwright and U-M graduate. Walgreen, a 1938 graduate, and his wife Jean funded the project with a lead gift of $10M.

Dedication of the Gerald R. Ford School of Public Policy's new **JOAN AND SANFORD WEILL HALL** took place on October 13, 2006. The 85,000-square-foot building, on the northeast corner of State and Hill streets, offers state-of-the-art classrooms and meeting spaces.

Ground was broken on September 14, 2006 for the dramatic expansion and restoration of the U-M **MUSEUM OF ART.** The Museum is housed in a temporary space (called UMMA Off/Site) on the corner of South University and South Forest avenues through 2008.

UM-FLINT turned 50 in 2006. President Mary Sue Coleman and Chancellor Juan Mestas joined students, alumni, faculty, staff, retirees, and the community to mark the event with an official ceremony on September 28.

UM-DEARBORN dedicated its new Science Learning and Research Center on October 27, 2006. The $9.6 million building features an astronomical dome, a 100-seat lecture hall, labs, and support spaces.

The **TAUBMAN COLLEGE OF ARCHITECTURE + URBAN PLANNING** celebrated its centennial in 2006 with a yearlong celebration featuring a gala dinner, conferences, and exhibits.

The 2006 **FALL SUMMIT ON DIVERSITY,** held October 9 at the Mendelssohn Theatre, continues a dialogue started two years ago to promote the importance of diversity in education.

The third visit by the **ROYAL SHAKESPEARE COMPANY** to U-M attracted thousands of guests from more than 30 states for its exclusive 21-performance run. The University Musical Society organized the residency, which included over 140 educational events.

The 2006–07 **LSA THEME YEAR**, "The Theory and Practice of Citizenship: From the Local to the Global," examined citizenship in action, its opportunities and risks, and how it is reflected in the arts through a series of courses, lectures, plays, and concerts.

CVC Marks Grand Opening with a Bittersweet Celebration

A week of tremendous emotion stemming from the loss of the U-M Survival Flight Transplant Team turned the June 7, 2007 grand opening of the new Cardiovascular Center (CVC) into a bittersweet celebration. Dr. Robert Kelch, executive vice president for medical affairs, called for a moment of silence to honor the six victims. "Our celebration today is dedicated to our Survival Flight family whom we lost so tragically earlier this week," he said.

As guests entered the courtyard, the group MASS Ensemble performed on harp strings that stretched from the ground to the top of the five-story building. Musicians also performed a work commissioned for the event composed by U-M professor of music Michael Daugherty. Speakers included U-M graduates Dr. Antonia Novello, former surgeon general; and Dr. Sanjay Gupta, CNN medical correspondent and chief of neurosurgery at Grady Memorial Hospital in Atlanta, GA.

The 350,000-square-foot CVC will be home for most UMHS adult heart and vascular care. It includes a large outpatient clinic, 19 operating and procedure rooms, and amenities including a cafe, auditorium, and indoor gardens.

THE MICHIGAN DIFFERENCE

U-M Mourns Loss, Honors Memory of Transplant Team Heroes

U-M Health System Survival Flight Transplant Team members have helped save thousands of lives over the years by safely transporting organs for critically ill transplant patients. Their quick, professional response often made the difference between life and death, giving hope to victims and their families.

But on the afternoon of June 4, 2007, it was six members of the Survival Flight Transplant Team who became the victims of a tragedy when their plane crashed into Lake Michigan shortly after take-off from Milwaukee. The team was returning to Ann Arbor, carrying organs for a transplant patient at U-M Hospital.

Aboard the aircraft were:

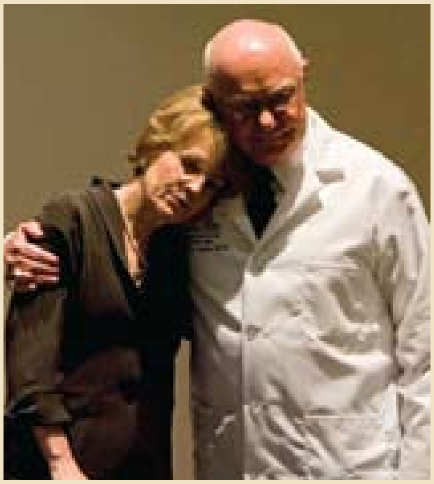
DR. DAVID ASHBURN
Fellow (physician-in-training) in cardiothoracic surgery

RICHARD CHENAULT II
Donation specialist with the U-M Transplant Program

DENNIS HOYES
Pilot with Marlin Air

RICK LAPENSEE
Donation specialist with the U-M Transplant Program

BILL SERRA
Pilot with Marlin Air



DR. MARTINUS (MARTIN) SPOOR
Cardiac surgeon who had been on the faculty since 2003

"Our hearts are broken by this devastating and irreplaceable loss for the University of Michigan community," said President Mary Sue Coleman during a press conference the following day. "There is no greater act than that of saving a life, and through our grief, we take comfort in knowing these six men died in the service of a fellow human being."

Tributes and condolences began pouring in almost immediately from across the United States and around the world. On July 27, the University held a service for the six who perished and several memorial funds have been set up in their honor. For more information or to make a contribution, visit www.med.umich.edu/survival_flight/update.

Health Developments in Brief

U-M completed its **SALE OF M-CARE** to Blue Cross Blue Shield of Michigan and its Blue Care Network subsidiary in December 2006 for $258 million, net of expenses. As part of the sale agreement, Blue Cross also committed up to $10 million to a new joint venture with U-M for research and projects to improve health care across Michigan.

The new $41 million Rachel Upjohn Building, located on the east medical campus, opened October 2006. The facility houses the **U-M DEPRESSION CENTER** and the **U-M DEPARTMENT OF PSYCHIATRY'S** outpatient clinics, which provide care for people with depression, bipolar disorder, addictions, and other mental illnesses. The building's second level is entirely devoted to research on these conditions.

On October 6, 2006, the U-M Health System broke ground for the new 1.1 million-square-foot **C.S. MOTT CHILDREN'S HOSPITAL AND WOMEN'S HOSPITAL.** The $523 million facility is scheduled to open in 2011.

The **U-M AUTISM AND COMMUNICATION DISORDERS CENTER** is leading an 11-university consortium that will gather and bank DNA samples from 3,000 autism patients over the next three years.

A report issued in February 2007 by the Association of American Medical Colleges reveals that the **U-M MEDICAL SCHOOL** and other academic medical centers across the state had a combined economic impact of $18.7 billion in 2005.

The rapid proliferation of children developing food allergies led the U-M Health System to open a new **ALLERGY SPECIALTY CLINIC AND FOOD ALLERGY CLINIC** in May 2007. The center is located at Domino's Farms in north Ann Arbor.

U-M launched an innovative program to help improve health and reduce costs for its employees, retirees, and dependents who take multiple prescription medications. Called **MHEALTHY: FOCUS ON MEDICINES,** the new pilot project began in June 2007.

The U-M Health System **TRANSPLANT CENTER,** in collaboration with Gift of Life Michigan, received the U.S. Department of Health and Human Services' distinguished Medal of Honor for achieving an organ donation rate of more than 75 percent for an unprecedented second year in a row.

U-M became one of the few institutions in the U.S. with a professorship devoted to **SLEEP STUDIES AND THE TREATMENT OF SLEEP DISORDERS.** The position honors the late Michael S. Aldrich, M.D., founder of the U-M Sleep Disorders Center.

C.S. Mott Children's Hospital is ranked as the **TOP CHILDREN'S HOSPITAL** in Michigan, and among the best in the nation, according to a highly competitive national survey recently released by *Child* magazine.

For the second year, the Cardiovascular Center was named one of the nation's **BEST CENTERS FOR HEART AND VASCULAR CARE** by Solucient, a quality-rating service. U-M was one of only 30 hospitals with cardiovascular residencies to make the list.

U-M Enhances Environmental and Energy Conservation Efforts

Staff, faculty, and students at the University will become even more involved in campus environmental and energy conservation efforts as part of a six-point environmental and energy conservation initiative (EEI) presented in April 2007 to the Board of Regents. Associate Vice President for Facilities and Operations Henry Baier shared the three-year plan and recent operational achievements.

The six-point plan includes the introduction of Wolverine Teams comprised of staff from operations and facilities management to engage building occupants in specific efforts to achieve energy and environmental conservation. The teams are anticipating activities in 30 campus buildings in each of the next three years.

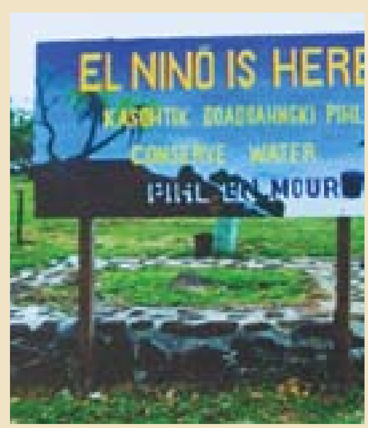
Other components of the plan include compilation and distribution of an annual report on consumption trends, research activities, and operations efforts; increased efforts to purchase electricity produced from renewable sources; maintenance and expansion of alternative transportation options for students, staff, and faculty; strengthening procurement offerings to ensure green products are prominently promoted; and revision of construction and renovation guidelines to improve energy efficiency.

THE MICHIGAN DIFFERENCE

SNRE Hosts National Climate Change Summit

The School of Natural Resources and Environment (SNRE) hosted a three-day summit—the first of its kind in the nation—focused on helping the United States prepare for the impact of climate change and the ongoing alterations in temperature, precipitation, sea level rise, and species range.

Experts attending the **NATIONAL SUMMIT ON COPING WITH CLIMATE CHANGE** identified needs in four critical areas: public health, energy industry, water quality, and fisheries. They also developed actions that could be taken by government, business, and industry. The summit—held May 8-10, 2007—was part of the Clinton Global Initiative, a non-partisan organization that helps devise and implement innovative solutions to pressing world challenges.



SNRE Dean Rosina Bierbaum hosted the summit. Participants included: Thomas Karl, director of the National Climatic Data Center; Susan Tierney, former assistant secretary of energy; and Robert Corell, director of the Global Change Program, The Heinz Center.

A Greener Maize and Blue in Brief

Information technology is the latest thing going green at U-M with its commitment to participate in Google's new **CLIMATE SAVERS** program. As part of the program, U-M will identify and encourage units to select energy-efficient computers. There will also be a campaign to educate users on how to reduce computer power use. Energy efficient computers make about a $1.75 million difference in electricity consumption a year on a campus as big as U-M's, according to Timothy Slottow, executive vice president for finance.

The Institute for Social Research, in collaboration with Plant Operations and the Utilities Reduction Committee, conducted a joint **STUDY OF ENERGY USE ATTITUDES AND BEHAVIORS** among U-M staff, faculty, and students. The initial report, issued in March 2007, recommended increased leadership, education, and motivation to help modify behaviors that would help improve University-wide energy conservation measures.

New equipment will be installed in the **HATCHER GRADUATE LIBRARY** air-handling system that is estimated to generate energy savings of approximately $180,000 per year, as well as improve occupant comfort in the building.

The Michigan Recycling Coalition recognized U-M as the **2007 RECYCLER OF THE YEAR** for Outstanding Waste Reduction and Reuse. The award recognizes the University's Student Move-Out Donation and Office Supply Reuse programs.

A study released in June 2007 by the U-M **CENTER FOR SUSTAINABLE SYSTEMS** says the state of Michigan can add $380 million a year and 3,400 full-time jobs to its economy by 2025 while reducing greenhouse gases 12 percent. Researchers presented their findings to the Michigan Legislature's House Energy and Technology Committee.

Auto industry experts gathered at the U-M Power Center on June 12, 2007 for an interactive forum to discuss **ALTERNATIVE FUEL CARS.** The event was part of the Ann Arbor TechKnow Forums, which are designed to enhance the technology business climate in Southeastern Michigan. The forum featured expert presentations, a roundtable discussion, and product demonstrations.

Called "the Olympics of biodiversity," **BIOBLITZ** was the U-M Biological Station's attempt to document the assortment of species inhabiting the forests, fields, and waters surrounding its northern Michigan location. The event, held July 5–8, 2007, involved 10,000 acres, 20 scientists, 73 students, and a huge variety of biological and botanical specimens. Later that month at the station, graduate students in the **BIOSPHERE-ATMOSPHERE RESEARCH AND TRAINING** program held a two-day summit that focused on the implications of climate change in the Great Lakes area.

Judy and Fred Wilpon Family Foundation Gives $12 Million to U-M

The University received a $12 million gift from the Judy and Fred Wilpon Family Foundation that provides $5 million to create the Sport Injury Prevention Center, $4 million for the rebuilding of baseball and softball stadiums, and $3 million for scholarships for undergraduate students with financial need. A dollar-for-dollar match from the President's Donor Challenge will increase the impact of the Wilpons' $3 million commitment to $6 million for financial aid.

Fred Wilpon is chairman and chief executive officer of the New York Mets, co-founder and chairman of the board of Sterling Equities, and co-founder and chairman of the Brooklyn Baseball Company, which owns the Brooklyn Cyclones, a minor league team. As principal owner of the New York Mets, Wilpon helped the franchise become a major contender in Major League Baseball.

Wilpon played baseball at U-M until an arm injury cut short his career, but a scholarship grant enabled him to continue attendance. Wilpon and his wife, Judy, earned bachelor of arts degrees from U-M in 1958.

THE MICHIGAN DIFFERENCE

Student-Athletes Raise Funds and Spirits for Mott

U-M coaches, student-athletes, and athletic department staff have supported the C.S. Mott Children's Hospital for many years through a variety of fundraising and charitable activities. They donated hundreds of hours of time and raised about $345,000 for the new Mott facility in 2007 alone.

Their activities this past year included a 12-hour "radio-a-thon" to kick off the annual Carr's Wash for Kids, a day-long event in which U-M football players armed with buckets and hoses wash cars in front of Michigan Stadium to benefit Mott's Pediatric Bone Marrow Transplant Unit. The radio-a-thon and Carr's Wash for Kids, now in its fourth year, raised over $300,000.

The U-M Student-Athlete Advisory Council also runs regular programs in support of Mott, including Mock Rock and From the Heart. Mock Rock, an annual extravaganza in which lip-synching student-athletes compete against each other in elaborately costumed and choreographed musical numbers, raised about $35,000 in 2007. Every Thursday night, the From the Heart program arranges for small groups of student-athletes to visit with children at the hospital.

Athletics in Brief

In November 2006, the Regents approved the schematic designs for a major renovation and expansion of **MICHIGAN STADIUM.** Construction work will be phased over a three-year period so as not to interrupt home football games. On June 21, the Board of Regents gave final approval to invite bids and award construction. The project should be completed prior to the 2010 football season.

Head softball coach **CAROL HUTCHINS,** who ranks as the winningest coach in the history of U-M athletics, was inducted into the National Fastpitch Coaches Association Hall of Fame in December 2006. During her 22-year tenure as head coach, the Wolverines never suffered a losing season while capturing the NCAA national championship in 2005, 10 Big Ten regular-season titles, nine NCAA regional crowns, and eight Big Ten Tournament championships.

The U-M **WOMEN'S CROSS COUNTRY TEAM** won its fifth consecutive Big Ten Conference title in October 2006 and went on to place third at the NCAA championships the following month.

In May, Michigan **WOMEN'S TRACK AND FIELD** came from behind to share the team Big Ten title with Illinois. The team closed out the season with a program-best third place team finish at the NCAA outdoor championships, two national champions (sophomore Tiffany Ofili in the 100-meter hurdles and graduate/senior Anna Willard in the 3,000-meter steeplechase), and seven total All-Americans.

Despite competing most of the season without a number of its top gymnasts, the U-M **WOMEN'S GYMNASTICS TEAM** won its eighth Big Ten title in nine years and its 14th conference title in 16 seasons.

After capturing the Big Ten regular season championship in May, the U-M **BASEBALL TEAM** went on to defeat top-ranked Vanderbilt in June to win the NCAA regional championship.

Plans to build a **NEW INDOOR FOOTBALL PRACTICE FACILITY AND NEW SOCCER FIELDS** were approved by the Board of Regents. The new football building will be built adjacent to Schembechler Hall along State Street, while the new soccer fields will be constructed near the Tisch Varsity Tennis Center.

The Paul "Bear" Bryant Awards committee of the American Heart Association named the late former U-M head football coach **BO SCHEMBECHLER** the 2007 winner of its Lifetime Achievement Award.

Awards and Accomplishments

In a July 2007 White House ceremony, U-M professor **HYMAN BASS** received the nation's highest science honor, a National Medal of Science. Bass, who is the Roger Lyndon Collegiate Professor of Mathematics in the College of Literature, Science, and the Arts (LSA) and a professor of education in the School of Education, is one of six U-M researchers to receive the award since it was established in 1959.

U-M composer **WILLIAM BOLCOM** received the National Medal of Arts, the nation's highest public artistic honor for a lifetime of creative excellence, at a November 2006 White House ceremony. Bolcom is the Ross Lee Finney Distinguished University Professor of Composition at the School of Music, Theatre & Dance.

Four U-M faculty were elected to the Institute of Medicine of the National Academies. They are: **JOHN D. BIRKMEYER**, the George D. Zuidema Professor of Surgery at the Medical School, and director of the Michigan Surgical Collaborative for Outcomes Research and Evaluation Center; **MICHAEL BOEHNKE**, the Richard G. Cornell Collegiate Professor of Biostatistics, School of Public Health, and director of the U-M Center for Statistical Genetics and Genome Science Training Program; **MARTHA L. LUDWIG**, a research biophysicist and the Medical School's J. Lawrence Oncley Distinguished Professor, in the Department of Biological Chemistry; and **CATHERINE G. MCLAUGHLIN**, a professor of health management and policy and director of the Economic Research Institute on the Uninsured at the School of Public Health.

U-M professors **DAVID GINSBURG** and **JAMES HOUSE** were named to the National Academy of Sciences. Ginsburg is a Life Sciences Institute researcher and the James V. Neel Distinguished University Professor in the Medical School. House is the LSA Angus Campbell Collegiate Professor of Sociology and Survey Research and a researcher in the Institute for Social Research.

School of Education Dean **DEBORAH LOEWENBERG BALL** and education professor **BRIAN ROWAN** were elected to membership in the National Academy of Education. Ball is the William H. Payne Collegiate Professor of Education. Rowan is the Burke A. Hinsdale Collegiate Professor of Education and associate dean.

Three U-M faculty members were named to the American Academy of Arts and Sciences. **ROSINA BIERBAUM** is dean and professor in the School of Natural Resources and Environment. **ROBERT GRIESS, JR.** is a professor in the LSA Department of Mathematics. **ARTHUR LUPIA** is the LSA Hal R. Varian Collegiate Professor of Political Science.

