

UNIVERSITY OF MINNESOTA FINANCIAL REPORT 1974

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1973/74

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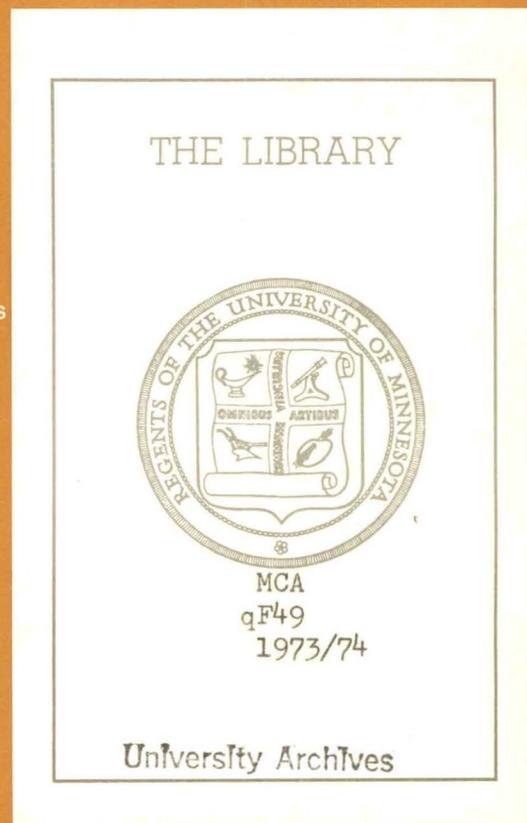
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UNIVERSITY OF MINNESOTA

Office of the Vice President for
Finance, Planning and Operations
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Minneapolis, Minnesota 55455
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October, 1974

To the President and Regents:

I am pleased to forward the Financial Report of the University of Minnesota for the year ending June 30, 1974.

The various financial schedules conform with the recommendations of the National Association of College and University Business Officers' Manual and the American Institute of Certified Public Accountants' Audit Guide. The editorial copy concentrates on the continuing sources of concern over trends occurring in the financing of educational operations and on the impact of inflation on the University. The accounts of the University are audited on a regular basis by the State Legislative Auditor, whose report is transmitted to the appropriate University and State officers. For the period of this report all service operations of the University were audited by the Certified Public Accounting firm of Ernst & Ernst, and their report was transmitted to the Board of Regents and the State Legislative Auditor.

A handwritten signature in black ink, reading "James F. Brinkerhoff".

James F. Brinkerhoff
Vice President
Finance, Planning and Operations



GENERAL DEVELOPMENTS

The fiscal year that ended June 30, 1974, was another one of serious and continuing concern over the financial operations of the University. Trends that were identified as ominous last year were aggravated and accelerated by the problem of double-digit inflation.

Inflation and the Institution

The University, of course, is not the only agency or institution to feel the inflationary pinch. It is a problem that has affected all people and all institutions, both public and private. But as stated in last year's Report, the University shares a special problem with other service intensive industries or operations (those which expend a large proportion of their budgets on wages and salaries). This problem is that there is great difficulty in obtaining productivity increases to even partially offset inflationary costs. A teacher can generally teach only a limited number of students effectively, a nurse can care for only so many patients, and so on. (The service intensive nature of medical care is a part of the reason for rapid cost escalation in that area also.)

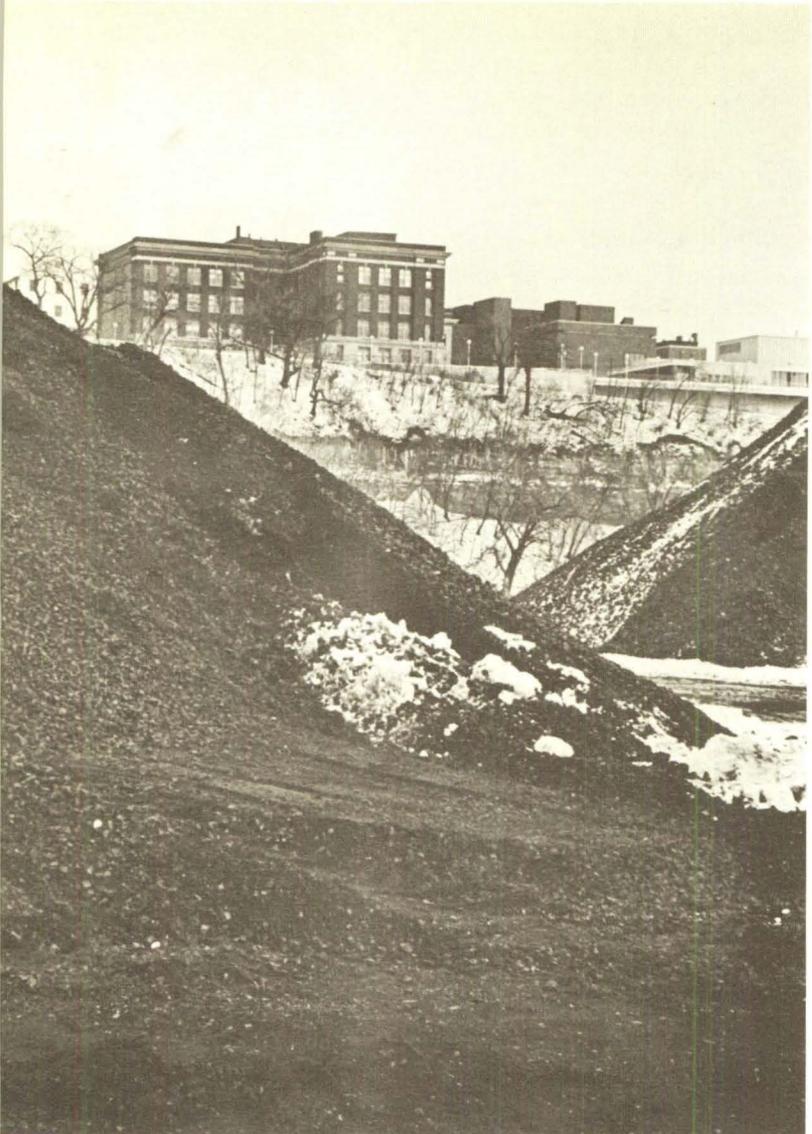
Impact of Restricted Monies

Other trends identified last year as problems also grew more serious. The increasing proportion of restricted monies (funds designated for a specific purpose and therefore by definition unavailable to cover general increases in expenses) again further reduced budget flexibility. Since restricted funds are often research-oriented, increases here are not helpful in fulfilling the basic teaching mission of the University.

Last year it was reported that two out of three dollars coming to the University were earmarked for specific use. In fiscal 1973-74, the proportion of new funds that were similarly restricted remained about the same. Also reported last year was the fact that restricted funds available for general educational programs and expenses had exceeded unrestricted funds for the first time ever. Last year total current restricted funds in this category exceeded total current unrestricted funds by about \$7.5 million. This year, after two years of this continuing trend, restricted monies exceeded unrestricted monies by over \$17.2 million—a 129-percent increase in this difference in a single year.

The Tightening Crunch

Even further, it should be pointed out that unrestricted funds are themselves becoming restricted, not by legislative or donor stipulations, but by economic realities. This is the third successive year in which the University has had a near stand-still budget in real dollars. As with all institutions, it has been possible to order priorities and make cuts in certain service levels. As an



example, in fiscal 1974 the University was able to meet increased fuel and utility costs by using the funds saved by a later-than-anticipated opening of certain new building units, such as Health Sciences Unit A, and because these price increases came late in the operating year. A mild winter and an intensive energy conservation program were also important factors in keeping fuel bills within reach despite higher costs. However, the utility and fuel short-fall alone that is projected now for fiscal 1975 is estimated to equal \$1.2 million. At present the University sees no way of generating this money internally as nearly all discretionary funds are exhausted. Consequently, a deficiency appropriation will be requested during the next legislative session to cover this short-fall.

As an indication of the serious nature of the depletion of internal reserves the following facts speak for themselves. Funds available for deferred maintenance from various sources amounted to about \$1.1 million in fiscal 1970, just four years ago. In fiscal 1973, this had shrunk to only about \$50,000. This last year, reserves available for this purpose were reduced to zero. The result is that important projects such as the upgrading of electrical systems and major maintenance activities have been deferred, delayed, or temporarily cancelled. In the long run it will cost more to complete these projects, partly because of inflation, partly because any physical deterioration in buildings worsens and accelerates over time.

The same kinds of problems are being encountered throughout the University in almost all program and service areas. Teaching service levels have not been seriously affected yet, because this basic function of the University has continued to receive top priority. But it has not been possible to add new programs and services that many feel are essential to meet another basic function of the University—the storage and transmittal of the widening body of human knowledge and scientific discovery.

Where Does Education Stand?