PAULA ALLEN-MEARES, dean of the School of Social Work and professor of education and social work, was the recipient of the National Association of Social Workers Foundation's 2006 Knee/Wittman Outstanding Lifetime Achievement in Health and Mental Health Award.

Five U-M faculty members were awarded Guggenheim Fellowships, given annually for distinguished achievement in the past and exceptional promise for future accomplishments. They are: **MICHAEL P. FLYNN**, associate professor of electrical engineering

FROM TOP | Hyman Bass | David Ginsburg
Deborah Loewenberg Ball | Paula Allen-Meares
and Stephen R. Forrest

and computer science, College of Engineering (CoE); **ENRIQUE GARCÍA SANTO-TOMÁS**, associate professor of Spanish, LSA; **ARTHUR LUPIA**, the LSA Hal R. Varian Collegiate Professor of Political Science; **ROBERTO D. MERLIN**, professor of physics, LSA, and of electrical engineering and computer science, CoE; and **PIOTR MICHALOWSKI**, George G. Cameron Professor of Ancient Near Eastern Civilizations, LSA.

Four University faculty will teach and conduct research abroad as recipients of Fulbright Scholar grants. **RUTH BEHAR** and **JENNIFER ROBERTSON** are professors in the LSA Department of Anthropology. **NANCY HUNT** is an associate professor in the LSA Department of History. **SEYED MEHDIAN** is a finance professor in the UM-Flint School of Management.

STEPHEN R. FORREST, the William Gould Dow Collegiate Professor of Electrical Engineering, CoE, and vice president for research, has been named a co-recipient of the 2007 Institute of Electrical and Electronics Engineers Daniel E. Noble Award, for pioneering contributions to the development of organic light emitting diodes.

Eight U-M scientists were among 449 newly elected fellows of the American Association for the Advancement of Science. They are: **DAVID BALLOU**, professor of biological chemistry, LSA; **CAROL FIERKE**, Jerome and Isabella Karle Collegiate Professor of Chemistry and chair of the Chemistry Department, LSA; **NANCY SONGER**, professor of education, School of Education; **FAWWAZ ULABY**, Arthur F. Thurnau Professor and R. Jamison and Betty Williams Professor of Engineering, CoE; **SAMUEL MUKASA**, professor of geological sciences, LSA; **BERNARDUS VAN DER PLUIJM**, director of the global change program and professor of geology and the environment, LSA; **LARS STIXRUDE**, professor of geological sciences, LSA; and **RANDAL KAUFMAN**, Warner-Lambert/Parke-Davis Professor of Medicine, professor of biological chemistry and internal medicine, Medical School.

The New Media Consortium named **CARL BERGER**, U-M professor and dean emeritus, School of Education, as a fellow in recognition of his lifelong contributions to the use of new media and other technologies for the advancement of teaching, learning, and creative expression. Berger is only the second recipient of this honor in the 14-year history of the organization.

Six faculty members have been honored as recipients of Arthur F. Thurnau Professorships for their outstanding contributions to undergraduate education. The recipients are **PETER CHEN**, professor of electrical engineering and computer science, CoE; **ANNE CURZAN**, associate professor of English language and literature, LSA; **DAVID GERDES**, associate professor of physics, LSA; **JAMES HOLLOWAY**, professor of nuclear engineering and radiological sciences and associate dean, CoE; **CARLA O'CONNOR**, associate professor of education, School of Education; and **ANDREW SHRYOCK**, associate professor of anthropology, LSA.

The following Distinguished University Professorships became effective September 1, 2006: **NOREEN MORRISON CLARK**, Myron E. Wegman Distinguished University Professor of Public Health, School of Public Health; **NICHOLAS FRANKLIN DELBANCO**, Robert Frost Distinguished University Professor of English Language and Literature, LSA; **GEOFFREY ELEY**, Karl Pohrt Distinguished University Professor of Contemporary History, LSA; **LENNARD FISK**, Thomas M. Donahue Distinguished University Professor of Space Science, CoE; and **RAOUL KOPELMAN**, Richard Smalley Distinguished University Professor of Chemistry, LSA.

The Michigan Association of Certified Public Accountants named **MICHAEL FORAN,** professor of accounting and finance and associate dean, UM-Dearborn School of Management, the 2006 Accounting Educator of the Year.

THE UNIVERSITY MUSICAL SOCIETY received the Arts Presenters/MetLife Foundation Award for Arts Access in Underserved Communities. The award recognizes UMS' "innovative strategies" for attracting and developing audiences in rural and inner-city neighborhoods, along with communities of new immigrants and ethnic areas that are considered "in transition" or highly changing.

MICHIGAN RADIO won nine Broadcast Excellence Awards from the Michigan Association of Broadcasters and 10 Michigan Associated Press Awards in 2006, including a general excellence award for news among non-commercial stations.

Projects | in Planning, in Progress, and Completed

Projects in Planning

Central Power Plant Low-Pressure Steam Handling Improvements

Central Power Plant Replacement Steam Turbine

William W. Cook Legal Research Library and Hutchins Hall Lighting Improvements

Dearborn Henry Ford Estate-Fair Lane Heating and Cooling System Improvements

Dental Building and W. K. Kellogg Institute Elevator Replacement

Extend Steam, Condensate, and Chilled Water to North Quad Site

Flint Student Housing Facility

Harlan Hatcher South Graduate Library Air Handling Improvements

Indoor Practice Facility for Intercollegiate Football

Ingalls Substation to Wall Street Utility Duct Bank

Intercollegiate Athletics Soccer Fields

Law School Addition and Renovation

Matthaei Botanical Gardens Exhibition Greenhouse Infrastructure Renewal

Medical Science Unit I Renovations for Radiology and Nuclear Medicine

Medical Science Unit II Third Floor Research Laboratory Renovations

Michigan Memorial Phoenix Laboratory Renovation

Michigan Stadium Renovation and Expansion Project

North Quad Residential and Academic Complex

Madelon Louisa Stockwell Hall Renovation

A. Alfred Taubman Medical Library Elevator Replacement

Thompson Street Parking Structure Addition

Towsley Center for Children Replacement Facility

University of Michigan Hospitals and Health Centers Programs

- Burlington Office Building Pain Clinic Relocation Leasehold Improvements
- Med Inn Electrical Substation Replacement
- Medical Professional Building Heating, Ventilation, and Air Conditioning Unit Replacement
- C. S. Mott Children's Hospital Infant Security System Upgrade
- University Hospital Neurosurgery Intensive Care Unit Bed Expansion
- University Hospital Operating Room Renovation
- University Hospital Positron Emission Tomography/Computed Tomography Scanner Replacement
- University Hospital Process Chilled Water System Expansion
- University Hospital Radiation Oncology Computed Tomography Simulator Replacement
- University Hospital Roof Replacement

Alumni Memorial Hall Museum of Art Addition

Projects in Progress

ALUMNI FIELD RENOVATION | Work started February 2007 with an estimated completion date of March 2008. Financing is from Athletic Department and gifts.

ALUMNI MEMORIAL HALL MUSEUM OF ART ADDITION | Work started November 2006 with an estimated completion date of June 2008. Financing is from gifts, Museum of Art, central administration, and investment proceeds.

ANIMAL RESEARCH FACILITY THIRD FLOOR LABORATORY RENOVATIONS
Work started April 2007 with an estimated completion date of December 2007. Financing is from a federal grant and Medical School.

BETSY BARBOUR HOUSE AND HELEN H. NEWBERRY RESIDENCE FIRE SUPPRESSION SYSTEM UPGRADES
Work started May 2007 with an estimated completion date of December 2007. Financing is from University Housing and investment proceeds.

CENTRAL CAMPUS AREA UTILITY TUNNEL REPLACEMENT 2006 | Work started February 2007 with an estimated completion date of June 2008. Financing is from utilities reserves.

CENTRAL CAMPUS AREA UTILITY TUNNEL REPLACEMENT 2005 | Work started November 2006 with an estimated completion date of December 2007. Financing is from utilities reserves.

CENTRAL CAMPUS RECREATION BUILDING, BELL POOL, AND DANCE BUILDING ROOF REPLACEMENT | Work started March 2007 with an estimated completion date of December 2007. Financing is from investment proceeds.

CENTRAL POWER PLANT GAS DETECTION SYSTEM INSTALLATION | Work started May 2007 with an estimated completion date of December 2007. Financing is from utilities reserves.

CENTRAL POWER PLANT STEAM TURBINES REPLACEMENT | Work started March 2005 with an estimated completion date of December 2007. Financing is from utilities reserves.

DENTAL BUILDING AND W.K. KELLOGG INSTITUTE UPGRADE FIRE ALARM AND FIRE SUPPRESSION | Work started October 2006 with an estimated completion date of October 2007. Financing is from investment proceeds.

ELECTRICAL ENGINEERING AND COMPUTER SCIENCE BUILDING RENOVATION | Work started December 2006 with an estimated completion date of December 2007. Financing is from College of Engineering and gifts.

ELECTRICAL ENGINEERING AND COMPUTER SCIENCE—SOLID STATE ELECTRONICS LABORATORY ADDITION
Work started April 2005 with an estimated completion date of December 2007. Financing is from College of Engineering, gifts, and investment proceeds.

RAY FISHER BASEBALL STADIUM RENOVATION | Work started December 2006 with an estimated completion date of March 2008. Financing is from Athletic Department and gifts.

FLETCHER STREET PARKING STRUCTURE STRUCTURAL REPAIRS | Work started March 2006 with an estimated completion date of December 2007. Financing is from parking resources.

TOP | Charles R. Walgreen, Jr. Drama Center
BOTTOM | UM-Flint Student Housing Groundbreaking

FLINT–DAVID M. FRENCH HALL RENOVATIONS | Work started June 2007 with an estimated completion date of December 2008. Financing is from State Building Authority and UM-Flint.

FORD NUCLEAR REACTOR DECOMMISSIONING | Work started December 2005 with an estimated completion date of March 2008. Financing is from investment proceeds.

HENRY S. FRIEZE BUILDING ASBESTOS ABATEMENT, DEMOLITION, AND SITE PREPARATION | Work started December 2006 with an estimated completion date of December 2007. Financing is from University Housing, central administration, College of Literature, Science, and the Arts (LSA), and investment proceeds.

MARIE DOROTHY HARTWIG ADMINISTRATION BUILDING RENOVATION | Work started November 2006 with an estimated completion date of December 2007. Financing is from Athletic Department.

C.S. Mott Children's and Women's Hospitals Replacement Groundbreaking

INTRAMURAL SPORTS BUILDING INSTALL FIRE SUPPRESSION SYSTEM Work started December 2006 with an estimated completion date of September 2007. Financing is from investment proceeds.

INTRAMURAL SPORTS BUILDING ROOF REPLACEMENT | Work started April 2007 with an estimated completion date of December 2007. Financing is from investment proceeds.

EDWARD HENRY KRAUS BUILDING LABORATORY RENOVATION | Work started April 2007 with an estimated completion date of December 2007. Financing is from College of LSA.

MARY B. MARKLEY HALL INFRASTRUCTURE UPDATES | Work started December 2006 with an estimated completion date of September 2007. Financing is from University Housing and investment proceeds.

MEDICAL SCIENCE UNIT I PATHOLOGY RESEARCH LABORATORY RENOVATIONS Work started November 2006 with an estimated completion date of September 2007. Financing is from Medical School.

MEDICAL SCIENCE UNIT I THIRD FLOOR RESEARCH LABORATORY RENOVATIONS Work started May 2007 with an estimated completion date of March 2008. Financing is from Medical School.

MEDICAL SCIENCE UNITS I AND II RENOVATIONS | Work started September 2006 with an estimated completion date of March 2008. Financing is from Medical School.

MICHIGAN MEMORIAL PHOENIX LABORATORY ASBESTOS ABATEMENT Work started April 2007 with an estimated completion date of December 2007. Financing is from investment proceeds.

MICHIGAN STADIUM 2007 CONCRETE REPAIRS | Work started December 2006 with an estimated completion date of August 2007. Financing is from Athletic Department.

EARL V. MOORE BUILDING INTERIOR FINISH UPGRADES AND LIBRARY REMODELING | Work started June 2007 with an estimated completion date of December 2007. Financing is from central administration and University Library.

MOSHER-JORDAN HALL RENOVATION AND HILL DINING CENTER | Work started August 2006 with an estimated completion date of September 2008. Financing is from University Housing and investment proceeds.

NEWBERRY HALL–KELSEY MUSEUM ADDITION AND RENOVATION | Work started October 2006 with an estimated completion date of September 2008. Financing is from gifts, NEH grant, investment proceeds, and College of LSA.

NORTH CAMPUS RECREATION BUILDING ROOF REPLACEMENT | Work started May 2007 with an estimated completion date of December 2007. Financing is from investment proceeds.

NORTH CAMPUS UNDERGROUND CHILLED WATER LINES EXTENSION Work started May 2007 with an estimated completion date of September 2007. Financing is from utilities reserves and investment proceeds.

OBSERVATORY LODGE RENOVATION Work started September 2006 with an estimated completion date of December 2007. Financing is from State Building Authority, Division of Kinesiology, and investment proceeds.

STEPHEN M. ROSS SCHOOL OF BUSINESS FACILITIES ENHANCEMENT PROJECT Work started April 2006 with an estimated completion date of December 2008. Financing is from Ross School of Business and gifts.

SCHOOL OF NURSING BUILDING RENOVATIONS IN THE CHILDREN'S CENTER | Work started April 2007 with an estimated completion date of December 2007. Financing is from investment proceeds.

SCHOOL OF PUBLIC HEALTH BUILDING THIRD AND FOURTH FLOOR SHELL SPACE COMPLETION | Work started May 2007 with an estimated completion date of December 2007. Financing is from School of Public Health.

SCHOOL OF PUBLIC HEALTH BUILDINGS RENOVATIONS | Work started September 2003 with an estimated completion date of December 2007. Financing is from investment proceeds, School of Public Health, and gifts.

STUDENT ACTIVITIES BUILDING RENOVATION | Work started March 2007 with an estimated completion date of December 2008. Financing is from State Building Authority and investment proceeds.

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS PROGRAMS
Financing is from Hospitals and Health Centers.

- **BRIARWOOD BUILDING 9 DIGITAL RADIOGRAPHY RENOVATIONS** | Work started April 2007 with an estimated completion date of September 2007.
- **CHILLED WATER LOOP REPLACEMENT PHASE I** | Work started January 2007 with an estimated completion date of September 2007.
- **EYE CENTER EXPANSION** | Work started January 2007 with an estimated completion date of March 2010. Financing is from Hospitals and Health Centers and gifts.
- **C. S. MOTT CHILDREN'S AND WOMEN'S HOSPITALS REPLACEMENT PROJECT** | Work started February 2007 with an estimated completion date of June 2011. Financing is from Hospitals and Health Centers and gifts.
- **UNIVERSITY HOSPITAL EMERGENCY DEPARTMENT EXPANSION** | Work started May 2007 with an estimated completion date of July 2007.
- **UNIVERSITY HOSPITAL AND MOTT CHILDREN'S HOSPITAL FOOD SERVICE EQUIPMENT REPLACEMENT AND GALLEY RENOVATION** | Work started September 2005 with an estimated completion date of October 2007.
- **UNIVERSITY HOSPITAL INTENSIVE CARE UNIT BED EXPANSION** | Work started May 2007 with an estimated completion date of March 2008.
- **UNIVERSITY HOSPITAL PHARMACY SERVICES RENOVATION** | Work started September 2006 with an estimated completion date of July 2007.
- **UNIVERSITY HOSPITAL RENOVATIONS FOR BLOOD BANK LABORATORY CLEAN ROOM** | Work started March 2007 with an estimated completion date of October 2007.

CHARLES R. WALGREEN, JR. DRAMA CENTER | Work started May 2005 with an estimated completion date of September 2007. Financing is from gifts and investment proceeds.

Ray Fisher Baseball Stadium Renovation

Projects Completed

ADVANCED TECHNOLOGY LABORATORIES BIOMEDICAL ENGINEERING | Completed August 2006. Financed by College of Engineering and Whitaker Foundation grant.

ANN STREET PARKING STRUCTURE
Completed July 2006. Financed by parking resources.

BIOMEDICAL SCIENCE RESEARCH BUILDING ANIMAL IMAGING FACILITY
Completed October 2006. Financed by Medical School.

BURSLEY RESIDENCE HALL INFRASTRUCTURE UPDATES AND DINING IMPROVEMENTS | Completed November 2006. Financed by University Housing and investment proceeds.

CANCER AND GERIATRICS CENTER AND MEDICAL SCIENCE UNIT I CHILLER REPLACEMENT | Completed August 2006. Financed by central administration.

DEARBORN—ENGINEERING LABORATORY BUILDING EXPANSION AND RENOVATION Completed October 2006. Financed by State Building Authority and UM-Dearborn.

ENGINEERING RESEARCH BUILDINGS I & II OPTICS GROUP LABORATORY RENOVATION | Completed November 2006. Financed by College of Engineering.

UM-Dearborn Engineering Laboratory Building Expansion and Renovation

ENGINEERING RESEARCH BUILDINGS I & II, GERSTACKER BUILDING, AND SCHOOL OF INFORMATION NORTH BUILDING BOILER REPLACEMENT | Completed December 2006. Financed by utilities reserves.

GOLF COURSE NEW MAINTENANCE AND STORAGE BUILDING | Completed May 2007. Financed by Athletic Department.

HARLAN HATCHER GRADUATE LIBRARY EMERGENCY POWER UPGRADE Completed December 2006. Financed by utilities reserves.

HOOVER AVENUE HEATING PLANT BOILER REPLACEMENT | Completed March 2007. Financed by utilities reserves.

HUTCHINS HALL CLASSROOM AND ADMINISTRATIVE OFFICE SPACE RENOVATION | Completed February 2007. Financed by Law School.

EDWARD HENRY KRAUS BUILDING LABORATORY RENOVATION | Completed March 2007. Financed by grant from the Howard Hughes Medical Institute and College of LSA.

STANFORD LIPSEY STUDENT PUBLICATIONS BUILDING INFRASTRUCTURE IMPROVEMENTS Completed March 2007. Financed by gifts and investment proceeds.

MEDICAL SCIENCE UNIT I ANECHOIC CHAMBER RELOCATION RENOVATIONS Completed July 2006. Financed by Medical School.

MEDICAL SCIENCE UNIT I RESEARCH LABORATORY RENOVATIONS | Completed in June 2007. Financed by Medical School.

MEDICAL SCIENCES RESEARCH BUILDING I MASS SPECTROMETER LABORATORY Completed July 2006. Financed by Medical School.

MICHIGAN STADIUM 2006 CONCRETE REPAIRS | Completed August 2006. Financed by Athletic Department.

EARL V. MOORE BUILDING CORRIDOR CEILING AND LIGHTING UPGRADES Completed September 2006. Financed by central administration.

OXFORD HOUSING FIRE ALARM SYSTEM UPGRADE AND FIRE SUPPRESSION SYSTEM INSTALLATION | Completed August 2006. Financed by University Housing and investment proceeds.

COLLEGE OF PHARMACY BUILDING THIRD FLOOR LABORATORY RENOVATIONS | Completed August 2006. Financed by College of Pharmacy.

COLLEGE OF PHARMACY BUILDING SECOND AND FOURTH FLOOR LABORATORY RENOVATIONS Completed July 2006. Financed by NIH grant, College of Pharmacy, gifts, and central administration.

SOUTH QUADRANGLE ELEVATOR CONTROLLER REPLACEMENT Completed January 2007. Financed by University Housing.

SOUTH STATE COMMONS II, LLC DATA CENTER LEASEHOLD IMPROVEMENTS Completed March 2007. Financed by investment proceeds.

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS PROGRAMS Financed by Hospitals and Health Centers.

- **ARBOR LAKES 2 BUILDING MACHINE ROOM STRUCTURAL SUPPORT PROJECT** Completed September 2006.
- **CANCER AND GERIATRICS CENTERS BUILDING CANCER CENTER INFUSION EXPANSION** | Completed February 2007.
- **CARDIOVASCULAR CENTER PHASE I** Completed May 2007. Financed by Hospital and Health Centers and parking resources.
- **DOMINO'S FARMS LEASEHOLD IMPROVEMENTS FOR THE DIVISION OF ALLERGY** | Completed April 2007.
- **EAST ANN ARBOR COMPUTED TOMOGRAPHY AND MAGNETIC RESONANCE IMAGING EXPANSION** Completed September 2006.
- **EAST ANN ARBOR HEALTH CENTER GERIATRIC CLINIC RENOVATIONS** Completed November 2006.
- **HOSPITALS AND HEALTH CENTERS BULK OXYGEN SYSTEM** | Completed December 2006.
- **KMS BUILDING LEASEHOLD IMPROVEMENTS** | Completed April 2007.
- **MED INN SLEEP DISORDERS LABORATORY RELOCATION RENOVATIONS** | Completed December 2006.
- **NORTH INGALLS BUILDING CAFÉ RENOVATIONS** | Completed December 2006.
- **UNIVERSITY HOSPITAL CHILLER REPLACEMENT** | Completed May 2007.

Joan and Sanford Weill Hall, Ford School of Public Policy

- **UNIVERSITY HOSPITAL CLINICAL LABORATORY RENOVATION** Completed May 2007.
- **UNIVERSITY HOSPITAL EXTERIOR WEATHERPROOFING** | Completed July 2006.
- **UNIVERSITY HOSPITAL FRONT ENTRANCE TRAFFIC FLOW IMPROVEMENTS** | Completed November 2006.
- **UNIVERSITY HOSPITAL LINEAR ACCELERATOR REPLACEMENT** Completed October 2006.
- **UNIVERSITY HOSPITAL MAGNETIC RESONANCE IMAGING SUPPORT SPACE RENOVATIONS** | Completed March 2007.
- **UNIVERSITY HOSPITAL NUCLEAR MEDICINE PHARMACY RENOVATION** Completed June 2007.
- **UNIVERSITY HOSPITAL OBSERVATION UNIT RENOVATION** | Completed August 2006.
- **UNIVERSITY HOSPITAL STEAM STERILIZER** | Completed September 2006.
- **RACHEL UPJOHN BUILDING (DEPRESSION CENTER AND AMBULATORY PSYCHIATRY)** Completed September 2006. Financed by Hospitals and Health Centers, gifts, and NIH grant.

UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE INSTALL FIRE ALARM AND FIRE SUPPRESSION | Completed December 2006. Financed by investment proceeds.

JOAN AND SANFORD WEILL HALL Completed September 2006. Financed by investment proceeds, gifts, and President's discretionary resources.

Management Responsibility for Financial Statements

THE UNIVERSITY OF MICHIGAN
OFFICE OF THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

3014 FLEMING ADMINISTRATION BUILDING
ANN ARBOR, MICHIGAN 48109-1340
(734) 764-7272 FAX (734) 936-8730

August 30, 2007

The management of the University of Michigan (the "University") is responsible for the preparation, integrity and fair presentation of the consolidated financial statements. The financial statements, presented on pages 66 to 88, have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by the independent accounting firm PricewaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Regents. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on page 47.

The University maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the University's management and Board of Regents regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls.

The Board of Regents, through its Finance, Audit and Investment Committee, is responsible for engaging the independent auditors and meeting regularly with management, internal auditors and the independent auditors to ensure that each is carrying out their responsibilities and to discuss auditing, internal control and financial reporting matters. Both internal auditors and the independent auditors have full and free access to the Finance, Audit and Investment Committee.

Based on the above, I certify that the information contained in the accompanying financial statements fairly presents, in all material respects, the financial condition, changes in net assets and cash flows of the University.

Timothy P. Slottow
Executive Vice President
and Chief Financial Officer

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1900 St. Antoine Street
Detroit MI 48226-2263
Telephone (313) 394-6000
Facsimile (313) 394-6555
www.pwc.com

The Regents of the University of Michigan

In our opinion, the accompanying consolidated statement of net assets and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the University of Michigan (the "University") at June 30, 2007 and 2006, and its consolidated revenues, expenses and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis ("MD&A") on pages 48 through 65 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

August 30, 2007

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of the University of Michigan (the "University") at June 30, 2007 and 2006 and its activities for the three fiscal years ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with approximately 55,000 students and 6,400 faculty members on three campuses in southeast Michigan. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 19 schools, colleges and divisions, and contributes to the state and nation through related research and public service programs. The University, in total, employs more than 48,000 permanent and temporary staff. The University also maintains one of the largest health care complexes in the world through its Hospitals and Health Centers ("HHC"). HHC consists of three hospitals, 30 health centers and more than 120 outpatient clinics. HHC is an integral part of the University's Health System which also includes the University's Medical School; Michigan Health Corporation, a wholly-owned corporation created to pursue joint venture and managed care initiatives; and M-CARE, a wholly-owned health maintenance organization which was sold effective December 31, 2006.

The University consistently ranks among the nation's top universities by various measures of quality, both in general academic terms, and in terms of strength of offerings in specific academic disciplines and professional subjects. Excellence in research is another crucial element in the University's high ranking among educational institutions. Research is central to the University's mission and permeates its schools and colleges. In addition to the large volume of research conducted within the academic schools, colleges, and departments, the University has more than a dozen large-scale research institutes outside the academic units that conduct, in collaboration with those units, full-time research focused on long-term interdisciplinary matters. The University's Health System also has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation.

FINANCIAL HIGHLIGHTS

The University's financial position remains strong, with assets of $13.8 billion and liabilities of $2.3 billion at June 30, 2007, compared to assets of $12.0 billion and liabilities of $2.1 billion at June 30, 2006. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased $1.6 billion in fiscal 2007, to $11.5 billion at June 30, 2007. Changes in net assets represent the University's results of operations and are summarized for the years ended June 30, 2007 and 2006 as follows:

(in millions)	**2007**	2006
Operating revenues and state educational appropriations	**$ 4,167.8**	$ 4,147.9
Total expenses	**4,464.2**	4,283.1
	(296.4)	(135.2)
Net investment income	**1,572.6**	959.8
Gifts and other nonoperating revenues, net	**336.8**	249.2
Increase in net assets	**$ 1,613.0**	$ 1,073.8

Net assets increased $1.6 billion in 2007 and $1.1 billion in 2006 primarily due to net investment income of $1.6 billion and $960 million in 2007 and 2006, respectively. The results of operations reflect the University's focus on maintaining its national standards academically, and in research and health care, while addressing declining state appropriations and rising health care, regulatory, and facility costs in a competitive recruitment environment for faculty and health care professionals. The results of operations also reflect the sale of M-CARE effective December 31, 2006. Operating revenues and state educational appropriations increased 0.5 percent, or $20 million, while total expenses increased 4 percent, or $181 million. Gifts and other nonoperating revenues increased 35 percent to $337 million, which includes a $160 million gain on the sale of M-CARE.

The University invests its financial assets to maximize total return with an appropriate level of risk.While the University's working capital is invested in relatively short duration assets, the University invests its endowment with a strategy that seeks to maximize total return over the long term. The success of this long-term investment strategy is evidenced by strong returns over sustained periods of time and the University's ability to limit losses in the face of challenging markets.

SALE OF M-CARE

Formed by the University in 1986, M-CARE offered managed health care benefits to the employees of the University and other employers in Southeast Michigan. Completing the sale of M-CARE to Blue Cross Blue Shield of Michigan ("Blue Cross") and its subsidiary Blue Care Network in fiscal 2007 enabled the University to make a smooth transition with a non-profit, community-minded, quality-oriented partner, at a time when the health insurance industry is experiencing great turbulence, including the rapid growth of consumer driven health care plans and emerging technologies that require significant capital investment. This sale enables the University to better direct its resources toward its core mission of education, research and patient care. Subscription premiums revenue recognized by M-CARE from employers other than the University totaled approximately $197 million and $405 million for the six months ended December 31, 2006 and the year ended June 30, 2006, respectively.

Proceeds from the sale, net of expenses, totaled $258 million and the University recognized a $160 million gain on the sale in fiscal 2007. The purchase price will be adjusted based on certain changes in net assets pursuant to terms of the sales agreement; however, such amount is not expected to be material. As part of the sale, Blue Cross also committed up to $10 million to launch a joint venture with the University. This venture will commission research and other projects aimed at improving the quality of health care in the state of Michigan, and transforming the way patient care is delivered in the state and beyond.

University members enrolled in M-CARE at the time of the sale will maintain the same coverage through December 31, 2007. Replacement health plans designed and funded by the University, similar to the current M-CARE HMO and GradCare plans, will be available for calendar 2008 in addition to the other health plan choices offered by the University. The replacement plans will be offered only to the University community and administered by Blue Cross.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A comparison of the University's assets, liabilities and net assets at June 30, 2007 and 2006 is summarized as follows:

(in millions)	**2007**	2006
Current assets	**$ 2,431**	$ 2,337
Noncurrent assets:		
Endowment, life income and other investments	**7,380**	5,963
Capital assets, net	**3,755**	3,453
Other	**263**	245
Total assets	**13,829**	11,998
Current liabilities	**892**	913
Noncurrent liabilities	**1,440**	1,201
Total liabilities	**2,332**	2,114
Net assets	**$ 11,497**	$ 9,884

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the statement of net assets at June 30, 2007 and 2006, results from the prudent utilization of financial resources including careful cost controls, preservation of endowment funds, conservative utilization of debt, and adherence to a long-range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash and cash equivalents, operating and capital investments, and accounts receivable. Total current assets increased $94 million, to $2.4 billion at June 30, 2007. Cash and cash equivalents and operating investments totaled $1.2 billion at June 30, 2007, which represents approximately three months of total expenses excluding depreciation.

Current liabilities consist primarily of accrued compensation, accounts payable, deferred revenue, commercial paper and the current portion of bonds payable. Total current liabilities decreased $21 million, to $892 million at June 30, 2007, primarily due to a decrease in investment trade settlements payable.

ENDOWMENT, LIFE INCOME AND OTHER INVESTMENTS

The University's endowment, life income and other investments increased $1.4 billion, to $7.4 billion at June 30, 2007. This increase primarily resulted from favorable investment performance and the receipt of new endowment funds through gifts and transfers, offset by endowment distributions to beneficiary units for operations. The composition of the University's endowment, life income and other investments at June 30, 2007 and 2006 is summarized as follows:

(in millions)	**2007**	2006
Endowment investments	**$ 7,090**	$ 5,652
Life income investments	**120**	101
Noncurrent portion of insurance and benefits obligations and managed care investments	**170**	210
	$ 7,380	$ 5,963

The University's endowment funds consist of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, but are not limited by donor stipulations requiring the University to preserve principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts, and other important programs and activities.

The University uses its endowment funds to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. The major portion of the endowment is maintained in the University Endowment Fund, which is invested in the University's Long Term Portfolio, a single diversified investment pool. The University's endowment spending rate policy provides for an annual distribution of 5 percent of the one-quarter lagged, moving average fair value of University Endowment Fund assets, with distributions limited to 5.3 percent of current fair value.

Any capital gains or income generated above the spending rate are reinvested so that in lean times funds will be available. Because the spending rate is based on a multiple year moving average fair value, the percent distributed for operating purposes is different when stated in the context of current fair value. Actual distributions were 3.8 percent, 4.1 percent and 4.2 percent of the fair value of the endowment at June 30, 2007, 2006 and 2005, respectively. Effective July 1, 2006, the moving average period was extended from three years to four years and it is being extended by one quarter each subsequent quarter until it reaches seven years. This change is expected to reduce distribution volatility, as well as better preserve and grow the endowment corpus over time.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic, research and clinical programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities, along with balanced investment in new construction.

Capital asset additions totaled $611 million in 2007, as compared to $616 million in 2006. Capital asset additions primarily represent replacement, renovation and new construction of academic, research and clinical facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with gifts and net assets designated for capital purposes of $403 million, as well as debt proceeds of $202 million and state capital appropriations of $6 million. Construction in progress, which totaled $349 million at June 30, 2007 and $557 million at June 30, 2006, includes important new facilities for patient care, research, instruction and student residential life.

Construction projects completed in 2007 include new buildings for the Cardiovascular Center and the Gerald R. Ford School of Public Policy. The Cardiovascular Center facility is one of the nation's first fully comprehensive cardiovascular treatment centers, with operating rooms, patient rooms, clinics, classrooms and laboratories. In addition to giving cardiovascular patients an all-in-one location for their care, this new clinical building will help meet the surging demand for cardiovascular services and bring together specialized services and facilities that are now located throughout the University's Health System. This state-of-the-art facility, whose construction commenced in 2003, is located just south of the University Hospital. To provide parking for patients and staff, a 465-space parking structure was also constructed as part of this project.

Joan and Sanford Weill Hall houses the Gerald R. Ford School of Public Policy and serves as the southern gateway to the Central Campus. Located at State and Hill streets, this new building enabled the consolidation of three Ford School campus locations into a single facility with classrooms, a library, research centers, a computer laboratory, faculty offices and public spaces for conferences and lectures. With its new space, the Ford School is adding an undergraduate major, growing its faculty, and expanding the scope of its educational programming.

Renovation and expansion projects completed in 2007 include the School of Public Health facilities. This project provided modernization of building systems and additional space, through replacement of the east-west wing of the Henry F. Vaughan Public Health Building with modern laboratories, classrooms, conference rooms and community focused research space. The facility's innovative design and state-of-the-art technology better enable faculty and students to address today's top public health priorities, including new genetic technologies, the financing of health care, the globalization of health, public health preparedness and the prevention and treatment of infectious disease. The addition also connects to the Thomas Francis Jr. Building to form one public health complex which serves as a crossroads of activity, from research and teaching to academe and community.

At June 30, 2007, many significant facility enhancement projects are underway for critical academic, patient care, research and residential life facilities. Business education has undergone a fundamental change from lecture-style classes to interactive methods that integrate individual preparation, teamwork and in-class discussion, while effectively utilizing advanced technology. Construction is in progress on a new facility for the Stephen M. Ross School of Business which will support the School's distinct, team-based learning that bridges theory and practice. Classrooms, offices and other spaces will be arranged in a setting conducive to collaboration inside the school. Technology designed into the building will foster interaction with firms and organizations around the world. In order to make way for the new structure, Davidson Hall, Paton Accounting Center, Assembly Hall and an electrical switching station were demolished. The University expects this new facility to be completed in Fall 2008.

C.S. Mott Children's and Women's Replacement Hospitals are being constructed to meet increasing patient demand and accommodate future research, education and clinical care innovations. The new state-of-the art facility for these hospitals will further enhance specialty services for newborns, children and pregnant women not offered anywhere else in Michigan, including programs for Level I pediatric trauma, pediatric liver transplant, and craniofacial anomalies as well as high-risk pregnancy and specialty gynecological services. With a clinic building of nine floors and an inpatient building of twelve floors, the new facility will be approximately 1.1 million gross square feet. After the new facility for the replacement hospitals is completed in 2011, the facility housing the existing C.S. Mott Children's and Women's hospitals will be used to benefit the entire Health System.

During 2007, the University broke ground on a new state-of-the art eye center that will more than double capacity for eye care, research and education, as well as give scientists more space to search for a cure for Type 1 diabetes. The new facility, which includes eight floors for clinics, surgery and research, will serve the growing number of patients who need advanced eye care and access to the latest research discoveries. Large windows and a full wall of glass panels on the building's façade will allow natural light to fill the clinics and common space, of particular benefit to patients whose vision is impaired. Clinics will have space for patient education and comfortable waiting areas designed to aid patient flow. Research areas will feature open laboratories to encourage collaboration and provide flexibility as research projects grow. The new facility will also house the Brehm Center for Type 1 Diabetes Research and Analysis, which will provide opportunities for collaboration among diabetes and vision scientists, particularly on vision loss caused by diabetes. The new eye center, which is expected to open in 2010, will be adjacent to and connected to the current Kellogg Eye Center tower.

The University also began construction of its first new student residence hall in more than 40 years. Combining sophisticated classroom and academic space with residence space for 460 students, the North Quad Residential and Academic Complex will provide classrooms, studios and offices for five information and communications-related university programs. The result will be an environment in which interactions among students and faculty flow from classrooms to hallways to faculty offices to living quarters. The living spaces, like the whole of the project, are designed to facilitate student learning, and student social and programmatic needs. The University expects this new facility to be completed in Summer 2010.

Mosher-Jordan is the University's first residence hall to undergo a comprehensive renewal and renovation. This project, which continued in 2007, is preserving the existing historic areas and details, while creating new community environments by reconfiguring current spaces and completing significant infrastructure upgrades. The project also includes a new, multi-level lobby and entrance to provide a single point of entry for residents and visitors, as well as centralized services for students in both houses of Mosher-Jordan. Infrastructure upgrades include new plumbing, elevators, heating, ventilation, fire detection and suppression systems, wired and wireless high-speed network access, renovated bath facilities, and accessibility improvements. Taking place along with this renovation is the creation of Hill Dining Center which will enable the University to consolidate dining services for all of the Hill area residence halls. This innovative new dining center will be attached to Mosher-Jordan on the rear of the building facing Palmer Field and will feature a marketplace style facility with seating for 700 as well as a food emporium on the top floor with café style seating for 70. The University expects this project to be completed in Fall 2008.

The Museum of Art's historic home, Alumni Memorial Hall, is undergoing a transformative facility expansion and restoration. An addition will nearly double the Hall's size to address space needs and allow for future growth in collections and programming, while the renovation will address needed infrastructure improvements. The addition consists of three floors with a lower level and will provide space for galleries, collections, exhibitions, classrooms, and administration. The University expects this project to be completed in Summer 2008.