These, then, are the continuing trends that cause great concern. Internal efficiency and financial stringency can only do so much to relieve the budgetary distress being experienced at all institutions of higher learning. Resolution of this growing financial crisis depends upon the resolution of a much larger question: Where does education stand as a priority item in our society?

While the University is appreciative of the great and continuing public support it has received—both financial and otherwise—it is necessary to stress strongly that the financial crisis involving institutions of higher

education has not yet been satisfactorily resolved and that the internal capacity of the University to deal with the problem—without seriously affecting quality—is quickly reaching its limits.

Budget stringency and serious efforts to increase efficiency and eliminate non-priority items have now been the watchwords at the University for several years. A great deal has been done to deal with the problems of educational finance on this basis. Priorities have been set and hard choices have been made. The problem with this approach is that it only makes **relative** judgments of the merit of educational programs. And as the time now fast approaches when educational institutions will have to make either across-the-board reductions in all service and educational areas or selective radical cuts or eliminations, the University believes it is time to raise the larger question of where education stands as a social priority.

The record seems clear that education has been one of the great and important factors in creating upward social mobility and in stimulating long-term economic growth. It would seem, therefore, to merit continuing support if it is to continue these vital functions.

Shifting Sources of Support

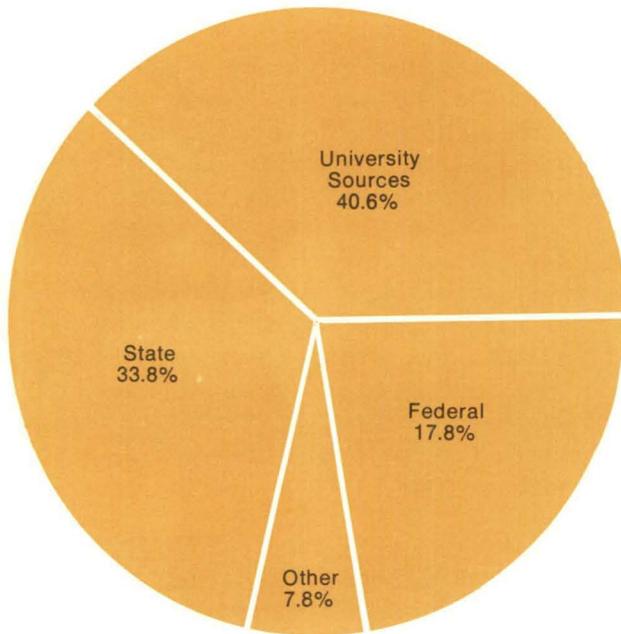
Slight shifts in percentages of current revenues support again occurred in the 1973-74 fiscal year.

Federal support continued its erratic trend of recent years. Last year it accounted for 19.2 percent of total current resources, up from the previous year. Now, in fiscal 1973-74, it has again dropped to 17.8 percent. While this is partly due to fluctuations in the proportion of funds provided by other sources, there was a \$.9 million decline in total federal dollars contributed. (Since the total University current fund revenues and expenditures equal approximately \$350 million, a 1.4 percent change reflects a relative shift of over \$4 million.)

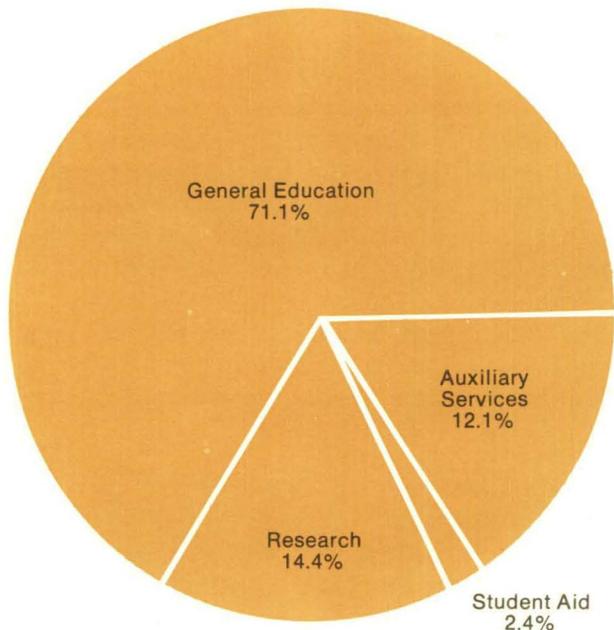
The federal aid picture is clouded by trends toward direct aid to students rather than to the institution. While direct aid to students is to be welcomed, it provides little immediate relief to the institution except perhaps to reduce the numbers of students who drop out of the University due to a lack of financial resources.

The state appropriation provided 33.8 percent of University revenues, up from 33 percent the previous fiscal year. This reverses the drop in the state percentage reported last year and returns the state contribution almost to its 1971-72 level of 34.3 percent.

Income by Source



Expenditures by Function



University sources, which include income from tuition, University Hospitals, and other auxiliary services, increased its relative percentage share from 40.3 to 40.6 percent. Included in this increase were increased tuition payments totaling about \$3.7 million, higher hospitalization charges, and increases in rates for other auxiliary services. While an increase in this category demonstrates greater self-sufficiency in the financing of certain educational operations, it also reflects a redistribution of costs toward the individual student or service consumer. It can, therefore, be seen as either a positive or a negative trend, depending upon one's viewpoint.

The percentages of support coming from other sources (primarily private donations and endowment income) again increased its relative share as it has consistently during the past five years, going from 7.5 to 7.8 percent. As a result of the continuing efforts at the University to widen the base of private support through the work of the Office of Development and the University of Minnesota Foundation, the University of Minnesota moved up in rank from 19th to 17th among all colleges and universities in total private aid received, according to a study released covering the 1972-73 fiscal year—the most recent available. The 1971-72 fiscal year was the first in which the University of Minnesota was ranked in the top 20 listings, and the upward move from 19th to 17th is further evidence that efforts to raise private monies are paying off.

For the current fiscal year, 1973-74, private support continues to be a bright spot. It is necessary to note, however, that with current economic uncertainties it may not be possible to sustain this trend during the coming year. While income from endowment was up slightly this year, new gifts to the endowment were down—although that decrease is largely explained by the fact that the market values of securities donated to the University during the past year were down, thus depressing the total value of such donations.

Finally, if federal and state government support are added together, and University sources and other sources are similarly combined, it can be seen that there has been a slight decline in the total share of government-generated revenues. For the two previous years, counterbalancing shifts in federal and state support had kept the government share at a constant 52.2 percent. This year the state increase did not equal the federal decrease, so total government-generated revenues dropped to 51.6 percent and University sources and private monies thus accounted for the remaining 48.4 percent.

THE YEAR IN REVIEW

Enrollment

Enrollment in the fall of 1973 stabilized. Regular term fall quarter headcount was 49,935, compared with 49,929 in the fall of 1972.

Continuing Education and Extension enrollment was up significantly from 32,268 to 37,162. Summer Session enrollment, on the other hand, was down from 19,999 to 14,922. Conferences and institutes and Independent Study registrations again totaled about 30,000 persons. The total number of individuals served by the University again exceeded 130,000 persons.

With this basic stabilization in enrollment, why did the University budget increase by approximately \$34 million?

The answer, of course, is that many educational costs are not tied directly to enrollments. There are fixed costs in salaries, physical plant, and supplies. During periods of high inflation these fixed costs become rising costs, despite insignificant shifts in enrollment, upward or downward.

There are certain basic reasons behind increasing educational costs that were enumerated last year. Because these causes are so basic and yet are not widely understood, they seem to bear repeating.

(1) There is the fact that education is a labor intensive enterprise. In industry, increases in cost are wholly or partially offset by increases in productivity made possible by automation or other innovations. Education has not developed methods of accomplishing similar increases in productivity except to increase class size. But much teaching cannot be handled effectively in large lecture situations; it requires personal interaction and even one-to-one contact. This is especially true of education at the graduate or professional level—areas in which the University is doing an increasing amount of its instruction.

(2) Inflation is a factor that is closely related to the fact that education is labor intensive. The higher the rates of inflation, the more profound the impact of the first factor. As inflationary pressures increase, pressure to increase salaries also grows. The higher the inflation, the higher the salary increase must be. So the University, with about two thirds its costs in salaries, is hit hard by inflation. Production line industries can offset costs of inflation by production increases and are thus not as hard-hit by periods of high inflation.

(3) The University must maintain its basic program, regardless of slight changes in enrollment. Institutions of higher education are now faced with the opposite of the situation they faced during periods of growth when they achieved economies of scale. A simple illus-

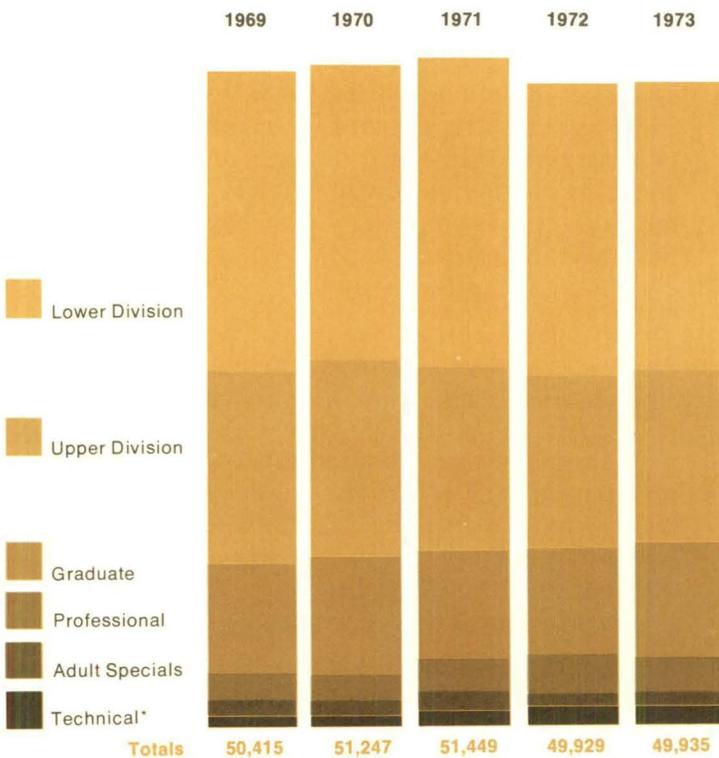
Estimated Yearly Instructional Expenditures Per Full-Time Student (MHECC Definition)

Level	Cost Current Dollars
Lower Division	\$ 1608
Upper Division	2515
Technical	2766
Graduate	3570
Graduate - Professional Includes graduate students in professional related areas.	6579

tration can show what is involved. As enrollment generally increased, a class section might increase from 20 to 25 students with the only cost increase being that of processing the additional records. The instructor's salary and most costs remained constant, while tuition income and legislative appropriations, which were usually tied closely to enrollment, increased about 25 percent. Most often, the economies of scale that are achievable in labor intensive industries are only possible in periods of growth. As growth has stopped, the financial crisis has worsened.

And because University programs are frequently highly specialized and unique, class sections usually cannot be combined. The maximum flexibility in this situation is in lower division instruction, where perhaps 20 sections of a fundamental course can be reduced to 16 to compensate for decreased income. But if the 20 sections are all separate and unique programs, there is no way to decrease the number except to eliminate curricular offerings. Rather than being able to eliminate programs, the University is more often forced to add new offerings, simply because growth in knowledge continues at a rate that can only be termed explosive.

Five-Year Head-Count Enrollments 1969-1973



* At the Crookston and Waseca Technical Colleges.

Head-Count Enrollment

Fall 1973

College of Liberal Arts	16,157
Institute of Technology	3,662
General College	2,505
College of Education	2,533
Institute of Agriculture	3,085
College of Biological Sciences	466
University College	310
College of Business Administration	1,326
Duluth	5,460
Morris	1,656
Crookston	765
Waseca	406
Graduate School	7,486
Health Sciences:	
Medical School	915
School of Nursing	381
School of Dentistry	513
Dental Hygiene	166
College of Pharmacy	380
Medical Fellows	200
Other Programs	586
College of Veterinary Medicine	270
Law School	707

Total

49,935

The Growing Impact of Inflation

This is the basic funding dilemma faced by most institutions of higher education at this time, particularly by institutions that offer high percentages of graduate, professional, and unique educational programs where flexibility is minimal.

As mentioned above, the fact that educational operations are labor intensive compounds the problem of inflation. The charts on this page show how.

Productivity offsets lessen the impact of inflation in any operation. If a productivity increase is achieved, it can be subtracted from the inflationary rate to give a net inflationary rate (inflation minus productivity offsets). The University achieved significant productivity increases during its growth period of the 1960s. Now in the 1970s, with enrollment stabilization, there are no significant productivity offsets (made possible primarily through economies of scale). The result is that inflation hits the University budget very hard.

Hypothetical Comparison of Inflationary Impact on Service and Production Industries.

PRODUCTION INDUSTRIES

Units produced, year 1:	100
Units Produced, year 2:	105
Productivity increase	5%
Inflationary rate	10%
Productivity offset	5%
Net inflationary impact	5%

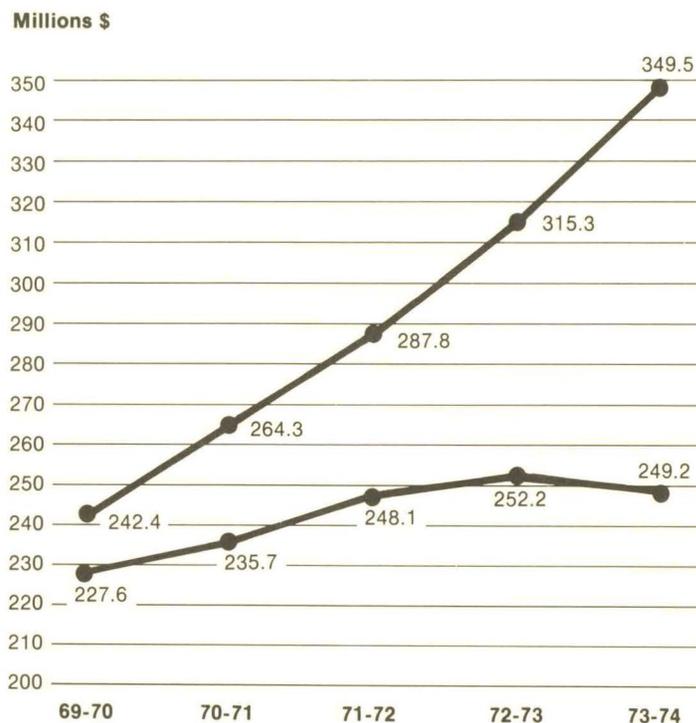
SERVICE INDUSTRIES (During no growth periods)

Persons serviced, year 1:	100
Persons serviced, year 2:	100
Productivity increase	—0—
Inflationary rate	10%
Productivity offset	—0—
Net inflationary impact	10%

This chart was adapted and derived from a similar illustration in the Carnegie Commission on Higher Education report, *The More Effective Use of Resources: An Imperative for Higher Education*, McGraw-Hill, 1972.

Total University Budgets 1969-74

Actual and Deflated to 1968 Dollars
(Based on consumer price index)



The second graph shows just how dramatic the inflationary impact is becoming in University finances. While the University budget increased by \$34.2 million in current dollars, it **decreased** by \$3 million in constant 1968 dollars. Stated another way, to have remained at a constant operational level reflected by spending in 1968 dollars, the University would have had to increase its budget by \$38.5 million in 1974 dollars—or \$4.3 million more than the actual increase. (These figures are based on the consumer price index and the deflated figures are to show the real impact of inflationary pressures on the institution and on the University's employees, both in terms of service output and employee purchasing power.)

As can also be seen from this second graph, the difference between current and 1968 dollars grew from a \$63.1 million inflationary gap in the last fiscal year to a \$100.3 million inflationary gap in the current fiscal year. Despite high inflationary rates in the 1972-73 fiscal year, there was still real growth of \$4.1 million. This year, for the first time of known record, inflation took a large enough bite to absorb any real growth and instead resulted in a decrease in 1968 dollars of \$3 million, or a decline of about 1.2 percent in real output of goods and services.

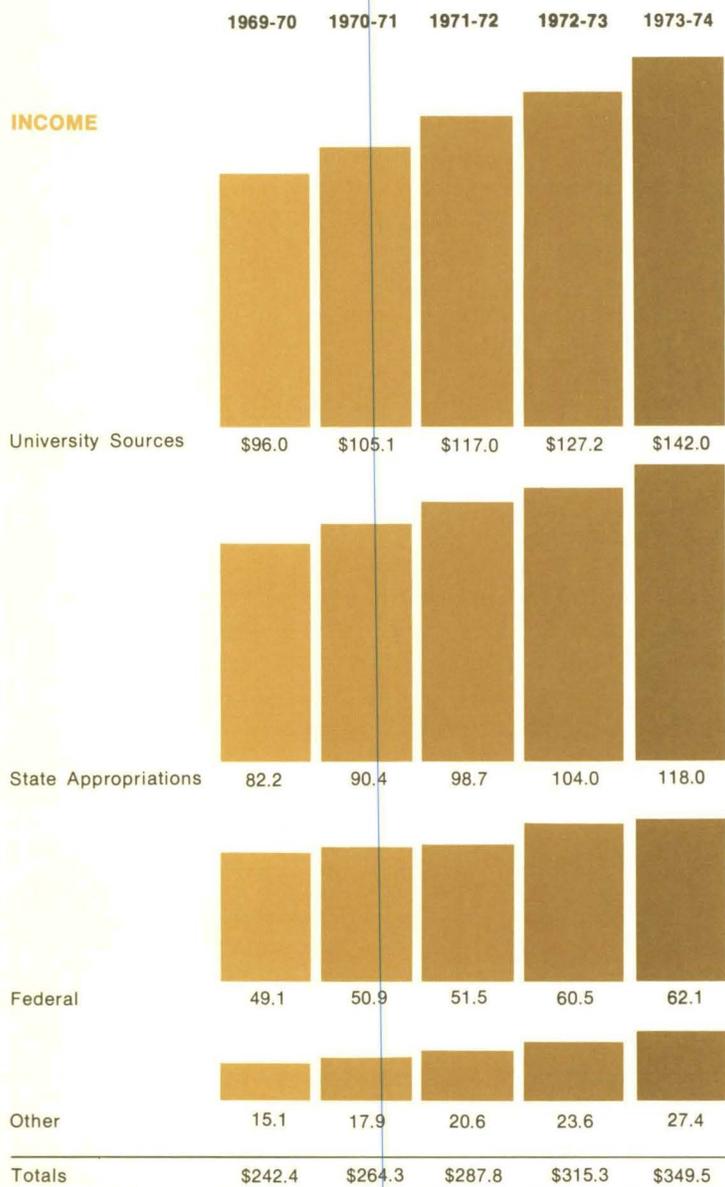
Increases in wages and salaries paid totaled \$15.5 million—much of it due to inflation. Skyrocketing fuel and utility costs accounted for another large part of this inflationary bite. Decreases in some service levels, selected increases in costs of supplies (particularly in library operations because of increased book and periodical costs), and so on all added together to create the total inflationary impact on the institution.