An expansion and renovation of the Solid State Electronics Laboratory in the Electrical Engineering and Computer Science Building is also underway. The laboratory facility, which was established in 1986, is in need of infrastructure updates and additional space for testing and prototype development. This project will provide a new clean room and support space as well as architectural, mechanical and electrical improvements. The renovation and expansion of this facility, which has been renamed the Michigan Nanofabrication Facility, will result in one of the premier nanofabrication facilities in the world and support important new energy initiatives, nanotechnology, microchip fabrication and other research initiatives. The University expects this project to be completed in December 2007.

The University takes seriously its financial stewardship responsibility and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. A strong debt rating is an important indicator of the University's success in this area. During 2007, Moody's Investors Service affirmed its highest credit rating (Aaa) for bonds backed by a broad revenue pledge based on the University's extremely strong credit fundamentals, including significant financial resources, strong market position and consistent operating performance derived from a well diversified revenue base. Standard & Poor's Ratings Services also affirmed its highest credit rating (AAA) based on the University's national reputation for excellence, strong financial performance, exceptional record of fundraising, and manageable debt burden and capital plan. Only two other public universities have received the highest credit ratings from both Moody's and Standard & Poor's.

Long-term debt activity for the year ended June 30, 2007, and the type of revenue it is supported by, is summarized as follows:

(in millions)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial Paper:				
General revenues	$ 97	$ 52	$ 39	$ 110
Bonds and Notes:				
General revenues	266		11	255
Hospital revenues	442	150	11	581
Faculty Group Practice revenues	96	1	3	94
Student residences revenues	14		12	2
Student fee revenues	3		3	–
	$ 918	$ 203	$ 79	$ 1,042

The University maintains a combination of fixed and variable rate debt with effective interest rates that averaged 4.04 percent in 2007 and 3.75 percent in 2006. Consistent with the University's capital and debt financing plans, total outstanding debt increased $124 million, or 14 percent, to $1.0 billion at June 30, 2007, and interest expense increased 13 percent, to $31 million.

The University utilizes commercial paper, backed by a general revenue pledge, to provide interim financing for its capital improvement program. Outstanding commercial paper is converted to long-term debt financing, as appropriate, within the normal course of business. At June 30, 2007 and 2006, commercial paper totaled $110 million and $97 million, respectively, and is included in current liabilities.

In April 2007, the University issued $150 million in variable rate hospital revenue bonds to provide $126 million in funds for health system capital projects, including the replacement C.S. Mott Children's and Women's Hospitals, and to convert $24 million of commercial paper to long-term debt. In May 2007, the University entered into a floating-to-fixed interest rate swap agreement for a notional amount tied to a portion of the outstanding balance of the Series 2002 General Revenue Bonds, which totaled $58 million at June 30, 2007. The swap agreement converts the floating variable rate on these bonds, which was 3.73 percent at June 30, 2007, to a fixed rate of 3.54 percent commencing June 2007 through April 2018.

NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The composition of the University's net assets at June 30, 2007 and 2006 is summarized as follows:

(in millions)	**2007**	2006
Invested in capital assets, net of related debt	**$ 2,864**	$ 2,615
Restricted:		
Nonexpendable:		
Permanent endowment corpus	**960**	884
Expendable:		
Net appreciation of permanent endowments	**1,420**	1,022
Funds functioning as endowment	**1,492**	1,190
Restricted for operations and other	**693**	563
Unrestricted	**4,068**	3,610
	$ 11,497	$ 9,884

Net assets invested in capital assets represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The $249 million increase reflects the University's continued development and renewal of its capital assets in accordance with its long-range capital plan.

Restricted nonexpendable net assets represent the historical value (corpus) of gifts to the University's permanent endowment funds. The $76 million increase primarily represents new gifts. Restricted expendable net assets are subject to externally imposed stipulations governing their use. This category of net assets includes net appreciation of permanent endowments, funds functioning as endowment and net assets restricted for operations, facilities and student loan programs. Restricted expendable net assets totaled $3.6 billion at June 30, 2007, as compared to $2.8 billion at June 30, 2006.

Although unrestricted net assets are not subject to externally imposed stipulations, all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. In addition, unrestricted net assets include funds functioning as endowment of $3.1 billion and $2.4 billion at June 30, 2007 and 2006, respectively.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

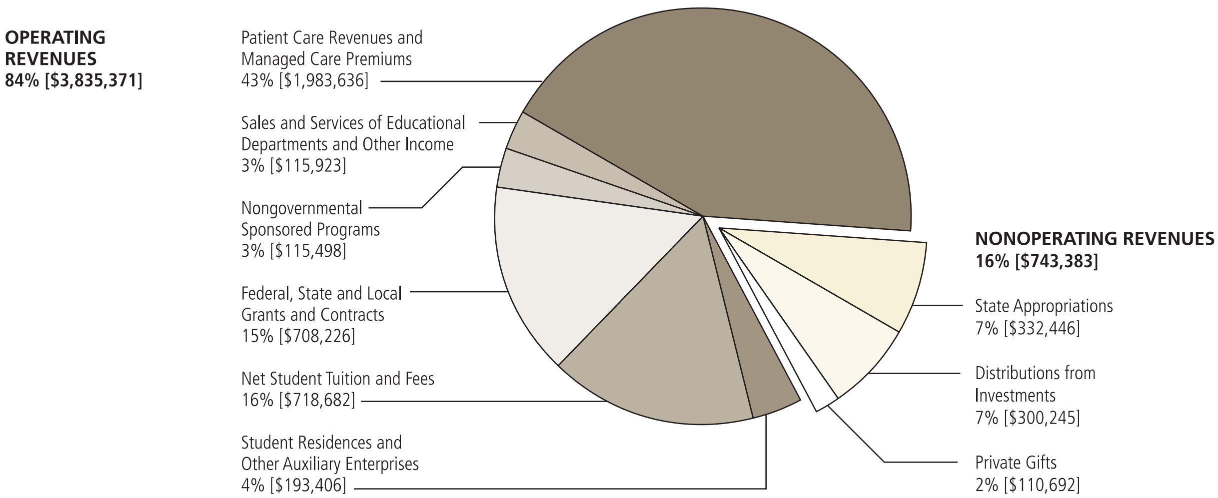
The statement of revenues, expenses and changes in net assets presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of the University's revenues, expenses and changes in net assets for the three years ended June 30, 2007 is summarized as follows:

(in millions)	**2007**	2006	2005
Operating revenues:			
Student tuition and fees, net of scholarship allowances	**$ 718.7**	$ 675.7	$ 619.0
Sponsored programs	**823.7**	818.4	808.3
Patient care revenues and managed care premiums	**1,983.6**	1,990.5	1,841.2
Other	**309.4**	298.4	292.2
	3,835.4	3,783.0	3,560.7
Operating expenses	**4,433.6**	4,256.0	4,026.1
Operating loss	**(598.2)**	(473.0)	(465.4)
Nonoperating and other revenues (expenses):			
State educational appropriations	**332.4**	364.9	374.9
Private gifts	**110.7**	90.0	107.2
Net investment income	**1,572.6**	959.8	874.6
Interest expense	**(30.6)**	(27.1)	(21.7)
State capital appropriations	**6.4**	20.1	7.0
Endowment and capital gifts and grants	**159.7**	151.0	197.2
Other	**60.0**	(11.9)	6.6
Nonoperating and other revenues, net	**2,211.2**	1,546.8	1,545.8
Increase in net assets	**1,613.0**	1,073.8	1,080.4
Net assets, beginning of year	**9,884.1**	8,810.3	7,729.9
Net assets, end of year	**$ 11,497.1**	$ 9,884.1	$ 8,810.3

One of the University's greatest strengths is the diverse streams of revenue that supplement its student tuition and fees, including private support from individuals, foundations and corporations, along with government and other sponsored programs, state appropriations and investment income. The University continues to aggressively seek funding from all possible sources consistent with its mission in order to supplement student tuition and prudently manage the financial resources realized from these efforts to fund its operating activities.

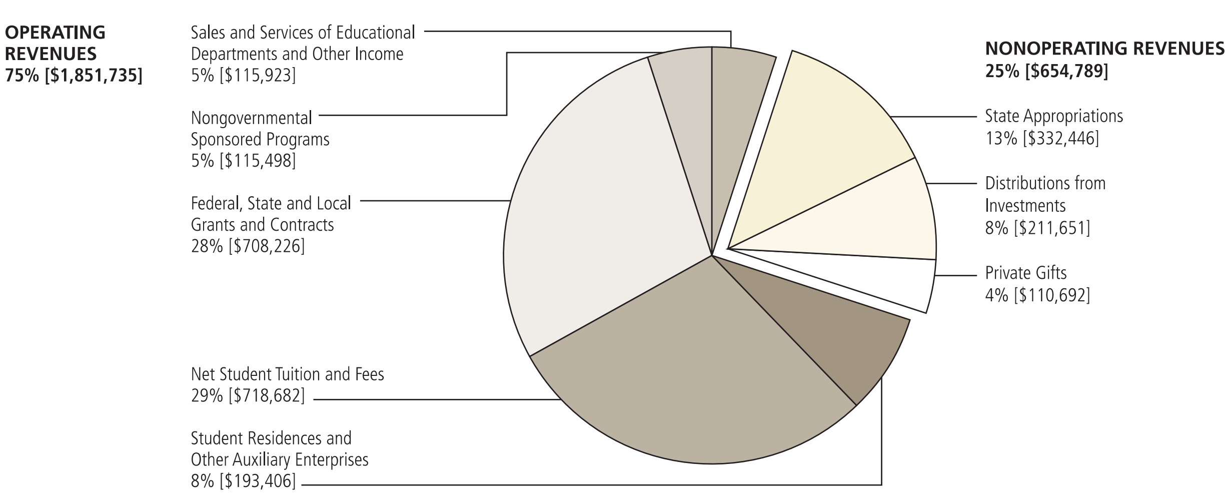
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2007 (amounts are presented in thousands of dollars). Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, private gifts and distributions from investments.

FISCAL YEAR 2007 REVENUES FOR OPERATING ACTIVITIES



The University measures its performance both for the University as a whole and for the University without its Health System and other similar activities. The exclusion of the Health System allows a clearer view of the operations of the schools and colleges, as well as the central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the Health System, for the year ended June 30, 2007 (amounts are presented in thousands of dollars).

FISCAL YEAR 2007 REVENUES FOR OPERATING ACTIVITIES
EXCLUDING REVENUES FROM THE UNIVERSITY'S HEALTH SYSTEM



Tuition and state appropriations are the primary sources of funding for the University's academic programs. There is a direct relationship between the growth or reduction in state support and the University's ability to restrain tuition fee increases. Together, net student tuition and fees and state appropriations increased 1 percent, or $11 million, to $1.1 billion in 2007, as compared to a 5 percent, or $47 million, increase in 2006.

Downturns in state of Michigan tax revenues continue to put pressure on the state budget. State support has declined each year since fiscal 2002 when state educational appropriations revenue totaled $416 million. For the three years ended June 30, 2007, state educational appropriations revenue consisted of the following components:

(in millions)	**2007**	2006	2005
Base appropriations	**$ 372.8**	$ 362.0	$ 366.6
Net (rescission) restoration	**(40.4)**	2.9	8.3
	$ 332.4	$ 364.9	$ 374.9

Due to volatility in the state budget, the University's base appropriations continue to be subject to mid-year rescission and restoration. Net revenues from state educational appropriations decreased $43 million, or 11 percent, to $332 million in 2007 from 2005. The $40 million mid-year rescission in 2007 consists of a reduction in base of $6 million and a deferral of $34 million until fiscal 2008.

The net restoration in 2006 of $2.9 million represents the return of a 2005 net mid-year rescission. The net restoration in 2005 of $8.3 million primarily represents the return of a portion of the 2004 mid-year rescission of $11.2 million, which was received because the University limited its 2005 resident undergraduate tuition increases to inflation, offset by a net mid-year rescission of 2005 base appropriations of $2.9 million.

To offset the decrease in state appropriations, net student tuition and fees revenue has increased 16 percent, or $100 million, over the past two years. For the three years ended June 30, 2007, net student tuition and fees revenue consisted of the following components:

(in millions)	**2007**	2006	2005
Student tuition and fees	**$ 891.6**	$ 834.4	$ 765.2
Scholarship allowances	**(172.9)**	(158.7)	(146.2)
	$ 718.7	$ 675.7	$ 619.0

In 2007, net student tuition and fees revenue increased 6 percent, or $43 million, to $719 million, which reflects a 7 percent, or $57 million, increase in gross tuition and fee revenues offset by a 9 percent, or $14 million, increase in scholarship allowances. Tuition rate increases in 2007 averaged 5.8 percent for all undergraduate students on the Ann Arbor campus, with an 8 percent tuition rate increase for the Dearborn and Flint campuses and a 5 percent increase for most graduate tuition rates. The University also experienced a modest growth in the number of students.

In 2006, net student tuition and fees revenue increased 9 percent, or $57 million, to $676 million, which reflects a 9 percent, or $69 million, increase in gross tuition and fee revenues offset by a 9 percent, or $13 million, increase in scholarship allowances. Tuition rate increases in 2006 were 12.3 percent for resident undergraduate students on the Ann Arbor campus, with an 11.9 percent tuition rate increase for the Dearborn and Flint campuses and a 6 percent increase in most other tuition rates including those for nonresidents. The University also experienced a modest growth in the number of students.

Despite declines in state appropriations over the past five years, the University's tuition increases have been among the lowest in the state and in the Big Ten, which reflects a commitment to affordable higher education for Michigan families. At the same time, the University has also increased scholarship allowances to benefit students in financial need.

While tuition and state appropriations fund a large percentage of University costs, private support is becoming increasingly essential to the University's academic distinction. Private gifts for other than capital and endowment purposes totaled $111 million in 2007, as compared to $90 million in 2006 and $107 million in 2005.

The University receives revenues for sponsored programs from various government agencies and private sources, which normally provide for both direct and indirect costs to perform these sponsored activities. Revenues for sponsored programs increased 0.7 percent, or $6 million, to $824 million in 2007. For 2006, revenues for sponsored programs increased 1.2 percent, or $10 million, to $818 million. A significant portion of the University's sponsored programs revenues relate to federal research and its growth is consistent with the national trend of stabilized federal research activity.

Patient care revenues and managed care premiums for the three years ended June 30, 2007 is summarized as follows:

(in millions)	**2007**	2006	2005
Patient care revenues	**$ 1,786.8**	$ 1,585.4	$ 1,462.6
Managed care premiums	**196.8**	405.1	378.6
	$ 1,983.6	$ 1,990.5	$ 1,841.2

The majority of these revenues relate to patient care services, which are principally generated within the University's hospitals and ambulatory care facilities under contractual arrangements with governmental payers and private insurers. Managed care premiums represent subscription revenue recognized by M-CARE from contracts associated with employers other than the University. Patient care revenues increased 13 percent, or $201 million, to $1.8 billion in 2007, as compared to an increase of 8 percent, or $123 million, to $1.6 billion in 2006. The increased revenues for both years primarily resulted from a growth in both outpatient and inpatient volume, as well as increased reimbursement rates from third party payers. The decrease in managed care premiums in 2007 reflects the sale of M-CARE which was effective December 31, 2006.

Net investment income for the three years ended June 30, 2007 is summarized as follows:

(in millions)	**2007**	2006	2005
Interest and dividends, net	**$ 256.9**	$ 214.3	$ 195.9
Increase in fair value of investments	**1,315.7**	745.5	678.7
	$ 1,572.6	$ 959.8	$ 874.6

Net investment income totaled $1.6 billion in 2007, as compared to $960 million in 2006 and $875 million in 2005. The increase in net investment income is primarily the result of strong performance of the University's nonmarketable limited partnerships and non-US dollar equities and consistent positive returns from the University's absolute return strategies during the past three years, combined with a meaningful increase in invested balances over the same time period. The University's endowment investment policies are designed to maximize long-term total return, while its income distribution policy is designed to preserve the value of the endowment and generate a predictable stream of spendable income.

With the Michigan Difference capital campaign well underway, gifts and grants for endowment and capital purposes continue to be a significant part of sustaining the University's excellence. Private gifts for endowment purposes totaled $95 million in 2007, as compared to $86 million in 2006 and $78 million in 2005. Capital gifts and grants totaled $65 million in 2007, as compared to $65 million in 2006 and $119 million in 2005. Over the past three years, major capital gifts have been received in support of the University's wide-ranging building initiatives which include the Stephen M. Ross School of Business, Health System, Intercollegiate Athletics and College of Engineering capital projects.

Net other nonoperating revenues in 2007 include the $160 million gain on the sale of M-CARE, offset by the establishment of an $83 million liability for the University's faculty retirement furlough program. During 2007, the University recorded a liability for the program, of which $81 million is considered noncurrent. Faculty hired prior to January 1, 1984 who meet eligibility requirements are eligible for a terminal furlough year that may be taken as the last year preceding retirement or in partial installments over two or three years prior to the effective date of retirement.

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University continues to face significant financial pressure, particularly in the areas of compensation and benefits, which represent 66 percent of total expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

A comparative summary of the University's expenses for the three years ended June 30, 2007 is as follows:

(in millions)	2007		2006		2005	
Operating:						
Compensation and benefits	**$ 2,961.9**	**66%**	$ 2,757.9	64%	$ 2,592.1	64%
Supplies and services	**1,103.9**	**25**	1,150.2	27	1,104.9	27
Depreciation	**284.1**	**6**	264.0	6	253.7	6
Scholarships and fellowships	**83.7**	**2**	83.9	2	75.4	2
	4,433.6	**99**	4,256.0	99	4,026.1	99
Nonoperating:						
Interest	**30.6**	**1**	27.1	1	21.7	1
	$ 4,464.2	**100%**	$ 4,283.1	100%	$ 4,047.8	100%

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 7 percent, or $204 million, to $3.0 billion in 2007. Of this increase, compensation expense increased 6 percent, to $2.28 billion, and employee benefits increased 11 percent, to $685 million. For 2006, compensation increased 6 percent, to $2.14 billion, and employee benefits increased 8 percent, to $618 million.

The majority of the compensation expense increase occurred in the Health System, where nursing and other health professionals were added to support higher patient volume levels. Increases in wage rates also accounted for a significant portion of the expense growth, a reflection of the high demand for nurses and other health professionals and an industry-wide shortage of personnel in these fields. In addition, staffing levels were increased in many administrative and support areas, to further strengthen these areas and in response to the increasing regulatory burden borne by health systems.

In 2007, the Health System had a growth in compensation expense of 9 percent, which includes a growth in employees of 5 percent, while the rest of the University had a growth in compensation expense of 4 percent, with a minimal change in the number of employees. In 2006, the Health System had a growth in compensation expense of 10 percent, which includes a growth in employees of 4 percent, while the rest of the University had a growth in compensation expense of 3 percent, with a minimal change in the number of employees.