While neither civil service nor faculty employees generally received increases during the year that allowed them to keep pace with inflation, civil service employees came closer because they were covered under the state pay plan, which provided cost-of-living increases. (However, these increases were not effective until July 1, 1974—after the end of the current fiscal year.) Faculty pay increases ranged from two to four percent, or about one-third the inflationary rate during this period. The University therefore anticipates that inflationary pressures will continue to be of great importance during the next fiscal year.

Summary of Current Revenue Sources

Total income for fiscal 1973-74—exclusive of funds for construction projects—rose \$34.2 million to \$349,533,074, up from \$315,288,676 the previous year. This was a 10.8-percent increase and was thus a larger increase than the 9-percent increase the previous year—but as stressed earlier, it was **less** than the 11.8-percent inflationary rate that occurred during the same period.

Total University Budgets 1969-74 (In millions of dollars)



The largest dollar and percentage increase, about \$14 million, came from state appropriations, which rose from \$104 million to \$118 million, a 13.5-percent increase. The previous year state revenues had increased by only 5.4 percent.

Selective increases in tuition charges resulted in an additional \$3.7 million in tuition payments, a 12.7-percent increase as tuition revenues rose from \$29.3 million to \$33 million.

As discussed earlier, federal appropriations—primarily for Agricultural Extension—dropped from \$6.7 million to \$5.8 million, a 13.4-percent decline. Also down were endowment income and student aid revenues.

Total earnings from the endowment were up slightly, but since more of these earnings were reinvested, endowment income available to meet current expenses dropped from \$1,426,142 to \$1,370,791.

Student aid income appears to have dropped considerably when the numbers for fiscal 1972-73 and fiscal 1973-74 are compared. While the accounts showing current fund expenditures indicate a decrease from \$10.1 million to only \$6.2 million in student aid revenue, this is primarily explained by a change in accounting classification. Instructional trust funds for medical interns were previously treated as student aid and are now being included as instructional expenses. This accounts for \$3.7 million of this \$3.9 million drop. The net decline in student aid of \$.2 million was more than offset by other sources of student aid, such as state scholarships, allocations from the general operations and maintenance fund, student fee funds, and increases in loans.

Finally, auxiliary services income rose \$4 million from \$40.9 million to \$44.9 million, or 9.8 percent. And sales and services income of educational departments rose from \$57 million to \$64.2 million, an increase of \$7.2 million or 12.6 percent.

Summary of Current Expenditures

Total cash expenditures for current operations in fiscal 1973-74 rose by \$26.3 million from \$306,543,940 to \$332,758,490, an 8.6-percent increase over the previous year. The difference between the total income (\$349.5 million) and the total expenditures (\$332.8 million) reflects the University's use of a cash flow and encumbrances accounting system. That is, encumbrances are not treated as expenditures until an invoice is paid.



The increase in this difference, from \$8.7 million in fiscal 1972-73 to \$16.8 million this year, is due to an increased volume of encumbrances, changed payment schedules, and transfers among fund groups.

The largest increase in expenditures came in the area of general and educational expenses, which rose by \$24.6 million from \$260 million to \$284.6 million, a 9.5-percent increase. This category now accounts for 71.1 percent of the budget.

Of the subcategories included in this classification, the largest dollar increase came in instruction and departmental research, which rose \$9.4 million from \$95.6 million to \$105 million, a 9.8-percent increase. General administration expenditures showed the largest percentage increase, rising from \$6.6 million to \$7.7 million—a 16.7-percent increase. This increase was partially due to increases in fringe benefits and increased computer operation costs. On the other hand, general expenses rose only 3.6 percent.

Physical plant expenditures continued to show a high rate of increase (due largely to new buildings coming on line), rising about 14 percent from \$20.0 million to \$22.8 million. The rate of increase was slower than the 19-percent increase reported the previous year, but this is due in large part to the deferral of needed maintenance projects as mentioned in the opening section of this report. Through these activities about \$1 million was slashed from the plant operation budget. Had that cut not been made, another 19-percent increase would have occurred in physical plant expenditures.

Sponsored research expenditures rose from \$45 million to \$47.9 million, an increase of \$2.9 million or about 6 percent. The largest source of research funds continued to be the federal government, which supplied \$35.2 million or 73.5 percent of sponsored research funds. Gift sponsored research sources were down slightly, state sources up slightly, and endowed research resources were stable.

On the expenditure side the largest portion of the \$2.9 million increase in sponsored research was in the health science areas. Research in this category increased by \$1.9 million, or about two thirds of the total increase. Research expenditures in agriculture and in other academic areas were each up by about \$.5 million, while research expenditures in technological areas remained stable, as the charts and tables indicate. (See next page.)

Auxiliary service expenditures rose from \$36.6 million to \$40.4 million, a \$3.8 million increase or about 10.4 percent. This increase is close to the overall 10.8-

Sponsored Research 1969-1974
Source of Income
(In millions of dollars)

	1969-70	1970-71	1971-72	1972-73	1973-74
SOURCE					
Federal	\$29.4	\$28.7	\$29.2	\$32.6	\$35.2
Gift	4.4	5.2	5.5	6.6	6.2
State	3.7	4.1	4.7	5.3	6.0
Endowed	.5	.4	.4	.5	.5
Totals	\$38.0	\$38.4	\$39.8	\$45.0	\$47.9

percent increase in the University budget and was due in large part to inflation in the form of higher food and material prices.

Finally, there is the matter of student aid. According to the totals shown, student aid expenditures decreased for the same reason income in that area decreased—the exclusion of costs of medical fellows' stipends. When the actual cost of this program (\$4.1 million) is added to the student aid expenditure category to achieve statistical comparability, it can be seen that student aid expenditures actually rose from about \$9.9 million to \$11.9 million, a \$2 million increase or 20 percent. However, it should also be pointed out that this exceeds the revenues available for student aid by \$2 million. In other words, the University budgeted approximately \$2 million from general operations and maintenance funds to meet rising student aid needs. The University does not anticipate that it will be able to continue to increase resources to meet expenditure requirements in this area. (A separate section on student aid developments follows. The larger fund totals shown in that section are due to the fact that the Office of Student Financial Aid includes monies in its records which do *not* flow through University accounts—grants and gifts that go directly to students.)

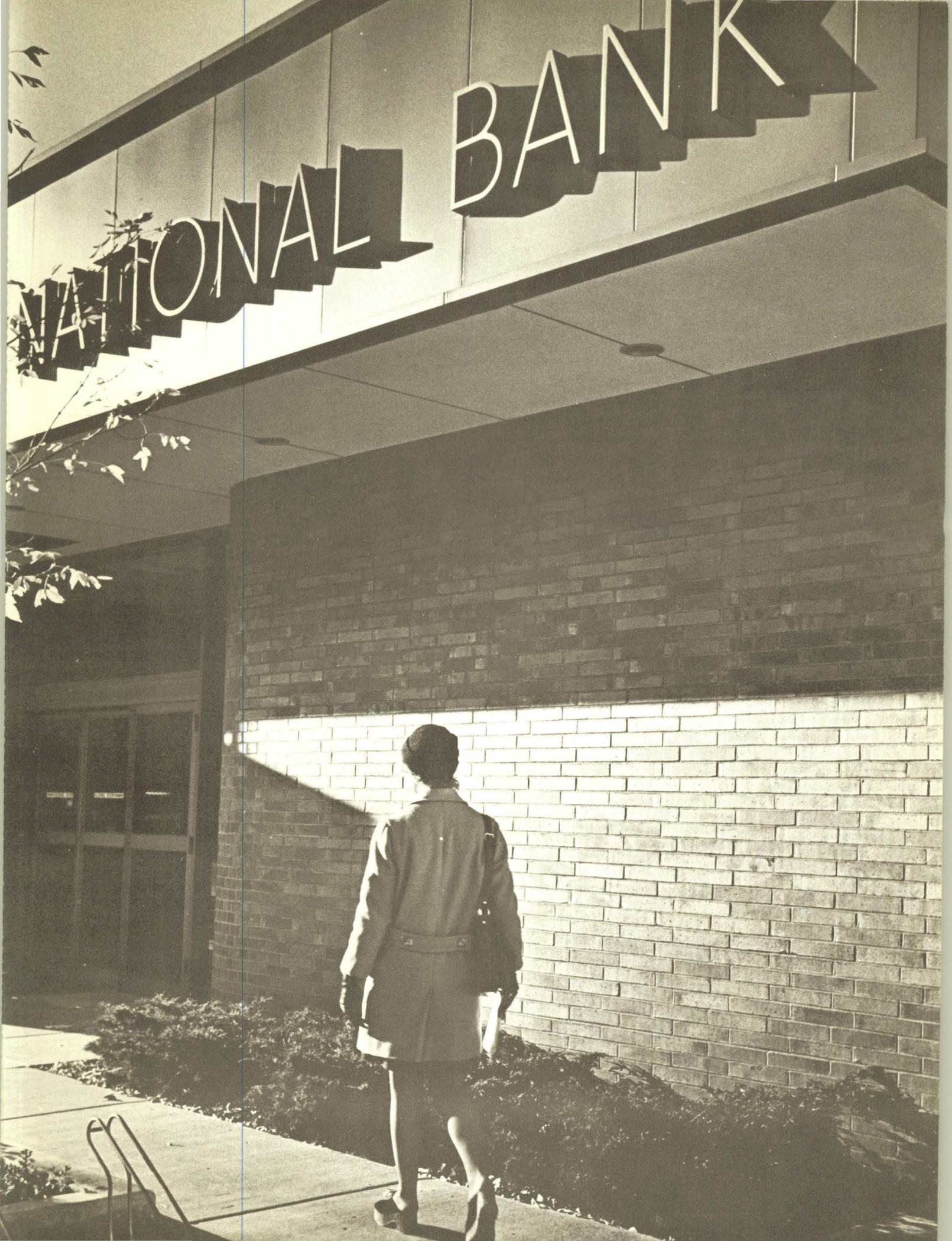
Sponsored Research 1969-1974
Expenditures by Area
(In millions of dollars)

	1969-70	1970-71	1971-72	1972-73	1973-74
AREA					
Health Sciences*	\$17.8	\$16.6	\$18.4	\$21.3	\$23.2
Technological**	9.6	9.6	8.7	9.1	9.1
Other Academic	5.7	6.8	6.9	8.6	9.1
Agricultural	4.9	5.4	5.7	6.0	6.5
Totals	\$38.0	\$38.4	\$39.8	\$45.0	\$47.9

* Includes Medical School Veterinary Medicine, Pharmacy, and Dentistry
** Includes Institute of Technology and Space Science Center

Detail of Expenditures for Sponsored Research

	1973-74	1972-73
Technological Areas		
Institute of Technology	\$ 8,717,562	\$ 9,117,881
Space Science Center	335,835	
Health Sciences Areas		
Health Sciences	22,829,028	20,930,769
College of Veterinary Medicine	367,413	426,793
Agricultural Areas		
Institute of Agriculture	6,545,653	6,013,763
Other Academic Areas		
College of Liberal Arts	1,961,478	1,839,781
College of Biological Sciences	1,400,993	1,398,607
College of Education	1,999,660	1,685,220
College of Business Administration	277,538	157,080
Duluth	785,272	416,338
Graduate School	1,760,359	1,728,361
Other Units	941,346	1,285,000
Totals	\$47,922,137	\$44,999,862



BALANCE SHEET

Assets

	June 30, 1974	June 30, 1973
Current Funds:		
UNRESTRICTED:		
Cash and Temporary Investments (1)	\$ 12,292,272	\$ 10,642,100
Contingent Fund	270,000	270,000
Insurance Premium Deposits	777,007	2,574,311
Accounts Receivable	4,638	20,173
State Appropriation Receivable	10,111,363	6,908,518
Stores Inventory	150,000	150,000
Permanent University Fund — Investment Income Receivable	502,898	420,839
TOTAL UNRESTRICTED	24,108,178	20,985,941
RESTRICTED:		
Cash and Temporary Investments (1)	14,996,804	8,362,164
Contingent Fund	85,000	85,000
State Appropriation Receivable	2,177,387	1,400,676
Accounts Receivable — Hospital	516,410	366,995
Prepaid Expense	69,519	—0—
Postage Inventory	42,807	31,942
Group Income Pool Investments (2)	7,325,000	6,225,000
Jobs in Process	664,358	834,753
Group Investment Fund — Accrued Interest Receivable	261,083	268,381
TOTAL RESTRICTED	26,138,368	17,574,911
AUXILIARY SERVICES:		
Cash and Temporary Investments (1)	2,075,086	585,847
Contingent Fund	25,000	25,000
Group Income Pool Investments (2)	5,200,000	6,490,000
MSA Housing Corporation — Mortgage	14,752	—0—
Accounts Receivable	737,224	506,750
Stores Inventory	1,075,458	545,933
TOTAL AUXILIARY SERVICES	9,127,520	8,153,530
Total Current Funds	\$ 59,374,066	\$ 46,714,382
Student Loan Funds:		
Cash and Temporary Investments (1)	864,556	717,843
Group Income Pool Investments (2)	439,406	439,405
Notes Receivable	25,710,119	22,606,602
Collateral at Bank	25,210	25,210
Total Student Loan Funds	\$ 27,039,291	\$ 23,789,060

See accompanying notes to Financial Statements.

BALANCE SHEET

Liabilities and Fund Balances

June 30, 1974 June 30, 1973

Current Funds:

UNRESTRICTED:

Reserved for Contingent Fund	\$ 270,000	\$ 270,000
Reserved for Stores Inventory	150,000	150,000
Sales Taxes Payable	217	—0—
Investment Expense Payable	35,864	39,465
Payable to Other Fund Groups	85,000	—0—
Fee Refunds	(1,067)	(2,167)
Deferred Revenue	1,743,491	1,492,424
Accrued Fringe Benefits Payable	4,240,239	3,496,104
Fund Balances:		
Open Requisitions	10,585,778	8,348,803
Open Authorizations	5,899,971	6,115,060
Fund Balances	1,098,685	1,076,252
TOTAL UNRESTRICTED	24,108,178	20,985,941

RESTRICTED:

Reserved for Contingent Fund	85,000	85,000
Reserved for Deferred Revenue	41,457	—0—
State and Federal Taxes Payable	850,634	1,777,552
Payable to Other Fund Groups	395,529	—0—
Insurance Premium and OASI Deposits	2,230,902	1,928,130
Deposits and Revolving Accounts	231,304	180,292
Federal Advance Benefits	3,551,094	(189,333)
Temporary Investment Balances (3)	(722,523)	(525,346)
Fund Balances:		
Open Requisitions	11,366,671	8,514,018
Open Authorizations	1,707,007	1,323,668
Temporary Investment Reserve	431,358	431,358
Fund Balances	5,969,935	4,049,572
TOTAL RESTRICTED	26,138,368	17,574,911

AUXILIARY SERVICES:

Reserved for Contingent Fund	25,000	25,000
Reserved for Stores Inventory	233,787	233,787
State Sales Taxes Payable	19,465	—0—
Deposits and Revolving Accounts	87,808	53,276
Deferred Revenue	1,045,288	844,947
Fund Balances:		
Open Requisitions	1,226,341	1,049,225
Open Authorizations	392,593	257,628
Food Store Reserves	230,000	230,000
Fund Balances	5,867,238	5,459,667
TOTAL AUXILIARY SERVICES	9,127,520	8,153,530

Total Current Funds

\$ 59,374,066 \$ 46,714,382

Student Loan Funds:

Loan Funds	\$ 27,036,791	\$ 23,786,560
Reserve for Loan Funds (4)	2,500	2,500
Total Student Loan Funds	\$ 27,039,291	\$ 23,789,060

See accompanying notes to Financial Statements.