Employee benefits expense grew at a higher rate than compensation over the past two years primarily because of the rising costs of health insurance and prescription drugs. Health care benefits are one of the most significant employee benefits and over the past several years, the University has implemented several initiatives to better control its rate of increase, encourage employees to choose the lowest cost insurance plan that meets their needs and share with employees a small portion of health insurance cost increases.

The University utilizes a single pharmacy benefit administrator to manage all pharmacy benefits with University oversight. The University also actively promotes and manages generic drug utilization and has achieved a 60 percent generic dispensing rate in 2007, as compared to 57 percent in 2006 and 53 percent in 2005. In January 2006, the University unbundled pharmacy benefit claim processing and mail order services and selected separate vendors for each service to achieve better discounts for retail and mail order pricing arrangements and additional rebates.

Compared to most employers, the University is in a unique position to utilize internal experts to advise and guide its health care and drug plans. For example, the University utilizes a Pharmacy Benefits Advisory Committee, which consists of internal experts such as Health System physicians, pharmacy faculty and an on-staff pharmacist, to monitor the safety and effectiveness of covered medications as well as to optimize appropriate prescribing, dispensing and cost effective use of prescription drugs. The University also benefits from campus collaborations such as a College of Pharmacy study which was the foundation for a cost saving pill-splitting program with select cholesterol lowering drugs which began in January 2006.

Current campus collaborations include several which are part of the Michigan Healthy Community initiative, a campus-wide effort to encourage healthier living through increased activity, attention to physical safety in the workplace, and other health and wellness efforts. The health and wellness programs offered by the University through this initiative have resulted in greater integration of evidence-based wellness programming into the University's benefit programs. For example, MHealthy: Focus on Diabetes, a groundbreaking two-year pilot program, launched in July 2006, reduces or eliminates co-pays for selected medications for employees and dependents who have diabetes to encourage the proper and sustained use of specific drugs that help people manage their diabetes and to help prevent or reduce the long-term complications of the disease. The MHealthy: Focus on Medicines program, which commenced in 2007, offers employees, retirees and dependents taking nine or more prescription medications a comprehensive medication review with a university pharmacist to optimize treatment and reduce drug interaction risks.

These initiatives reflect the reality of the national landscape, while remaining true to the commitment we make to our employees for a robust benefits package.

Supplies and services expenses decreased 4 percent, or $46 million, to $1.1 billion in 2007, as compared to a 4 percent, or $45 million, increase in 2006. This reflects the impact of the sale of M-CARE effective December 31, 2006. As the majority of its expenses were non-salary, the sale of M-CARE six months into fiscal 2007 had a meaningful effect on this category of expense. Excluding the impact of M-CARE, a 7 percent increase would have been experienced in 2007.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A comparative summary of the University's expenses by functional classification for the three years ended June 30, 2007 is as follows:

(in millions)	**2007**		2006		2005	
Operating:						
Instruction	**$ 727.3**	**16%**	$ 683.0	16%	$ 669.6	17%
Research	**540.6**	**12**	519.7	12	522.8	13
Public service	**103.9**	**2**	104.9	2	102.5	2
Institutional and academic support	**378.7**	**9**	380.5	9	352.3	9
Auxiliary enterprises:						
Patient and managed care	**1,860.6**	**42**	1,843.6	43	1,719.3	42
Other	**198.5**	**4**	127.7	3	117.7	3
Operations and maintenance of plant	**256.3**	**6**	248.8	6	212.7	5
Depreciation	**284.0**	**6**	264.0	6	253.8	6
Scholarships and fellowships	**83.7**	**2**	83.8	2	75.4	2
	4,433.6	**99**	4,256.0	99	4,026.1	99
Nonoperating:						
Interest	**30.6**	**1**	27.1	1	21.7	1
	$ 4,464.2	**100%**	$ 4,283.1	100%	$ 4,047.8	100%

Instruction and public service expenses increased 5 percent, or $43 million, to $831 million in 2007, as compared to a 2 percent, or $16 million, increase in 2006. These increases are consistent with the small level of growth in the related revenue sources.

To measure its total volume of research expenditures, the University considers research expenses, included in the preceeding table, as well as research related facilities and administrative expenses, research initiative and start-up expenses, and research equipment purchases. These amounts aggregated $823 million in 2007, as compared to $797 million in 2006 and $778 million in 2005. This represents an increase of 6 percent, or $45 million, from 2005 to 2007.

Patient and managed care expenses increased 1 percent, or $17 million, to $1.9 billion in 2007, as compared to a 7 percent, or $124 million increase in 2006. This reflects the impact from the sale of M-CARE effective December 31, 2006. Excluding the impact of M-CARE, a 7 percent increase would have been experienced in 2007.

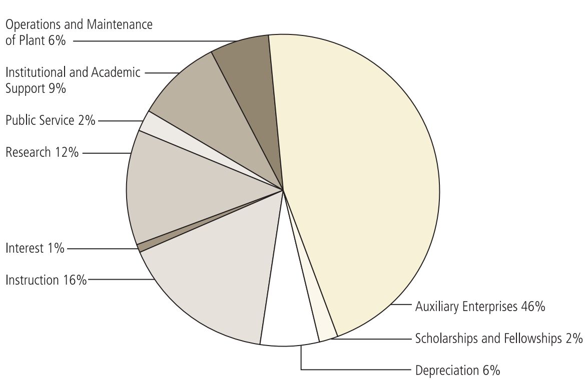
Operations and maintenance of plant expenses totaled $256 million in 2007, as compared to $249 in 2006 and $213 million in 2005. The increase from 2005 to 2007 of 20 percent, or $43 million, primarily resulted from bringing additional buildings online and rising energy prices.

Total scholarships and fellowships provided to students aggregated $272 million in 2007, as compared to $258 million in 2006 and $236 million in 2005, an increase of 15 percent over the past two years. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarship and fellowship expense. Scholarships and fellowships for the three years ended June 30, 2007 are summarized as follows:

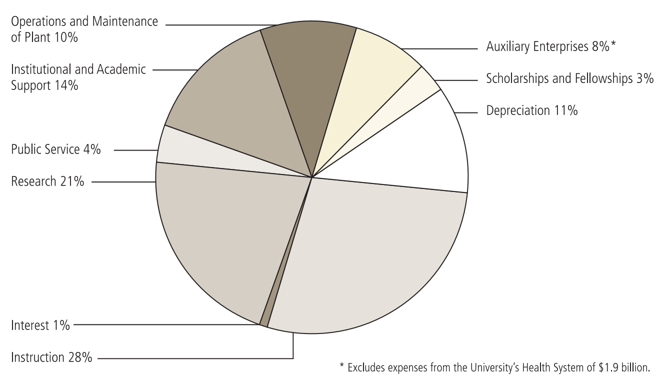
(in millions)	**2007**	2006	2005
Paid directly to students	**$ 83.7**	$ 83.8	$ 75.4
Applied to tuition and fees	**173.0**	158.7	146.2
Applied to University Housing	**15.7**	15.7	14.8
	$ 272.4	$ 258.2	$ 236.4

The following graphic illustrations present total expenses by function, with and without the University's Health System and other similar activities:

FISCAL YEAR 2007 EXPENSES BY FUNCTION



FISCAL YEAR 2007 EXPENSES BY FUNCTION EXCLUDING EXPENSES FROM THE UNIVERSITY'S HEALTH SYSTEM



* Excludes expenses from the University's Health System of $1.9 billion.

STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2007 and 2006 is as follows:

(in millions)	2007	2006
Cash received from operations	$ 3,822.7	$ 3,780.7
Cash expended for operations	(4,100.9)	(4,016.9)
Net cash used in operating activities	(278.2)	(236.2)
Net cash provided by investing activities	16.9	260.4
Net cash used in capital and related financing activities	(407.6)	(514.9)
Net cash provided by noncapital financing activities	736.8	535.1
Net increase in cash and cash equivalents	67.9	44.4
Cash and cash equivalents, beginning of year	413.6	369.2
Cash and cash equivalents, end of year	$ 481.5	$ 413.6

Cash received from operations primarily consists of student tuition, sponsored program grants and contracts, and patient care revenues. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations and private gifts used to fund operating activities. In 2007, net cash from noncapital financing activities also includes proceeds from the sale of M-CARE. Cash and cash equivalents increased $68 million in 2007, as compared to an increase of $44 million in 2006.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Over the last five years, the University has successfully faced significant financial challenges to its academic programs, stemming from unprecedented cuts in state appropriations. Given the continuation of this difficult state environment, it is especially impressive that the University maintains the highest credit ratings of Moody's (Aaa) and Standard & Poor's (AAA). This reflects the University's strong fiscal stewardship and its level of excellence in service to students, patients, the research community, the state and the nation. Achieving and maintaining the highest credit ratings provides the University a high degree of flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

A crucial element to the University's future continues to be our strong relationship with the state of Michigan. Historically, there has been a direct relationship between the growth or reduction of state support and the University's ability to control tuition increases. In adopting the budget for 2008, the University faced an unusual and highly uncertain position of finalizing the budget without fully knowing the level of appropriation from the state. To support the University's commitment to both academic excellence and access despite the state's budgetary challenges, the approved budget for 2008 includes a moderate increase in tuition rates along with an increased investment in financial aid for undergraduates.

Private gifts are an increasingly important supplement to the fundamental support provided by state appropriations and student tuition to maintain academic quality and support future initiatives. The University launched the public phase of a major fundraising campaign in May 2004, with the announcement of an ambitious goal of $2.5 billion.

The campaign, titled “The Michigan Difference”, will provide support for student scholarships and fellowships, endowed professorships, facilities, academic programs, research and other projects. Since launching the quiet phase of the campaign in 2000, the University has raised $2.2 billion in cash and pledges and $390 million in bequests, a total of $2.6 billion, or 104 percent of the goal. The campaign will continue through December 2008.

The University continues to execute its long-range plan to modernize and expand its complement of older facilities while adding key new facilities for instruction, research, patient care, and residential life. This strategy addresses the University’s growth and the continuing effects of technology on teaching and research methodologies. Authorized costs to complete construction and other projects totaled $756 million at June 30, 2007. Funding for these projects is anticipated to include $574 million from gifts and net assets designated for capital purposes as well as possible future borrowings, $152 million from the utilization of unexpended debt proceeds and $30 million from the State Building Authority. While the State continues to support the University’s systematic renewal of core academic facilities, economic pressures may also affect the State’s future support.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to preserve endowment capital and insulate the University’s operations from temporary market volatility.

While the University’s Hospitals and Health Centers are also well positioned to maintain a strong financial position in the near term, ongoing constraints on revenue are expected due to fiscal pressures from employers and federal and state governments. Management believes that much of the payment pressure can be offset by growth in patient volume and continued efforts to contain certain costs.

In August 2007, the University announced that a new plan will be offered for medical coverage in 2008 to replace the M-CARE HMO when the M-CARE plans are discontinued at the end of the 2007 calendar year. Called U-M Premier Care, the name of the plan reflects both the quality of coverage and the fact that it will be offered only at the University. This new plan, which will be funded by the University and administered by Blue Cross, will feature a provider network that includes all University providers and nearly the entire current M-CARE provider network.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, consistent with the national landscape, the cost of the University’s health benefits for its active employees and retirees has increased dramatically over the past several years, with the increasing cost of medical care and prescription drugs of particular concern. To address these challenges, the University has successfully taken and continues to take proactive steps to respond to the challenges of rising costs while protecting the quality of the overall benefit package.

Certain organizations are currently required to record the estimated present value of postemployment benefits as a liability in their financial statements. Although the University is not presently required to record this liability, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* issued in June 2004, calls for the measurement and recognition of the cost of other postemployment benefits (“OPEB”) during the periods when employees render their services. The University is required to implement this statement in fiscal 2008, which will result in an increase in liabilities and a decrease in net assets to reflect the actuarially determined liability for OPEB. Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the value of those benefits is estimated to total $1.5 billion at June 30, 2007.

While it is not possible to predict the ultimate results, management believes that the University’s financial condition will remain strong.

Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(in thousands)	June 30, 2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	**$ 481,488**	$ 413,605
Operating investments	**693,851**	707,101
Investments for capital activities	**720,143**	649,176
Investments for student loan activities	**27,873**	30,084
Investment trade settlements receivable	**4,498**	24,109
Accounts receivable, net	**380,847**	388,229
Current portion of notes and pledges receivable, net	**62,385**	64,516
Current portion of prepaid expenses and other assets	**59,678**	60,447
Total Current Assets	**2,430,763**	2,337,267
Noncurrent Assets:		
Endowment, life income and other investments	**7,379,836**	5,963,424
Notes and pledges receivable, net	**247,148**	226,879
Prepaid expenses and other assets	**15,783**	17,052
Capital assets, net	**3,755,398**	3,453,441
Total Noncurrent Assets	**11,398,165**	9,660,796
Total Assets	**$ 13,828,928**	$ 11,998,063
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 217,781**	$ 236,904
Investment trade settlements payable	**7,244**	46,581
Accrued compensation and other	**268,584**	249,590
Deferred revenue	**165,295**	166,224
Current portion of insurance and benefits obligations	**62,042**	55,986
Commercial paper and current portion of bonds payable	**145,148**	136,851
Deposits of affiliates and others	**26,211**	21,288
Total Current Liabilities	**892,305**	913,424
Noncurrent Liabilities:		
Accrued compensation	**81,174**	
Insurance and benefits obligations	**166,847**	156,113
Obligations under life income agreements	**59,739**	51,399
Government loan advances	**85,940**	85,672
Bonds payable	**897,618**	781,521
Deposits of affiliates and other	**148,164**	125,789
Total Noncurrent Liabilities	**1,439,482**	1,200,494
Total Liabilities	**2,331,787**	2,113,918
Net Assets:		
Invested in capital assets, net of related debt	**2,864,340**	2,615,289
Restricted:		
Nonexpendable	**959,614**	884,209
Expendable	**3,605,213**	2,774,719
Unrestricted (see Note 8)	**4,067,974**	3,609,928
Total Net Assets	**11,497,141**	9,884,145
Total Liabilities and Net Assets	**$ 13,828,928**	$ 11,998,063

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	Year Ended June 30, 2007	2006
Operating Revenues		
Student tuition and fees	**$ 891,634**	$ 834,365
Less scholarship allowances	**172,952**	158,659
Net student tuition and fees	**718,682**	675,706
Federal grants and contracts	**695,289**	691,934
State and local grants and contracts	**12,937**	9,282
Nongovernmental sponsored programs	**115,498**	117,213
Sales and services of educational departments	**114,020**	107,025
Auxiliary enterprises:		
Patient care revenues and managed care premiums	**1,983,636**	1,990,453
Student residence fees (net of scholarship allowances of $15,690,000 in 2007 and $15,689,000 in 2006)	**70,255**	70,229
Other revenues	**123,151**	119,740
Student loan interest income and fees	**1,903**	1,368
Total Operating Revenues	**3,835,371**	3,782,950
Operating Expenses		
Compensation and benefits	**2,961,914**	2,757,920
Supplies and services	**1,103,928**	1,150,214
Depreciation	**284,048**	264,028
Scholarships and fellowships	**83,712**	83,839
Total Operating Expenses	**4,433,602**	4,256,001
Operating loss	**(598,231)**	(473,051)
Nonoperating Revenues (Expenses)		
State educational appropriations	**332,446**	364,908
Private gifts for other than capital and endowment purposes	**110,692**	90,042
Net investment income	**1,572,591**	959,841
Interest expense	**(30,606)**	(27,128)
Total Nonoperating Revenues, Net	**1,985,123**	1,387,663
Income before other revenues (expenses)	**1,386,892**	914,612
Other Revenues (Expenses)		
State capital appropriations	**6,413**	20,126
Capital gifts and grants	**64,870**	64,787
Private gifts for endowment purposes	**94,798**	86,228
Other	**60,023**	(11,957)
Total Other Revenues, Net	**226,104**	159,184
Increase in net assets	**1,612,996**	1,073,796
Net Assets, Beginning of Year	**9,884,145**	8,810,349
Net Assets, End of Year	**$ 11,497,141**	$ 9,884,145

The accompanying notes are an integral part of the consolidated financial statements.

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended June 30, 2007	2006
Cash Flows From Operating Activities		
Student tuition and fees	**$ 721,973**	$ 681,896
Federal, state and local grants and contracts	**704,243**	697,866
Nongovernmental sponsored programs	**120,835**	118,452
Sales and services of educational and other departmental activities	**243,343**	232,955
Patient care revenues and managed care premiums	**1,940,309**	1,954,602
Student residence fees	**71,082**	70,761
Payments to employees	**(2,188,845)**	(2,135,420)
Payments for benefits	**(652,446)**	(615,940)
Payments to suppliers	**(1,151,546)**	(1,160,187)
Payments for scholarships and fellowships	**(83,712)**	(83,839)
Student loans issued	**(24,346)**	(21,506)
Student loans collected	**19,040**	22,792
Student loan interest and fees collected	**1,903**	1,368
Net Cash Used in Operating Activities	**(278,167)**	(236,200)
Cash Flows From Investing Activities		
Interest and dividends on investments, net	**147,405**	157,624
Proceeds from sales and maturities of investments	**5,122,737**	4,922,366
Purchases of investments	**(5,165,786)**	(4,843,118)
Net increase in cash equivalents from noncurrent investments	**(114,667)**	(685)
Increase in deposits of affiliates and others, net	**27,167**	24,228
Net Cash Provided by Investing Activities	**16,856**	260,415
Cash Flows From Capital and Related Financing Activities		
State capital appropriations	**8,419**	21,712
Private gifts and other receipts	**60,126**	51,284
Proceeds from issuance of capital debt	**202,370**	98,835
Principal payments on capital debt	**(77,304)**	(55,787)
Interest payments on capital debt	**(31,685)**	(25,778)
Payments for bond issuance fees	**(355)**	
Purchases of capital assets	**(570,594)**	(607,333)
Proceeds from sales of capital assets	**1,424**	2,176
Net Cash Used in Capital and Related Financing Activities	**(407,599)**	(514,891)
Cash Flows From Noncapital Financing Activities		
State educational appropriations	**371,622**	362,036
Private gifts and other receipts	**115,040**	176,406
Student direct lending receipts	**219,787**	204,390
Student direct lending disbursements	**(220,480)**	(202,117)
Amounts received for annuity and life income funds	**8,340**	12,990
Amounts paid to annuitants and life beneficiaries and related expenses	**(15,039)**	(18,650)
Proceeds, net of expenses, from sale of M-CARE	**257,523**	
Net Cash Provided by Noncapital Financing Activities	**736,793**	535,055
Net increase in cash and cash equivalents	**67,883**	44,379
Cash and Cash Equivalents, Beginning of Year	**413,605**	369,226
Cash and Cash Equivalents, End of Year	**$ 481,488**	$ 413,605

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS — CONTINUED

(in thousands)	Year Ended June 30, 2007	2006
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (598,231)**	$ (473,051)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**284,048**	264,028
Changes in assets and liabilities:		
Accounts receivable, net	**(36,258)**	(24,377)
Prepaid expenses and other assets	**2,742**	(9,498)
Accounts payable	**(51,117)**	2,555
Accrued compensation and other	**99,703**	13,896
Deferred revenue	**(731)**	613
Insurance and benefits obligations	**21,677**	(10,366)
Net cash used in operating activities	**$ (278,167)**	$ (236,200)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation: The University of Michigan ("the University") is a state-supported institution with an enrollment of approximately 55,000 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Hospitals and Health Centers, Michigan Health Corporation (a wholly-owned corporation created to pursue joint venture and managed care initiatives), Veritas Insurance Corporation (a wholly-owned captive insurance company) and M-CARE (a wholly-owned health maintenance organization that was sold effective December 31, 2006). While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity.* The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments.* The statements of net assets, revenues, expenses and changes in net assets, and of cash flows are reported on a consolidated basis, and all intra-University transactions are eliminated as required by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* The University has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The University has elected not to apply any FASB pronouncements issued after the applicable date.