BALANCE SHEET

Assets

	June 30, 1974	June 30, 1973
Endowment and Similar Funds:		
ENDOWMENT FUNDS:		
Cash	\$ 378,028	\$ (296,108)
Investments (5)	72,065,967	85,534,452
TOTAL ENDOWMENT FUNDS	72,443,995	85,238,344
ANNUITY FUNDS:		
Cash	1,959	9,203
Investments	148,953	388,392
TOTAL ANNUITY FUNDS	150,912	397,595
Total Endowment and Similar Funds	\$ 72,594,907	\$ 85,635,939
Plant Funds:		
UNEXPENDED:		
Cash and Temporary Investments (1)	\$ 23,656,769	\$ 20,945,467
Group Income Pool Investments (2)	22,072,000	17,090,000
Inter-Fund Loan	480,529	—0—
Accounts Receivable	21,298	41,103
Anticipated Income	56,638,848	77,540,190
TOTAL UNEXPENDED	102,869,444	115,616,760
REPAIRS AND REPLACEMENT:		
Assets Held by Trustee	2,137,079	1,787,239
RETIREMENT OF INDEBTEDNESS:		
Assets Held by Trustee	1,932,567	1,858,470
Total Plant Funds	\$ 106,939,090	\$ 119,262,469
Investment in Plant:		
Land	\$ 21,851,759	\$ 22,155,946
Buildings	370,761,195	334,960,860
Improvements other than Buildings	23,738,699	21,708,126
Equipment	114,761,234	106,331,330
Museum Collections	3,766,640	3,672,338
Library and Reference Books	24,535,315	22,284,405
Livestock	865,911	908,035
Total Plant Investment	\$ 560,280,753	\$ 512,021,040
Agency Funds:		
Cash	\$ 1,319	\$ (4,462)
Investments	451,245	356,234
Total Agency Funds	\$ 452,564	\$ 351,772

See accompanying notes to Financial Statements.

BALANCE SHEET

Liabilities and Fund Balances

	June 30, 1974	June 30, 1973
Endowment and Similar Funds:		
ENDOWMENT FUNDS:		
Fund Balances:		
Permanent University Fund	\$ 38,727,915	\$ 46,391,306
Group Investment Fund	31,167,815	35,829,831
Separately Invested Funds	2,548,265	3,017,207
TOTAL ENDOWMENT FUNDS	72,443,995	85,238,344
ANNUITY FUNDS:		
Fund Balances	150,912	397,595
Total Endowment and Similar Funds	\$ 72,594,907	\$ 85,635,939
Plant Funds:		
UNEXPENDED:		
Notes Payable	\$ 841,395	\$ 434,385
Bonds Payable	1,581,893	1,790,488
Fund Balances:		
Open Requisitions	27,182,674	32,769,201
Open Authorizations	4,111,006	3,525,074
Reserve for Certificates	1,882,729	1,694,907
Fund Balances	67,269,747	75,402,705
TOTAL UNEXPENDED	102,869,444	115,616,760
REPAIRS AND REPLACEMENT:		
Fund Balances	2,137,079	1,787,239
RETIREMENT OF INDEBTEDNESS:		
Fund Balances	1,932,567	1,858,470
Total Plant Funds	\$ 106,939,090	\$ 119,262,469
Invested in Plant:		
Notes Payable	\$ 10,982,969	\$ 7,622,763
Bonds Payable	25,080,107	22,861,512
Net Investment in Plant	524,217,677	481,536,765
Total Plant Investment	\$ 560,280,753	\$ 512,021,040
Agency Funds:		
Deposits Held in Custody for Others	452,564	351,772
Total Agency Funds	\$ 452,564	\$ 351,772

See accompanying notes to Financial Statements.

Statement of Changes in Fund Balances

Year Ended June 30, 1974

		Current Funds			
		Unrestricted	Restricted	Auxiliary Services	
Revenues and Other Additions	STUDENT FEES	\$ 32,385,715	\$ 573,925	\$	
	PUBLIC APPROPRIATIONS:				
		State Maintenance	91,434,263		
		State Specials		26,562,179	
		State Specials — Plant			
		Federal		5,828,621	
		SALES, SERVICES AND MISCELLANEOUS INCOME	16,737,488	47,445,618	
		ENDOWMENT INCOME		1,271,421	
		CONTRACTS, GIFTS AND GRANTS: Research		42,315,692	
		Instruction, Public Service		32,710,429	
		OTHER SOURCES		1,116,288	
		AUXILIARY SERVICES			42,438,469
		INTERCOLLEGIATE ATHLETICS — ALL CAMPUSES			2,413,364
		STUDENT AID:			
		Gifts and Grants		6,015,187	
		Endowment Income		101,645	
		Other		182,770	
		STUDENT LOAN FUNDS:			
		Gifts			
		Interest Income			
	ENDOWMENT FUNDS:				
	Gifts				
	Earnings Reinvested				
	Adjustments				
	PLANT FUNDS OTHER THAN STATE: Unrestricted				
	Restricted				
	BONDS ISSUED				
	NOTES ISSUED				
		\$ 140,557,466	\$ 164,123,775	\$ 44,851,833	
Expenditures and Other Deductions	CURRENT FUND EXPENDITURES:				
		Salaries and Wages	\$ 93,831,672	\$ 83,808,930	\$ 14,493,214
		Supplies and Expense	40,896,195	65,471,237	25,168,283
		Equipment	1,964,236	5,016,840	822,467
		Other	790,378	386,566	108,472
		LOAN CANCELLATIONS AND OTHER DEDUCTIONS			
		ANNUITY DEDUCTIONS AND PAYMENT			
		PLANT FUNDS:			
		Unrestricted			
		State Appropriations			
		Auxiliary Services			
		Other Restricted			
		RETIREMENT OF INDEBTEDNESS			
			\$ 137,482,481	\$ 154,683,573	\$ 40,592,436
	Transfers and Adjustments	TRANSFERS TO CURRENT TO PROVIDE FOR INTEREST ON INDEBTEDNESS	\$	\$	\$
TRANSFERS BETWEEN FUNDS — ADDITIONS (DEDUCTIONS)		(888,126)	(4,457,002)	(3,534,745)	
INCREASE IN ANTICIPATED INCOME					
OTHER ADJUSTMENTS AND CORRECTIONS (6)		(142,540)	173,155	(5,000)	
Net Increase (Decrease) for the Year		\$ 2,044,319	\$ 5,156,355	\$ 719,652	
Fund Balances at Beginning of the Year		15,540,115	14,318,616	6,996,520	
Fund Balances at End of the Year		\$ 17,584,434	\$ 19,474,971	\$ 7,716,172	
Detail of Balances at End of the Year	ENCUMBRANCES	\$ 16,485,749	\$ 13,073,679	\$ 1,618,934	
	FOOD STORES			230,000	
	TEMPORARY INVESTMENTS			431,358	
	UNOBLIGATED ALLOTMENTS			4,862,610	
	UNALLOTTED FUNDS	828	1,107,324	1,478,701	
	DESIGNATED BALANCES	1,097,857			
	ANTICIPATED INCOME				
			\$ 17,584,434	\$ 19,474,971	\$ 7,716,172

See accompanying notes to Financial Statements.

Student Loan Funds	Endowment and Similar Funds	Annuity Funds	Plant Funds			
			Unexpended	Equipment, Repairs and Replacement	Retirement of Indebtedness	Net Investment in Plant
\$	\$	\$	\$	\$	\$	\$
			15,767,077			
2,694,122						
400,734						
	2,171,550					
	220,275	3,170				
	(13,936,506)					
			995,013			
			14,502,500	115,305	123,124	
			2,475,000			
			4,580,000			
\$ 3,094,856	\$ (11,544,681)	\$ 3,170	\$ 38,319,590	\$ 115,305	\$ 123,124	\$
\$	\$	\$	\$	\$	\$	\$
						7,803,543
						1,285,417
493,691						
		250,653				
			1,004,369			710,174
			17,262,525			16,531,377
			7,216,822			6,388,177
			12,848,851			12,690,456
			812,784		465,000	
\$ 493,691	\$	\$ 250,653	\$ 39,145,351	\$	\$ 465,000	\$ 45,409,144
\$	\$	\$	\$	\$	\$ (811,329)	\$
229,893	(1,249,668)	800	9,248,339	234,535	1,227,302	
			(20,901,342)			
419,173			(268,552)			2,850,569
\$ 3,250,231	\$ (12,794,349)	\$ (246,683)	\$ (12,747,316)	\$ 349,840	\$ 74,097	\$ 48,259,713
23,789,060	85,238,344	397,595	115,616,760	1,787,239	1,858,470	512,021,040
\$ 27,039,291	\$ 72,443,995	\$ 150,912	\$ 102,869,444	\$ 2,137,079	\$ 1,932,567	\$ 560,280,753
\$	\$	\$	\$ 34,672,325	\$	\$	\$
			2,253,346			
27,039,291	72,443,995	150,912	9,304,925	2,137,079	1,932,567	560,280,753
			56,638,848			
\$ 27,039,291	\$ 72,443,995	\$ 150,912	\$ 102,869,444	\$ 2,137,079	\$ 1,932,567	\$ 560,280,753

See accompanying notes to Financial Statements.

Statement of Current Funds Revenues Expenditures and Other Changes

	June 30, 1974			June 30, 1973
	Unrestricted	Restricted	Total	Total
Revenues:				
EDUCATIONAL AND GENERAL:				
Student Tuition and Fees	\$ 32,385,715	\$ 573,925	\$ 32,959,640	\$ 29,296,048
Government Appropriations:				
State	91,434,263	26,562,179	117,996,442	104,034,146
Federal		5,828,621	5,828,621	6,658,105
Sales, Services of Educational Departments	16,737,488	47,445,618	64,183,106	57,020,164
Endowment Income		1,370,791	1,370,791	1,426,142
Contracts, Gifts and Grants:				
Sponsored Research		42,216,322	42,216,322	38,643,294
Other Current Purposes		32,710,429	32,710,429	26,274,267
Other Sources		1,116,288	1,116,288	774,341
TOTAL EDUCATIONAL & GENERAL	\$ 140,557,466	\$ 157,824,173	\$ 298,381,639	\$ 264,126,507
Auxiliary Services	\$ 44,851,833	\$	\$ 44,851,833	\$ 40,854,505
Student Aid:				
Gifts and Grants		6,197,957	6,197,957	10,137,486
Endowment Income		101,645	101,645	170,178
Total Revenues	\$ 185,409,299	\$ 164,123,775	\$ 349,533,074	\$ 315,288,676
Expenditures:				
EDUCATIONAL AND GENERAL:				
General Administration	\$ 6,582,840	\$ 1,070,587	\$ 7,653,427	\$ 6,585,243
General Expense	5,899,152	486,351	6,385,503	6,164,128
Instruction & Departmental Research	72,911,860	32,117,755	105,029,615	95,581,035
Libraries	5,037,814	1,249,224	6,287,038	5,894,752
Organized Activities Relating to Instructional Departments	4,265,466	43,019,576	47,285,042	43,252,167
Extension and Public Service	8,307,572	20,406,375	28,713,947	26,490,996
Budgeted and Sponsored Research	5,114,930	48,482,970	53,597,900	50,149,078
Physical Plant Operations	22,285,594	542,159	22,827,753	19,966,342
Student Services	6,213,495	577,154	6,790,649	5,902,920
TOTAL EDUCATIONAL & GENERAL	\$ 136,618,723	\$ 147,952,151	\$ 284,570,874	\$ 259,986,661
Auxiliary Services	\$ 40,256,292	\$ 119,869	\$ 40,376,161	\$ 36,633,347
Student Aid	1,199,902	6,611,553	7,811,455	9,923,932
Total Expenditures	\$ 178,074,917	\$ 154,683,573	\$ 332,758,490	\$ 306,543,940
Transfers, Increases (Decreases) in Obligations and other Adjustments	\$ 7,334,382	\$ 9,440,202	\$ 16,774,584	\$ 8,744,736

See accompanying notes to Financial Statements.

Student Aid Funds

During the 1973-74 year, aid distributed by the student financial aid offices for the five campuses of the University continued to grow. While final figures are still being completed, it is estimated that gifts, grants, and loans awarded increased by at least 10 percent over 1972-73 to about \$21.7 million and that the number of student applications also increased by a similar percentage. The major factor causing this continued growth in need for student financial aid is, of course, the increasing cost of education. Student costs have increased each year and in light of the rapid inflation will do so in the foreseeable future.

Students are continuing to borrow funds from a variety of sources. Early in 1974, the state of Minnesota became a lending agency. The state—as well as many banks and savings and loan associations—now processes Federally Insured Student Loans. In addition, many different types of loans are available through the University. Student indebtedness continues to increase. This factor is evident in University records, which indicate a growing number of outstanding loans of various kinds. Special efforts continue to be made to improve collections from former students.

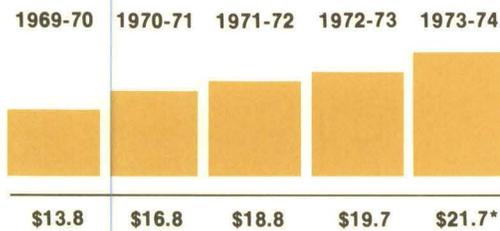
Another factor that is continuing to affect student aid is the societal trend toward early student emancipation. The 18-year-old majority law has not been in effect very long. It cannot accurately be predicted what the final results will be, but it seems evident that a greater number of students each year will achieve a self-supporting or independent status at relatively earlier ages. This fact will mean that the University and other colleges will be called upon to provide additional financial aid to replace parental contributions.

These factors, when combined, indicate that the growth in student aid will and must continue if higher education is to be accessible to the majority of citizens in the state.

Endowment funds of the University are segregated into three separate pools for administrative control and investment management. Almost all investment decisions are made by professional investment managers, a policy authorized by the Regents at the end of 1969.

Like that of most similar investment portfolios, the market value of the University's endowment funds declined substantially in the face of massive deterioration in both the equity and bond markets. This is the second consecutive year in which there has been a reduction in the market value of the endowment. Be-

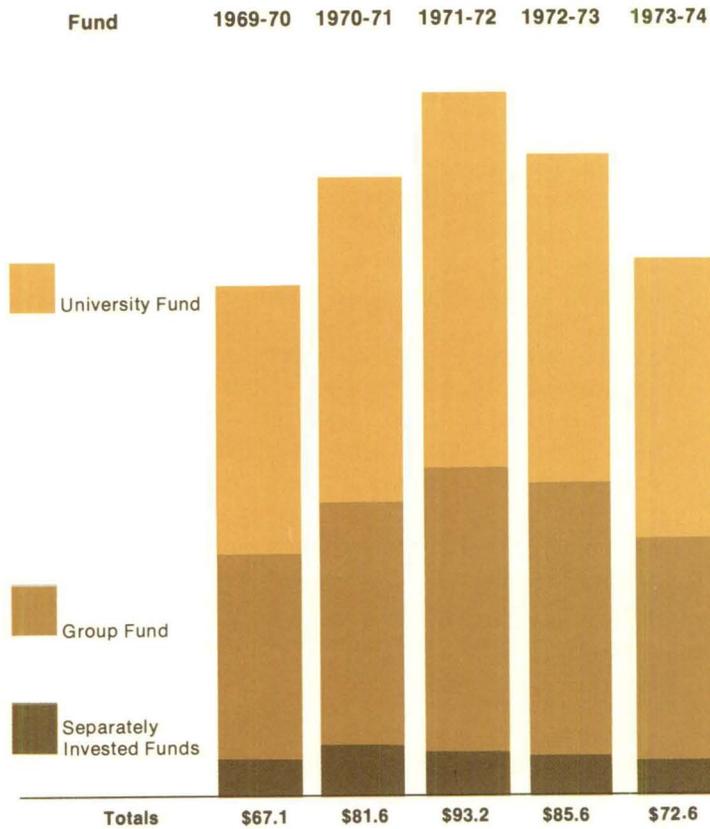
Student Aid Expenditures 1969-1974
(In millions of dollars)



* Estimated

Endowment Funds

Endowment Value 1969-1974 (In millions of dollars)



*In this and subsequent years, the market value is given. Previously, the University had listed book values on endowment funds.