The financial statements of all controlled organizations are included in the University's financial statements; affiliated organizations that are not controlled by the University, such as booster and alumni organizations, are not included.

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net assets include net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. The University reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowment, life income and other investments are included in noncurrent investments as these funds are not used for operating purposes.

Investments are reported in four categories in the statement of net assets. Investments reported as endowment, life income and other investments are those funds invested in portfolios that are considered by management to be of a long duration. Investments for student loan and capital activities are those funds that are intended to be used for these specific activities. All other investments are reported as operating investments.

Investment trade settlements receivable and payable relate to investment transactions occurring on or before June 30, which settle after such date.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported in investment income.

Investments in nonmarketable limited partnerships are generally carried at fair value provided by the management of the investment partnerships as of March 31, 2007 and 2006, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2007 and 2006. In addition, the carrying amount of these investments is adjusted for June 30 information from management of the investment partnerships when necessary to provide a reasonable estimate of fair value as of June 30, 2007 and 2006. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Derivative instruments, such as financial futures, forward foreign exchange contracts and interest rate swaps held in investment portfolios, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. To facilitate trading in financial futures, the University is required to post cash or securities to satisfy margin requirements of the exchange where such futures contracts are listed. The University monitors the required amount of cash and securities on deposit for financial futures transactions and withdraws or deposits cash or securities as necessary.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at spot exchange rates on the transaction dates.

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* and are not recorded as assets until the related gift is received.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history, type of gift and nature of fundraising.

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to forty years. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research or public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Accrued compensation includes a liability for faculty retirement furlough. During 2007, the University recorded a liability for the program of $83,000,000, of which $81,000,000 is considered noncurrent. Faculty hired prior to January 1, 1984 who meet eligibility requirements are eligible for a terminal furlough year that may be taken as the last year preceding retirement or in partial installments over two or three years prior to the effective date of retirement. The establishment of this liability is reflected as other expenses in the statement of revenues, expenses and changes in net assets.

Deferred revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years.

Deposits of affiliates and others represent cash and invested funds held by the University as a result of agency relationships with various groups. Noncurrent deposits of affiliates represent the portion of endowment and similar funds held by the University on behalf of others.

The University holds life income funds for beneficiaries of the pooled income fund, charitable remainder trusts and the gift annuity program. These funds generally pay lifetime income to beneficiaries, after which the principal is made available to the University in accordance with donor intentions. All life income fund assets, including those held in trust, are recorded at fair value, net of related liabilities for the present value of estimated future payments due to beneficiaries.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate an amount of realized and unrealized endowment appreciation as determined to be prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Net appreciation of permanent endowment funds, which totaled $1,420,000,000 and $1,022,000,000 at June 30, 2007 and 2006, respectively, is available to meet spending rate distributions and is recorded in restricted expendable net assets. The University's endowment spending rule is further discussed in Note 2.

Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Patient care revenues are reported net of contractual allowances. Patient care services are primarily provided through the University of Michigan Health System, which includes the Hospitals and Health Centers, the Faculty Group Practice of the University of Michigan Medical School and the Michigan Health Corporation. Patient care services are also provided through University Health Services, which provides health care services to students, faculty and staff, and Dental Faculty Associates, which provides dental care services performed by faculty dentists.

Managed care premiums relate to M-CARE, a wholly-owned health maintenance organization which was sold effective December 31, 2006.

Other auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, parking, student unions, university press and student publications.

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to self-insurance and benefits obligations.

Reclassifications: Certain prior year amounts have been reclassified to conform with current year presentations.

NOTE 2 — CASH AND INVESTMENTS

Summary: The University maintains centralized management for substantially all of its cash and investments. With the exception of certain insurance reserves, charitable remainder trusts and other funds whose terms require separate management, the University invests its cash reserves and relatively short duration assets in the University Investment Pool. The University also collectively invests substantially all of the assets of its endowment funds (University Endowment Fund) together with a portion of its insurance and benefits reserves and gift annuity program in the Long Term Portfolio.

The University Investment Pool is invested together with the University's insurance and other benefit reserves in the Daily and Monthly Portfolios, which are principally invested in investment-grade money market securities, U.S. Government and other fixed income securities and commingled funds. Balances in the University Investment Pool are primarily for operating expenses and capital projects. The funding for capital projects remains in current operating investments until amounts for specific capital projects are transferred for capital activities.

The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets. The Long Term Portfolio includes investments in domestic and non-U.S. stocks and bonds, commingled funds and limited partnerships consisting of venture capital, private equity, real estate, energy and absolute return strategies.

Authorizations: The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio sets a general target of 80 percent equities and 20 percent fixed income securities, within a permitted range of 65 to 90 percent for equities and 10 to 35 percent for fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories.

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment fund. The endowment spending rule provides for an annual distribution of 5 percent of the one-quarter lagged moving average fair value of fund units, limited to 5.3 percent of the current fair value to protect endowment principal in the event of a prolonged market downturn. Effective July 1, 2006, the moving average period was extended from three years to four years, and it is being extended by one quarter each subsequent quarter until it reaches seven years. Distributions are also made from the University Investment Pool to University entities based on the 90-day U.S. Treasury Bill rate.

Cash and Cash Equivalents: Cash and cash equivalents, which totaled $481,488,000 and $413,605,000 at June 30, 2007 and 2006, respectively, represent short-term money market investments in overnight collective funds managed by the University's custodian or short-term highly liquid investments registered as securities and held by the University or its agents in the University's name. The University had actual cash balances in its bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of $8,832,000 and $16,227,000 at June 30, 2007 and 2006, respectively. The University does not require deposits to be collateralized or insured.

Investments: At June 30, 2007 and 2006, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

(in thousands)	**2007**	2006
Cash equivalents, noncurrent	**$ 339,784**	$ 225,117
Fixed income securities	**1,753,140**	1,747,694
Commingled funds	**2,123,446**	1,885,846
Equity securities	**1,531,815**	1,440,474
Nonmarketable alternative investments	**3,067,846**	2,044,666
Other investments	**5,672**	5,988
	$ 8,821,703	$ 7,349,785

The University's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures, and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net assets and is not represented by the contract or notional amounts of the instruments.

Fixed income securities have inherent financial risks, including credit risk and interest rate risk. Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations ("NSROs"), such as Moody's and Standard and Poor's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. Fixed income securities considered investment grade are those rated at least Baa by Moody's and BBB by Standard and Poor's. To manage credit risk, the University specifies minimum average and minimum absolute quality NSRO ratings for securities held pursuant to its management agreements.

The University minimizes concentration of credit risk, the risk of a large loss attributed to the magnitude of the investment in a single issuer of fixed income securities, by diversifying its fixed income issues and issuers and holding U.S. Treasury securities which are considered to have no credit risk. The University also manages this risk at the account level by limiting each fixed income manager's holding of any non-U.S. government issuer to 5 percent of the value of the investment account.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other imbedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income securities was 4.1 years at June 30, 2007, compared to 4.0 years at June 30, 2006. The University manages the effective duration of its fixed income securities at the account level; fixed income managers generally may not deviate from the duration of their respective benchmarks by more than 25 percent.

NOTE 2 — CASH AND INVESTMENTS — CONTINUED

The composition of fixed income securities at June 30, 2007 and 2006, along with credit quality and effective duration measures, is summarized as follows:

2007

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 391,214				$ 391,214	9.7
U.S. Treasury Inflation Protected	370,881				370,881	4.1
U.S. Government agency	110,851				110,851	1.9
Mortgage backed		$ 211,656		$ 4,187	215,843	1.7
Asset backed		70,290		2,503	72,793	0.7
Corporate and other		449,099	$ 25,631	116,828	591,558	2.3
	$ 872,946	$ 731,045	$ 25,631	$ 123,518	$ 1,753,140	4.1

2006

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 388,425				$ 388,425	8.2
U.S. Treasury Inflation Protected	369,041				369,041	3.8
U.S. Government agency	215,074				215,074	1.9
Mortgage backed		$ 165,565		$ 1,239	166,804	1.7
Asset backed		82,034		2	82,036	0.8
Corporate and other		382,114	$ 26,428	90,115	498,657	2.3
Municipal		24,927		2,730	27,657	15.7
	$ 972,540	$ 654,640	$ 26,428	$ 94,086	$ 1,747,694	4.0

Of the University's fixed income securities, 91 percent and 93 percent were rated investment grade or better at June 30, 2007 and 2006, with 70 percent and 74 percent of these securities rated AAA/Aaa or better at June 30, 2007 and 2006, respectively.

Commingled (pooled) funds include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and unregulated. The composition of commingled funds at June 30, 2007 and 2006 is summarized as follows:

(in thousands)	**2007**	2006
Absolute return	**$ 1,178,374**	$ 1,069,519
U.S. equities	**115,207**	104,562
Non-U.S./global equities	**736,080**	563,862
U.S. fixed income	**81,542**	88,395
Other	**12,243**	59,508
	$ 2,123,446	$ 1,885,846

Commingled funds have liquidity (redemption) provisions, which enable annual or more frequent withdrawals subject to notice requirements of up to 90 days. Certain commingled funds held in the Long Term Portfolio and the Daily and Monthly Portfolios may use derivatives, short positions and leverage as part of their investment strategy. These investments are structured to limit the University's risk exposure to the amount of invested capital.

Nonmarketable alternative investments consist of limited partnerships involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. The composition of these partnerships at June 30, 2007 and 2006 is summarized as follows:

(in thousands)	**2007**	2006
Private equity	**$ 836,956**	$ 528,695
Real estate	**749,763**	538,859
Absolute return	**527,368**	279,396
Energy	**535,707**	434,942
Venture capital	**418,052**	262,774
	$ 3,067,846	$ 2,044,666

The University's committed but unpaid obligation to these limited partnerships is further discussed in Note 12.

Absolute return strategies in the commingled funds and nonmarketable alternative investments classifications include long/short stock programs, merger arbitrage, intra-capital structure arbitrage and distressed debt investments. The goal of absolute return strategies is to provide, in aggregate, a return that is consistently positive and uncorrelated with the overall market.

The University participates in non-U.S. developed and emerging markets through commingled funds invested in non-U.S./global equities and absolute return strategies. The University's investments also include securities denominated in foreign currencies, which must be settled in local (non-U.S.) currencies. Forward foreign currency contracts are typically used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies.

NOTE 2 — CASH AND INVESTMENTS — CONTINUED

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's non-U.S. dollar holdings amounted to $1,117,741,000, or 13 percent of total investments, at June 30, 2007, as compared to $864,361,000, or 12 percent of total investments, at June 30, 2006. The University's total net exposure to foreign currencies including forward foreign exchange contracts and other derivatives amounted to $507,796,000 and $1,320,901,000 at June 30, 2007 and 2006, respectively. The University manages foreign exchange risk through manager agreements that provide minimum diversification and maximum exposure limits by country and currency.

The Long Term Portfolio and the Daily and Monthly Portfolios hold positions in bond and stock index futures contracts. Bond futures are used to adjust the duration of cash equivalents and the fixed-income portion of the portfolios. Stock index futures are used to overlay cash equivalents and more closely align the portfolios' asset class exposures with asset allocation targets. To meet trading margin requirements, the University has deposited U.S. Government securities and cash with a fair value of $20,575,000 and $21,338,000 at June 30, 2007 and 2006, respectively, with its futures contract broker as collateral.

The Long Term Portfolio and the Daily and Monthly Portfolios, together, had fully collateralized short-term securities loans of $864,179,000 and $743,484,000 at June 30, 2007 and 2006, respectively, through a securities lending program administered by the University's master custodian. At loan inception, an approved borrower must deliver collateral of cash, securities or letters of credit to the University's lending agent equal to 102 percent for domestic securities and 105 percent for foreign securities. Collateral positions are monitored daily to insure that borrowed securities are never less than 100 percent collateralized. The fair value of the collateral totaled $890,544,000, or 103 percent of the fair value of the securities on loan, at June 30, 2007, as compared to $766,131,000, or 103 percent of the fair value of securities on loan, at June 30, 2006. Neither the University nor its securities lending agent has the ability to pledge or sell collateral securities unless a borrower defaults. Securities loans may be terminated upon notice by either the University or the borrower.

NOTE 3 — ACCOUNTS RECEIVABLE

The composition of accounts receivable at June 30, 2007 and 2006 is summarized as follows:

(in thousands)	**2007**	2006
Patient care	**$ 303,960**	$ 252,417
Sponsored programs	**75,959**	70,647
State appropriations, educational and capital	**28,460**	69,642
Student accounts	**20,145**	22,287
Other	**26,886**	30,115
	455,410	445,108
Less provision for uncollectible accounts receivable	**74,563**	56,879
	$ 380,847	$ 388,229

NOTE 4 — NOTES AND PLEDGES RECEIVABLE

The composition of notes and pledges receivable at June 30, 2007 and 2006 is summarized as follows:

(in thousands)	**2007**	2006
Notes:		
Federal student loan programs	**$ 99,601**	$ 95,482
University student loan funds	**17,041**	15,706
Other	**726**	882
	117,368	112,070
Less allowance for doubtfully collectible notes	**2,300**	2,300
Total notes receivable, net	**115,068**	109,770
Gift pledges outstanding:		
Capital	**148,910**	157,384
Operations	**72,561**	60,260
	221,471	217,644
Less:		
Allowance for doubtfully collectible pledges	**6,961**	15,905
Unamortized discount to present value	**20,045**	20,114
Total pledges receivable, net	**194,465**	181,625
Total notes and pledges receivable, net	**309,533**	291,395
Less current portion	**62,385**	64,516
	$ 247,148	$ 226,879

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtfully collectible notes only applies to University funded notes and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health professions loan programs.

Payments on pledges receivable at June 30, 2007 are expected to be received in the following years ended June 30 (in thousands):

2008	$ 47,010
2009-2012	141,291
2013 and after	33,170
	$ 221,471

As discussed in Note 1, pledges for permanent endowment do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $96,360,000 and $67,606,000 at June 30, 2007 and 2006, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2007 and 2006 is summarized as follows:

2007

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 81,278	$ 530		$ 81,808
Land improvements	91,452	2,435		93,887
Infrastructure	146,809	17,282		164,091
Buildings	3,957,478	547,580	$ 23,966	4,481,092
Construction in progress	557,036	(208,145)		348,891
Equipment	1,178,658	230,900	64,014	1,345,544
Library materials	365,894	20,126		386,020
	6,378,605	610,708	87,980	6,901,333
Less accumulated depreciation	2,925,164	284,048	63,277	3,145,935
	$ 3,453,441	$ 326,660	$ 24,703	$ 3,755,398

2006

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 80,795	$ 493	$ 10	$ 81,278
Land improvements	89,596	1,856		91,452
Infrastructure	132,028	14,781		146,809
Buildings	3,424,929	543,457	10,908	3,957,478
Construction in progress	647,538	(90,502)		557,036
Equipment	1,087,249	127,354	35,945	1,178,658
Library materials	346,857	19,037		365,894
	5,808,992	616,476	46,863	6,378,605
Less accumulated depreciation	2,703,524	264,028	42,388	2,925,164
	$ 3,105,468	$ 352,448	$ 4,475	$ 3,453,441

The decrease in construction in progress of $208,145,000 in 2007 represents the amount of capital assets placed in service of $560,193,000 net of capital expenditures for new projects of $352,048,000.The decrease in construction in progress of $90,502,000 in 2006 represents the amount of capital assets placed in service of $642,445,000 net of capital expenditures for new projects of $551,943,000.

NOTE 6 — LONG-TERM DEBT

Long-term debt at June 30, 2007 and 2006 is summarized as follows:

(in thousands)	2007	2006
Commercial Paper:		
Tax-exempt, variable rate (3.67%)*	$ 103,125	$ 89,665
Taxable, variable rate (5.28%)*	7,075	7,375
General Revenue Bonds:		
Series 2005A, 5.00% through 2018	37,745	37,745
unamortized premium	3,097	3,695
unamortized loss on extinguishment	(400)	(484)
Series 2005B, variable rate (3.70%)* through 2035	48,020	48,020
Series 2002, variable rate (3.73%)* to fixed via swap through 2018 and variable rate 2019 through 2032	130,090	133,605
General Revenue Refunding Bonds:		
Series 2003, 3.50% to 5.00% through 2015	34,660	40,855
unamortized premium	2,175	2,910
unamortized loss on extinguishment	(399)	(541)
Hospital Revenue Bonds:		
Series 2007A, variable rate (3.90%)* through 2038	50,120	
Series 2007B, variable rate (3.73%)* through 2038	100,235	
Series 2005A, variable rate (3.90%)* through 2036	69,315	69,315
Series 2005B, variable rate (3.73%)* to fixed via swap through 2026	78,085	81,000
Series 1995A, variable rate (3.75%)* through 2028	100,000	100,000
Hospital Revenue Refunding Bonds:		
Series 2002A, 5.00% to 5.25% through 2022	67,125	75,500
unamortized premium	1,747	2,368
unamortized loss on extinguishment	(2,700)	(3,105)
Series 1998A-1, 5.25% through 2011	16,540	16,540
unamortized premium	129	167
Series 1998A-2, variable rate (3.90%)* to fixed via swap through 2025	44,670	44,670
Series 1992A, variable rate (3.90%)* through 2020	56,000	56,000
Medical Service Plan Revenue Bonds:		
Series 1998A-1, variable rate (3.90%)* to fixed via swap through 2022	35,350	35,655
Series 1995A, variable rate (3.75%)* through 2028	49,300	49,800
Series 1991, 6.85% to 7.05% capital appreciation through 2012	9,290	10,801
Housing Revenue Bonds, Series 1996A, 5.13% to 5.60%		11,480
Housing Energy Conservation HUD Loan, 3.00% through 2021	2,372	2,506
Student Fee Bonds, Series 1995A-B, 6.00%		2,830
Total long-term debt	1,042,766	918,372
Less current portion of long-term debt	145,148	136,851
	$ 897,618	$ 781,521

* Denotes rate at June 30, 2007

NOTE 6 — LONG-TERM DEBT — CONTINUED

Long-term debt activity, and the type of revenue it is supported by, for the year ended June 30, 2007 is summarized as follows:

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial Paper:				
General revenues	$ 97,040	$ 52,015	$ 38,855	$ 110,200
Bonds and Notes:				
General revenues	265,805		10,817	254,988
Hospital revenues	442,455	150,355	11,544	581,266
Faculty Group Practice revenues	96,256	689	3,005	93,940
Student residences revenues	13,986		11,614	2,372
Student fee revenues	2,830		2,830	-
	$ 918,372	$ 203,059	$ 78,665	$ 1,042,766

The University maintains a combination of variable and fixed rate debt, with effective interest rates that averaged 4.04 percent in fiscal 2007 and 3.75 percent in fiscal 2006. The University utilizes commercial paper to provide interim financing for its capital improvement program. The Board of Regents has authorized the issuance of up to $150,000,000 in commercial paper backed by a general revenue pledge. Outstanding commercial paper debt is converted to long-term debt financing, as appropriate, within the normal course of business.

During fiscal 2007, the University issued $52,015,000 of commercial paper to fund new construction projects. During fiscal 2006, the University issued $98,835,000 of commercial paper to fund $81,525,000 of new construction projects and rollover $17,310,000 of outstanding commercial paper into a new series.

In April 2007, the University issued $150,355,000 of variable rate Hospital Revenue Bonds. Bond proceeds were used to convert $24,395,000 of commercial paper and provide $125,605,000 for capital projects and $355,000 for debt issuance fees. Of the total bond issue, $50,120,000 (Series 2007A) is variable based on a daily rate mode and $100,235,000 (Series 2007B) is variable based on a weekly rate mode.

In November 2006, a portion of the proceeds from the Series 2005 General Revenue Bonds was used to redeem $10,800,000 of Series 1996 Housing Revenue Bonds previously called for redemption.

Debt obligations are generally callable by the University and mature at various dates through fiscal year 2038. Principal maturities and interest on debt obligations for the next five years and in subsequent five-year periods are as follows:

(in thousands)	Principal	Interest*	Total
2008	$ 143,990	$ 36,785	$ 180,775
2009	33,853	35,010	68,863
2010	33,780	33,733	67,513
2011	34,884	32,373	67,257
2012	38,123	30,910	69,033
2013-2017	181,099	127,678	308,777
2018-2022	183,491	92,907	276,398
2023-2027	198,930	55,138	254,068
2028-2032	112,830	23,761	136,591
2033-2037	69,675	7,590	77,265
2038	8,462	135	8,597
	1,039,117	$ 476,020	$ 1,515,137
Plus unamortized premiums, net	3,649		
	$ 1,042,766		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2007

During fiscal 2007, the University entered into a floating-to-fixed interest rate swap agreement for a notional amount tied to a portion of the outstanding balance of the Series 2002 General Revenue Bonds, which totaled $58,000,000 at June 30, 2007. The swap agreement converts the floating variable rate on these bonds to a fixed rate of 3.54 percent commencing June 2007 through April 2018. The University makes fixed rate interest payments to the counterparty and receives a variable rate payment based on 68 percent of the One-Month USD LIBOR through April 2009 and 63 percent of the Five-Year USD LIBOR Swap Rate for the balance of the term. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap.

In connection with the issuance of the Series 2005B Hospital Revenue Bonds, the University entered into a floating-to-fixed interest rate swap agreement for a notional amount tied to the outstanding balance of the bonds. The swap agreement converts the floating variable rate on these bonds to a fixed rate of 3.23 percent commencing December 2005 through December 2025, the final maturity of the underlying bonds. The University makes fixed rate interest payments to the counterparty and receives a variable rate payment based on 68 percent of the One-Month USD LIBOR. The University has the option to terminate the swap upon five business days written notice and payment of the fair market compensation for the value of the swap.

In connection with the issuance of the Series 1998A-2 Hospital Revenue Refunding Bonds and the Series 1998A-1 Medical Service Plan Revenue Bonds, the University entered into floating-to-fixed interest rate swap agreements for notional amounts tied to the outstanding balance of the bonds. The swap agreements convert the floating variable rates on these Hospital and Medical Service Plan bonds to fixed rates of 4.71 percent and 4.69 percent, respectively, through December 2024 and December 2021, the final maturity dates of the underlying bonds.The University makes fixed rate interest payments to the counterparty and receives a variable rate payment based on the floating Bond

NOTE 6 — LONG-TERM DEBT — CONTINUED

Market Association Municipal Swap Index. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent.

The estimated fair value of the interest rate swaps was a liability of $871,000 at June 30, 2007 and a liability of $785,000 at June 30, 2006. The fair value represents the estimated amount that the University would pay to terminate the swap agreements at the statement of net assets date, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with governmental accounting standards, these amounts are not required to be included in the accompanying financial statements.

The University maintains unsecured lines of credit with three major commercial banks to support the liquidity requirements of variable rate debt. Available lines of credit, which totaled $450,000,000 at June 30, 2007 and $400,000,000 at June 30, 2006, were entirely unused during fiscal 2007 and 2006.

NOTE 7 — SELF-INSURANCE

The University is self-insured for medical malpractice, workers' compensation, directors and officers' liability, property damage, auto liability and general liability through Veritas Insurance Corporation, a wholly-owned captive insurance company. The University is also self-insured for various employee benefits through internally maintained funds.

Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at present value, discounted at rates which range from 5 to 6 percent.

Changes in the total reported liabilities for insurance and benefits obligations for the years ended June 30, 2007 and 2006 are summarized as follows:

(in thousands)	**2007**	2006
Balance, beginning of year	**$ 212,099**	$ 223,010
Claims incurred and changes in estimates	**181,837**	141,879
Claim payments	**(165,047)**	(152,790)
Balance, end of year	**228,889**	212,099
Less current portion	**62,042**	55,986
	$ 166,847	$ 156,113

NOTE 8 — UNRESTRICTED NET ASSETS

Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. All of the unrestricted net assets, which totaled $4,067,974,000 at June 30, 2007, have been designated for academic and research programs and initiatives, and capital programs.

NOTE 9 — RETIREMENT PLAN

The University has a defined contribution retirement plan for all qualified employees through the Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA-CREF") and Fidelity Management Trust Company ("FMTC") mutual funds. All regular and supplemental instructional and primary staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and the University generally contributes an amount equal to 10 percent of employees' pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the three years ended June 30, 2007 are summarized as follows:

(in thousands)	**2007**	2006	2005
University contributions	**$ 183,145**	$ 171,868	$ 160,455
Employee contributions	**$ 90,252**	$ 84,706	$ 79,005
Payroll covered under plan	**$ 2,172,592**	$ 2,001,670	$ 1,913,449
Total payroll	**$ 2,292,929**	$ 2,155,752	$ 2,039,130

NOTE 10 — POSTEMPLOYMENT BENEFITS

In addition to the retirement benefits discussed in Note 9, the University provides certain health care and other postemployment benefits for retired employees. Substantially all of the approximately 32,000 permanent University employees may become eligible for these benefits if they reach retirement age while working for the University.

Health care benefits for the approximately 9,100 retirees and survivors, including dependents, at June 30, 2007 are provided through insurance companies and health maintenance organizations, whose premiums are based in part on the benefits paid. The University recognizes the cost of providing these benefits on a pay-as-you-go basis, which is included in operating expenses and amounted to approximately $32,600,000 and $32,055,000 for the years ended June 30, 2007 and 2006, respectively. Other postemployment benefits, principally life insurance and dental, are also included in operating expenses, and amounted to approximately $2,489,000 and $2,405,000 for the years ended June 30, 2007 and 2006, respectively.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* issued in June 2004, calls for the measurement and recognition of the cost of other postemployment benefits ("OPEB") during the periods when employees render their services. The statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University is required to implement this statement in fiscal 2008, which will result in an increase in liabilities and a decrease in net assets to reflect the actuarially determined liability for OPEB. Based on current actuarial assumptions and presuming a continuation of the current level of benefits, the value of those benefits is estimated at $1,470,000,000 at June 30, 2007. Statement No. 45 provides for various methods of calculating and recording the OPEB liability; accordingly, the liability recorded by the University upon implementation may differ from current estimates.

NOTE 11 — FEDERAL DIRECT LENDING PROGRAM

The University distributed $220,480,000 and $202,117,000 for the years ended June 30, 2007 and 2006, respectively, for student loans through the U.S. Department of Education ("DoED") federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net assets includes a payable of $4,329,000 and $5,022,000 at June 30, 2007 and 2006, respectively, for DoED funding received in advance of distribution.

NOTE 12 — COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2007 were $756,373,000. Of these expenditures, approximately $29,717,000 will be funded by the State Building Authority, $152,446,000 will be funded using unexpended debt proceeds, and the remaining $574,210,000 will be funded by internal sources, gifts and possible future borrowings.

Under the terms of various limited partnership agreements approved by the Board of Regents or by University officers, the University is obligated to make periodic payments for advance commitments to venture capital, private equity, real estate, energy and absolute return strategies. As of June 30, 2007, the University had committed, but not paid, a total of $2,675,310,000 in funding for these alternative investments. Outstanding commitments for such investments are anticipated to be paid in the following years ended June 30 (in thousands):

2008	$ 951,504
2009	651,321
2010	454,702
2011	216,662
2012 and beyond	401,121
	$ 2,675,310

The University is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome thereof will not have a material adverse effect on its financial position.

NOTE 13 — SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35.

The University of Michigan Hospitals and Health Centers ("HHC") operates several health care facilities and programs in southeastern Michigan, providing hospital care, ambulatory care, and other health services. HHC serves as the principal teaching facility for the University of Michigan Medical School. The faculty of the Medical School provides substantially all physician services to HHC through its Faculty Group Practice.

HHC outstanding debt, referred to as Hospital Revenue Bonds and Hospital Revenue Refunding Bonds, was issued pursuant to a Master Indenture Agreement, dated May 1, 1986. These bonds are solely payable from, and secured by, a pledge of hospital gross revenues, as defined in the Master Indenture. The University, as permitted by the Master Indenture, has further defined hospital gross revenues pledged to exclude revenues deemed to be associated with the Faculty Group Practice.

Condensed financial information for HHC, before the elimination of certain intra-University transactions, as of and for the years ended June 30, 2007 and 2006 is as follows:

(in thousands)	2007	2006
Condensed Statement of Net Assets		
Assets:		
Current assets	**$ 356,547**	$ 350,172
Noncurrent assets	**2,379,252**	1,991,909
Total assets	**$ 2,735,799**	$ 2,342,081
Liabilities:		
Current liabilities	**$ 163,633**	$ 142,256
Noncurrent liabilities	**576,017**	435,686
Total liabilities	**739,650**	577,942
Net assets:		
Invested in capital assets, net of related debt	**533,475**	425,529
Restricted	**52,634**	51,727
Unrestricted	**1,410,040**	1,286,883
Total net assets	**1,996,149**	1,764,139
Total liabilities and net assets	**$ 2,735,799**	$ 2,342,081
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	**$ 1,561,198**	$ 1,435,330
Operating expenses other than depreciation expense	**(1,400,029)**	(1,255,812)
Depreciation expense	**(99,476)**	(92,510)
Operating income	**61,693**	87,008
Nonoperating revenues, net	**244,925**	196,131
Excess of revenues over expenses	**306,618**	283,139
Transfers to other University units, net	**(74,608)**	(70,578)
Increase in net assets	**232,010**	212,561
Net assets, beginning of year	**1,764,139**	1,551,578
Net assets, end of year	**$ 1,996,149**	$ 1,764,139
Condensed Statement of Cash Flows		
Net cash flows provided by operating activities	**$ 149,799**	$ 191,386
Net cash flows (used in) provided by investing activities	**(328)**	162,755
Net cash flows used in capital and related financing activities	**(104,588)**	(244,210)
Net cash flows used in noncapital financing activities	**(70,205)**	(77,790)
Net (decrease) increase in cash and cash equivalents	**(25,322)**	32,141
Cash and cash equivalents, beginning of year	**107,703**	75,562
Cash and cash equivalents, end of year	**$ 82,381**	$ 107,703

NOTE 14 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2007 and 2006 are summarized as follows:

2007

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 631,262	$ 96,082			$ 727,344
Research	376,184	164,421			540,605
Public service	73,985	29,934			103,919
Academic support	146,090	28,438			174,528
Student services	56,114	14,865			70,979
Institutional support	111,011	22,218			133,229
Operations and maintenance of plant	37,231	219,020			256,251
Auxiliary enterprises	1,530,037	528,950			2,058,987
Depreciation			$ 284,048		284,048
Scholarships and fellowships				$ 83,712	83,712
	$ 2,961,914	$ 1,103,928	$ 284,048	$ 83,712	$ 4,433,602

2006

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 591,160	$ 91,854			$ 683,014
Research	364,727	154,991			519,718
Public service	73,808	31,056			104,864
Academic support	137,913	37,948			175,861
Student services	53,764	13,205			66,969
Institutional support	106,831	30,787			137,618
Operations and maintenance of plant	35,402	213,436			248,838
Auxiliary enterprises	1,394,315	576,937			1,971,252
Depreciation			$ 264,028		264,028
Scholarships and fellowships				$ 83,839	83,839
	$ 2,757,920	$ 1,150,214	$ 264,028	$ 83,839	$ 4,256,001

NOTE 15 — SALE OF M-CARE

The University sold M-CARE, its wholly-owned health maintenance organization, to Blue Cross Blue Shield of Michigan effective December 31, 2006. Proceeds from the sale, net of expenses, totaled $257,523,000 and the University recognized a gain on the sale of $159,743,000 in fiscal 2007, which is included in other revenues in the statement of revenues, expenses and changes in net assets. The purchase price will be adjusted based on certain changes in net assets pursuant to terms of the sales agreement; however, such amount is not expected to be material. Subscription premiums revenue recognized by M-CARE from employers other than the University totaled approximately $196,800,000 and $405,100,000 for the six months ended December 31, 2006 and the year ended June 30, 2006, respectively.

Supplementary Information to Financial Statements

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1900 St. Antoine Street
Detroit MI 48226-2263
Telephone (313) 394-6000
Facsimile (313) 394-6555
www.pwc.com

Report of Independent Auditors on Supplementary Information

The Regents of the University of Michigan

Our report on the audits of the financial statements of the University of Michigan as of June 30, 2007 and 2006 and the years then ended appears on page 47. These audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole, which are set forth on pages 66 through 88, inclusive. The supplementary information included herein on pages 90 through 97 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

August 30, 2007

Consolidating Schedule of Net Assets
at June 30, 2007

(in thousands)	General Fund	Designated Fund	Auxiliary Fund
Assets			
Current Assets:			
Cash and cash equivalents	$ 47,364	$ 83,970	$ 195,467
Operating investments	68,254	121,005	281,679
Investments for capital activities			
Investments for student loan activities			
Investment trade settlements receivable	318	528	1,000
Accounts receivable, net	44,028	10,997	249,051
Current portion of notes and pledges receivable, net			
Current portion of prepaid expenses and other assets	5,790	1,721	42,608
Total Current Assets	165,754	218,221	769,805
Noncurrent Assets:			
Endowment, life income and other investments			169,513
Notes and pledges receivable, net			
Prepaid expenses and other assets			13,991
Capital assets, net			
Total Noncurrent Assets	-	-	183,504
Total Assets	**$ 165,754**	**$ 218,221**	**$ 953,309**
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	$ 11,251	$ 7,342	$ 76,096
Investment trade settlements payable	513	850	1,610
Accrued compensation and other	53,870	8,170	108,861
Deferred revenue	18,081	9,635	42,557
Current portion of insurance and benefits obligations			57,677
Commercial paper and current portion of bonds payable			
Deposits of affiliates and others			
Total Current Liabilities	83,715	25,997	286,801
Noncurrent Liabilities:			
Accrued compensation	57,689		23,485
Insurance and benefits obligations			166,847
Obligations under life income agreements			
Government loan advances			
Bonds payable			
Deposits of affiliates and other			2,276
Total Noncurrent Liabilities	57,689	-	192,608
Total Liabilities	141,404	25,997	479,409
Net Assets:			
Invested in capital assets, net of related debt			
Restricted:			
Nonexpendable			
Expendable			
Unrestricted, designated	24,350	192,224	473,900
Total Net Assets	24,350	192,224	473,900
Total Liabilities and Net Assets	**$ 165,754**	**$ 218,221**	**$ 953,309**

	Expendable Restricted Fund	Student Loan Fund	Endowment and Other Invested Funds	Plant Fund	Agency Fund	Total
	$ 114,537				$ 40,150	$ 481,488
	165,056				57,857	693,851
				$ 720,143		720,143
		$ 27,873				27,873
	744	77		1,562	269	4,498
	75,761			1,010		380,847
	19,519	21,493		21,373		62,385
	2,218	228	$ 135	6,179	799	59,678
	377,835	49,671	135	750,267	99,075	2,430,763
			7,210,323			7,379,836
	43,709	93,142		110,297		247,148
				1,792		15,783
				3,755,398		3,755,398
	43,709	93,142	7,210,323	3,867,487	-	11,398,165
	$ 421,544	**$ 142,813**	**$ 7,210,458**	**$ 4,617,754**	**$ 99,075**	**$ 13,828,928**
	$ 14,200			$ 108,892		$ 217,781
	1,198	$ 124		2,516	$ 433	7,244
	20,571			4,681	72,431	268,584
	95,022					165,295
				4,365		62,042
				145,148		145,148
					26,211	26,211
	130,991	124		265,602	99,075	892,305
						81,174
						166,847
			$ 59,739			59,739
		85,940				85,940
				897,618		897,618
			145,888			148,164
	-	85,940	205,627	897,618	-	1,439,482
	130,991	86,064	205,627	1,163,220	99,075	2,331,787
				2,864,340		2,864,340
			959,614			959,614
	290,553	53,183	2,973,083	288,394		3,605,213
		3,566	3,072,134	301,800		4,067,974
	290,553	56,749	7,004,831	3,454,534	-	11,497,141
	$ 421,544	**$ 142,813**	**$ 7,210,458**	**$ 4,617,754**	**$ 99,075**	**$ 13,828,928**

Consolidating Schedule of Net Assets
at June 30, 2006

(in thousands)	General Fund	Designated Fund	Auxiliary Fund
Assets			
Current Assets:			
Cash and cash equivalents	$ 40,115	$ 46,170	$ 193,935
Operating investments	65,109	74,935	350,572
Investments for capital activities			
Investments for student loan activities			
Investment trade settlements receivable	1,658	2,378	5,501
Accounts receivable, net	86,390	9,765	218,860
Current portion of notes and pledges receivable, net			
Current portion of prepaid expenses and other assets	5,681	1,356	44,477
Total Current Assets	198,953	134,604	813,345
Noncurrent Assets:			
Endowment, life income and other investments			210,035
Notes and pledges receivable, net			
Prepaid expenses and other assets			15,421
Capital assets, net			
Total Noncurrent Assets	-	-	225,456
Total Assets	**$ 198,953**	**$ 134,604**	**$ 1,038,801**
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	$ 8,815	$ 6,313	$ 126,167
Investment trade settlements payable	3,203	4,594	10,628
Accrued compensation and other	48,475	7,852	101,537
Deferred revenue	16,932	7,973	52,765
Current portion of insurance and benefits obligations			51,634
Commercial paper and current portion of bonds payable			
Deposits of affiliates and others			
Total Current Liabilities	77,425	26,732	342,731
Noncurrent Liabilities:			
Insurance and benefits obligations			151,213
Obligations under life income agreements			
Government loan advances			
Bonds payable			
Deposits of affiliates and others			2,145
Total Noncurrent Liabilities	-	-	153,358
Total Liabilities	77,425	26,732	496,089
Net Assets:			
Invested in capital assets, net of related debt			
Restricted:			
Nonexpendable			
Expendable			
Unrestricted, designated	121,528	107,872	542,712
Total Net Assets	121,528	107,872	542,712
Total Liabilities and Net Assets	**$ 198,953**	**$ 134,604**	**$ 1,038,801**

Expendable Restricted Fund	Student Loan Fund	Endowment and Other Invested Funds	Plant Fund	Agency Fund	Total
$ 99,511				$ 33,874	$ 413,605
161,508				54,977	707,101
			$ 649,176		649,176
	$ 30,084				30,084
3,963	474		8,737	1,398	24,109
70,198			3,016		388,229
14,671	23,466		26,379		64,516
2,111	252	$ 111	5,717	742	60,447
351,962	54,276	111	693,025	90,991	2,337,267
		5,753,389			5,963,424
35,564	85,863		105,452		226,879
			1,631		17,052
			3,453,441		3,453,441
35,564	85,863	5,753,389	3,560,524	-	9,660,796
$ 387,526	**$ 140,139**	**$ 5,753,500**	**$ 4,253,549**	**$ 90,991**	**$ 11,998,063**
$ 13,824			$ 81,785		$ 236,904
7,657	$ 917		16,880	$ 2,702	46,581
20,509			4,216	67,001	249,590
88,356			198		166,224
			4,352		55,986
			136,851		136,851
				21,288	21,288
130,346	917		244,282	90,991	913,424
			4,900		156,113
		$ 51,399			51,399
	85,672				85,672
			781,521		781,521
		123,644			125,789
-	85,672	175,043	786,421	-	1,200,494
130,346	86,589	175,043	1,030,703	90,991	2,113,918
			2,615,289		2,615,289
		884,209			884,209
257,180	50,331	2,261,812	205,396		2,774,719
	3,219	2,432,436	402,161		3,609,928
257,180	53,550	5,578,457	3,222,846	-	9,884,145
$ 387,526	**$ 140,139**	**$ 5,753,500**	**$ 4,253,549**	**$ 90,991**	**$ 11,998,063**

Consolidating Schedule of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30, 2007

(in thousands)	General Fund	Designated Fund	Auxiliary Activities Fund: Operations	Auxiliary Activities Fund: Hospital and Other Similar Activities
Operating Revenues				
Student tuition and fees	$ 891,634			
Less scholarship allowances				
Net student tuition and fees	891,634			
Federal grants and contracts	777			
State and local grants and contracts				
Nongovernmental sponsored programs				
Sales and services of educational departments	8,867	$ 103,043		
Auxiliary enterprises:				
Patient care revenues and managed care premiums				$ 2,194,902
Student residence fees, net of scholarship allowances			$ 85,945	
Other revenues			888,002	
Student loan interest income and fees	363			
Indirect cost recoveries	166,807			
Total Operating Revenues	**1,068,448**	**103,043**	**973,947**	**2,194,902**
Operating Expenses				
Compensation and benefits	902,939	73,252	296,441	1,284,781
Supplies and services	271,091	46,267	666,785	787,098
Depreciation				
Scholarships and fellowships	139,797	2,986	53	1,172
Total Operating Expenses	**1,313,827**	**122,505**	**963,279**	**2,073,051**
Operating (loss) income	(245,379)	(19,462)	10,668	121,851
Nonoperating Revenues (Expenses)				
State educational appropriations	332,446			
Private gifts for other than capital and endowment purposes		755		
Net investment income	15,071	(12,111)	54,359	34,050
Distributions of endowment ordinary income and gains		21,229	4	54,544
Equipment	(8,759)	(2,396)	(1,682)	(5,893)
Books	(17,178)	(17)		(21)
Interest expense				
Total Nonoperating Revenues, Net	**321,580**	**7,460**	**52,681**	**82,680**
Income (loss) before other revenues (expenses)	76,201	(12,002)	63,349	204,531
Other Revenues (Expenses)				
State capital appropriations				
Capital gifts and grants				
Private gifts for endowment purposes				
Other	(59,500)	36		139,876
Total Other (Expenses) Revenues, Net	**(59,500)**	**36**	**-**	**139,876**
Net revenues (expenses) before transfers	16,701	(11,966)	63,349	344,407
Transfers (Out) In				
Mandatory:				
Debt service	(19,170)	(1,498)	(12,712)	(38,766)
Plant improvement			(100)	
Non-mandatory:				
Plant improvement	(57,787)	(101,149)	(57,682)	(172,812)
Other	(36,922)	198,965	(74,210)	(120,286)
Total Transfers (Out) In	**(113,879)**	**96,318**	**(144,704)**	**(331,864)**
(Decrease) increase in net assets	(97,178)	84,352	(81,355)	12,543
Net Assets, Beginning of Year	121,528	107,872	99,812	442,900
Net Assets, End of Year	**$ 24,350**	**$ 192,224**	**$ 18,457**	**$ 455,443**

	Expendable Restricted Fund	Consolidating Entries	Subtotal Current Funds	Student Loan Fund	Endowment and Other Invested Funds	Plant Fund	Total
			$ 891,634				$ 891,634
		$ 172,952	172,952				172,952
		(172,952)	718,682				718,682
	$ 694,512		695,289				695,289
	12,937		12,937				12,937
	115,498		115,498				115,498
	2,110		114,020				114,020
		(211,266)	1,983,636				1,983,636
		(15,690)	70,255				70,255
		(764,851)	123,151				123,151
			363	$ 1,540			1,903
	(166,807)		-				-
	658,250	**(1,164,759)**	**3,833,831**	**1,540**			**3,835,371**
	455,686	(51,185)	2,961,914				2,961,914
	213,570	(924,933)	1,059,878	1,546		$ 42,504	1,103,928
			-			284,048	284,048
	128,345	(188,641)	83,712				83,712
	797,601	**(1,164,759)**	**4,105,504**	**1,546**		**326,552**	**4,433,602**
	(139,351)	-	(271,673)	(6)		(326,552)	(598,231)
			332,446				332,446
	109,611		110,366	326			110,692
	14,195		105,564	1,271	$ 1,423,142	42,614	1,572,591
	116,447		192,224	1,186	(193,410)		-
	(14,158)		(32,888)			32,888	-
	(1,829)		(19,045)			19,045	-
			-			(30,606)	(30,606)
	224,266	**-**	**688,667**	**2,783**	**1,229,732**	**63,941**	**1,985,123**
	84,915	-	416,994	2,777	1,229,732	(262,611)	1,386,892
			-			6,413	6,413
			-			64,870	64,870
			-		94,798		94,798
	4,403		84,815	60	(12,863)	(11,989)	60,023
	4,403	**-**	**84,815**	**60**	**81,935**	**59,294**	**226,104**
	89,318	-	501,809	2,837	1,311,667	(203,317)	1,612,996
	(117)		(72,263)			72,263	-
			(100)			100	-
	(30,353)		(419,783)		(28,000)	447,783	-
	(25,475)		(57,928)	362	142,707	(85,141)	-
	(55,945)	**-**	**(550,074)**	**362**	**114,707**	**435,005**	**-**
	33,373	-	(48,265)	3,199	1,426,374	231,688	1,612,996
	257,180		1,029,292	53,550	5,578,457	3,222,846	9,884,145
	$ 290,553	**$ -**	**$ 981,027**	**$ 56,749**	**$ 7,004,831**	**$ 3,454,534**	**$ 11,497,141**

Consolidating Schedule of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30, 2006

			Auxiliary Activities Fund	
(in thousands)	General Fund	Designated Fund	Operations	Hospital and Other Similar Activities
Operating Revenues				
Student tuition and fees	$ 834,365			
Less scholarship allowances				
Net student tuition and fees	834,365			
Federal grants and contracts	1,045			
State and local grants and contracts				
Nongovernmental sponsored programs				
Sales and services of educational departments	7,592	$ 97,702		
Auxiliary enterprises:				
Patient care revenues and managed care premiums				$ 2,341,722
Student residence fees, net of scholarship allowances			$ 85,918	
Other revenues			920,692	
Student loan interest income and fees				
Indirect cost recoveries	169,804			
Total Operating Revenues	**1,012,806**	**97,702**	**1,006,610**	**2,341,722**
Operating Expenses				
Compensation and benefits	846,114	67,900	267,715	1,173,775
Supplies and services	277,578	56,715	660,884	1,021,099
Depreciation				
Scholarships and fellowships	129,947	5,254	1,425	1,146
Total Operating Expenses	**1,253,639**	**129,869**	**930,024**	**2,196,020**
Operating (loss) income	(240,833)	(32,167)	76,586	145,702
Nonoperating Revenues (Expenses)				
State educational appropriations	364,908			
Private gifts for other than capital and endowment purposes		600		
Net investment income	11,722	(32,213)	35,205	21,462
Distributions of endowment ordinary income and gains		14,549	3	52,555
Equipment	(11,054)	(2,438)	276	(5,532)
Books	(15,871)	(22)	654	(33)
Interest expense				
Total Nonoperating Revenues (Expenses), Net	**349,705**	**(19,524)**	**36,138**	**68,452**
Income (loss) before other revenues (expenses)	108,872	(51,691)	112,724	214,154
Other Revenues (Expenses)				
State capital appropriations				
Capital gifts and grants				
Private gifts for endowment purposes				
Other		32		537
Total Other Revenues, Net	**-**	**32**	**-**	**537**
Net revenues (expenses) before transfers	108,872	(51,659)	112,724	214,691
Transfers (Out) In				
Mandatory:				
Debt service	(18,516)	(1,217)	(11,721)	(31,850)
Plant improvement			(77)	
Non-mandatory:				
Plant improvement	(73,084)	(91,149)	(52,000)	(181,317)
Other	(23,259)	108,993	(31,470)	28,585
Total Transfers (Out) In	**(114,859)**	**16,627**	**(95,268)**	**(184,582)**
(Decrease) increase in net assets	(5,987)	(35,032)	17,456	30,109
Net Assets, Beginning of Year	127,515	142,904	82,356	412,791
Net Assets, End of Year	**$ 121,528**	**$ 107,872**	**$ 99,812**	**$ 442,900**

Expendable Restricted Fund	Consolidating Entries	Subtotal Current Funds	Student Loan Fund	Endowment and Other Invested Funds	Plant Fund	Total
		$ 834,365				$ 834,365
	$ 158,659	158,659				158,659
	(158,659)	675,706				675,706
$ 690,889		691,934				691,934
9,282		9,282				9,282
117,213		117,213				117,213
1,731		107,025				107,025
	(351,269)	1,990,453				1,990,453
	(15,689)	70,229				70,229
	(800,952)	119,740				119,740
		-	$ 1,368			1,368
(169,804)		-				-
649,311	**(1,326,569)**	**3,781,582**	**1,368**			**3,782,950**
449,591	(47,175)	2,757,920				2,757,920
201,171	(1,105,046)	1,112,401	1,210		$ 36,603	1,150,214
		-			264,028	264,028
120,415	(174,348)	83,839				83,839
771,177	**(1,326,569)**	**3,954,160**	**1,210**		**300,631**	**4,256,001**
(121,866)	-	(172,578)	158		(300,631)	(473,051)
		364,908				364,908
89,426		90,026	16			90,042
12,806		48,982	964	$ 879,765	30,130	959,841
108,091		175,198	1,185	(176,383)		-
(12,615)		(31,363)			31,363	-
(1,653)		(16,925)			16,925	-
		-			(27,128)	(27,128)
196,055	**-**	**630,826**	**2,165**	**703,382**	**51,290**	**1,387,663**
74,189	-	458,248	2,323	703,382	(249,341)	914,612
		-			20,126	20,126
		-			64,787	64,787
		-		86,228		86,228
3,683		4,252	70	(17,047)	768	(11,957)
3,683	**-**	**4,252**	**70**	**69,181**	**85,681**	**159,184**
77,872	-	462,500	2,393	772,563	(163,660)	1,073,796
(194)		(63,498)			63,498	-
		(77)			77	-
(22,761)		(420,311)			420,311	-
(16,862)		65,987	225	(66,212)		-
(39,817)	**-**	**(417,899)**	**225**	**(66,212)**	**483,886**	**-**
38,055	-	44,601	2,618	706,351	320,226	1,073,796
219,125		984,691	50,932	4,872,106	2,902,620	8,810,349
$ 257,180	**$ -**	**$ 1,029,292**	**$ 53,550**	**$ 5,578,457**	**$ 3,222,846**	**$ 9,884,145**

The Michigan Difference

CAMPAIGN FOR MICHIGAN

Contact the University Office of Development for additional information. Please consult your attorney or tax advisor about the tax benefits of these and other charitable gifts.

Your financial support demonstrates your belief in the University and its mission.

Thank you for being part of The Michigan Difference.

Office of Development
University of Michigan
3003 South State Street
Ann Arbor, Michigan 48109-1288
Telephone: (734) 647-6000
www.themichigandifference.org

Great things are happening at the University of Michigan everyday, from scientific breakthroughs to artistic creation. Without private support, these and many of the University's programs, scholarships, and facilities would not exist. Please join the more than 120,000 donors who made a difference in the University of Michigan this year.

There are a number of opportunities for you to have a bigger impact with your gift.

1. Until December 31, 2007, your gift of any amount for need-based undergraduate financial support for the Ann Arbor campus will be matched by the President's Donor Challenge.
2. Until December 31, 2008, every $2 you give towards need-based graduate or professional student support will be matched with $1 by the President's Donor Challenge: Phase II.
3. Until December 31, 2007, the Pension Protection Act of 2006 allows you to make a gift of up to $100,000 from your IRA to the University and exclude the amount of your gift from your gross income. You must be 70½ years of age or older, and the transfer must go directly from your IRA to the University.
4. Through the Michigan Endowment Return Strategy, the University of Michigan can invest charitable remainder trust (CRT) assets alongside its endowment funds within its highly diversified, long-term portfolio. Now all donors to U-M will have an opportunity to increase the power of their philanthropy, while enhancing personal returns from their planned gift to the University.

To take advantage of these opportunities or to make a gift for any purpose to The Michigan Difference campaign, you can:

- Make a gift of cash.
- Use online giving to make a gift with a credit card at www.themichigandifference.org.
- Include a gift to the University in your will or living trust.
- Make a gift by naming the University a beneficiary of your retirement plan or life insurance policy.
- Create a charitable gift annuity, a charitable remainder trust, or contribute to U-M's donor pooled income fund with a gift of cash or securities, thereby establishing a stream of income for yourself or others while supporting the University.
- Make a gift of stock, real estate, or personal property such as artwork or books.

DESIGN AND PRODUCTION
Michigan Marketing & Design
MMD 070109

This financial report was printed with vegetable-based inks on papers certified by the Forest Stewardship Council (FSC), an independent, membership-based organization promoting environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

UNIVERSITY OF MICHIGAN NONDISCRIMINATION POLICY

The University of Michigan, as an equal opportunity/affirmative action employer, complies with all applicable federal and state laws regarding nondiscrimination and affirmative action, including Title IX of the Education Amendments of 1972 and Section 504 of the Rehabilitation Act of 1973. The University of Michigan is committed to a policy of nondiscrimination and equal opportunity for all persons regardless of race, sex, color, religion, creed, national origin or ancestry, age, marital status, sexual orientation, gender identity, gender expression, disability, or Vietnam-era veteran status in employment, educational programs and activities, and admissions. Inquiries or complaints may be addressed to the Senior Director for Institutional Equity and Title IX/Section 504 Coordinator, Office of Institutional Equity, 2072 Administrative Services Building, Ann Arbor, Michigan 48109-1432, 734-763-0235, TTY 734-647-1388. For other University of Michigan information, call 734-764-1817.

PHOTOGRAPHY
All images by U-M Photo Services except for the following:

PG. 1	2nd from bottom; UMS and Royal Shakespeare Company
PG. 15	U-M Office of Development
PG. 17	right and left; U-M Office of Development
PG. 18	U-M Office of Development
PG. 20	John Hellmuth; U-M-Flint
PG. 23	upper right; NSF Engineering Research Center/Wireless Integrated MicroSystems
PG. 25	2nd from top; Castor & Pollux, Nicole Slawny, Graduate Student, Cell & Developmental Biology, Center for Organogenesis "Bioartography" (www.bioartography.com)
	middle; U-M School of Public Health
	bottom; NASA/JPL-Caltech/ University of Arizona
PG. 27	bottom right; U-M Ford School of Public Policy
PG. 28	top; Einhorn Yaffee Prescott and Robert A.M. Stern
	middle; U-M School of Nursing
PG. 29	upper left; bl003031_bhl, U-M Bentley Historical Library
	lower right; U-M Athletic Department
PG. 30	lower left; U-M School of Education
PG. 31	2nd from bottom; U-M-Flint
	bottom; UMS and Royal Shakespeare Company
PG. 33	2nd from top; U-M Health System
PG. 35	2nd from top and bottom; U-M Biological Station
	bottom; U-M Tech Transfer
PG. 36	lower right; U-M Athletic Department
PG. 37	top two; U-M Athletic Department
	middle; U-M Athletic Department and Wolverine Photo
PG. 41	lower; U-M-Flint
PG. 43	U-M Office of Architecture, Engineering and Construction

University of Michigan

Office of the Executive Vice President
and Chief Financial Officer
3014 Fleming Administration Building
503 Thompson Street
Ann Arbor, MI 48109-8730

www.umich.edu