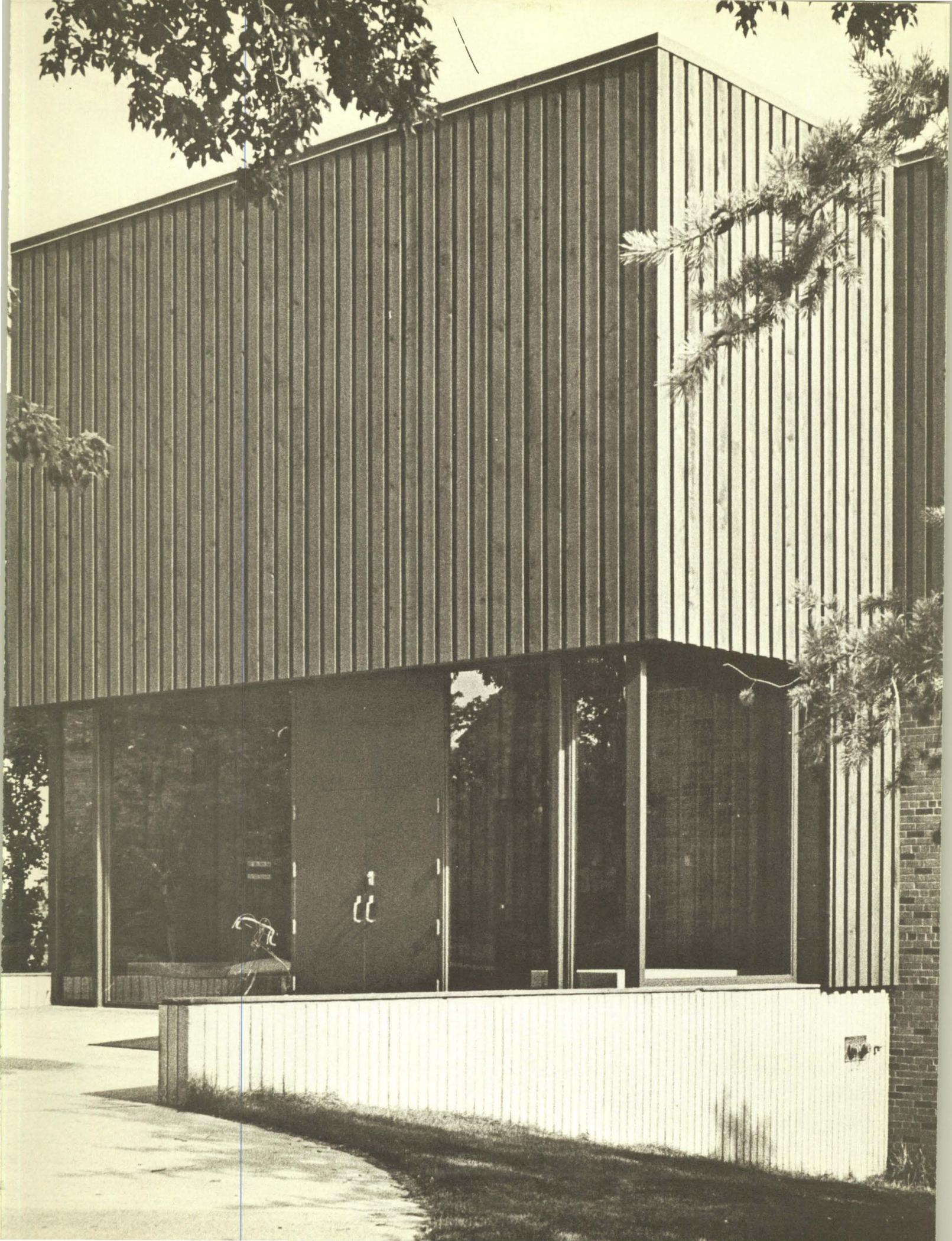
cause the basic makeup of the University's portfolio is relatively conservative, it has not suffered nearly as much as investors in general.

It is important to note that despite the market deterioration, the income generated by the endowment funds was higher than in the previous year, and that from an operating standpoint events in the market had no direct effect on the programs supported by these endowments. Obviously, the University is concerned over the long-term implications of the recent market developments, but it is convinced that the long-term strategy is sound and that stability of income is an adequate short-term goal.

The Permanent University Fund had a market value of \$38.7 million on June 30, 1974, showing a net market decline of 12.5 percent for the fiscal year. Yield on investment, however, increased from \$2.4 million, or 5 percent, last year, to \$2.5 million, or 5.8 percent, in fiscal 1974.

The Group Investment Fund market value was \$31.3 million on June 30, 1974, a net decline of 11.4 percent. Yield on the Group Investment Fund increased from \$1.6 million, or 3.8 percent, last year, to \$2.0 million, or 5.4 percent, in fiscal 1974.

Separately invested funds decreased 8 percent, showing a market value of \$2.5 million at fiscal year end.



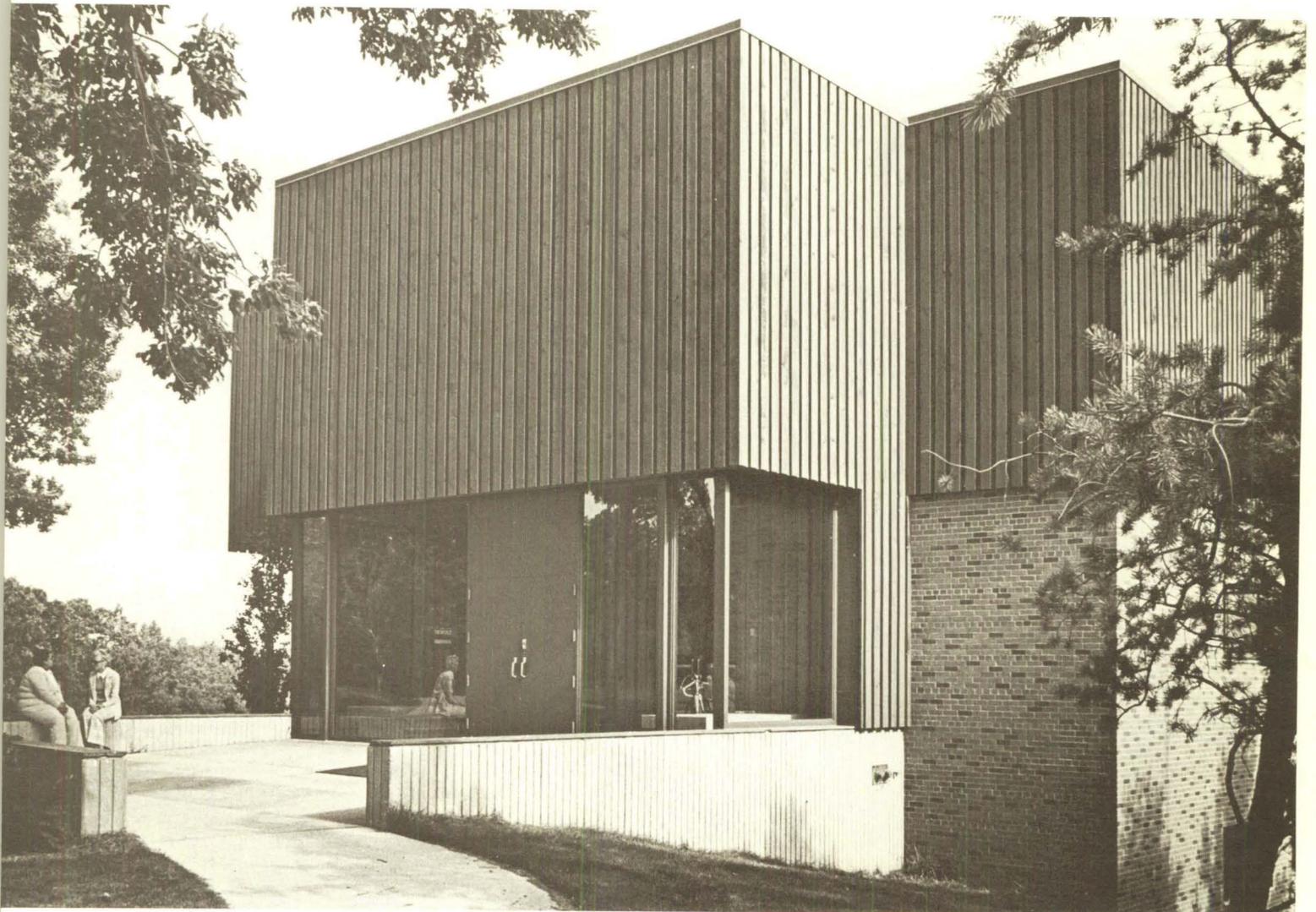
Building Program

Expenditures of Plant Funds totaled \$38,332,567, down significantly from the \$51,557,019 expended in fiscal 1972-73.

This reduction was due in large part to the fact that a number of major building projects—particularly in Health Sciences—are now complete or near completion.

The state of Minnesota continued to provide the largest share of these funds, contributing about \$15.8 million, or 40.2 percent, of total building funds. (Last year, state contributions amounted to about two thirds of the total.) The federal government contributed \$6.8 million, down from \$10.4 million last year. Private contributions and transfers between funds accounted for the remaining monies.

Once again, the major portion of these funds was expended on the construction of new facilities for the Health Sciences. In Minneapolis, \$4.6 million was ex-



Detail of Plant Fund Expenditures

	1973-74	1972-73
Minneapolis	\$23,649,662	\$31,706,717
St. Paul	5,324,806	7,319,959
Duluth	5,472,063	6,601,018
Morris	2,560,073	3,157,421
Crookston, Waseca & Branch Stations	1,325,963	2,771,904
Totals	\$38,332,567	\$51,557,019

Land Value

Location	Acquisition Cost
Minneapolis	\$18,074,321
St. Paul	1,760,964
Duluth	293,629
Morris	169,859
Crookston	234,880
Waseca	235,291
Branch Stations	980,590
Total	\$21,749,534

Capital Assets

Detail of Building Valuation (by location)	Original Cost
Minneapolis	\$229,791,917
St. Paul	63,588,698
Duluth	37,846,594
Morris	17,924,360
Crookston	4,888,027
Waseca	4,115,418
Rosemount Research Center	778,043
Off-Campus Buildings	3,147,269
Branch Stations	8,680,869
Total	\$370,761,195

Other Capital Assets

	Equipment	Books & Museum Collections	Livestock	Total by Campus
Minneapolis	\$ 62,456,833	\$23,271,652		\$ 85,728,485
St. Paul & Stations	13,272,926	1,863,794	\$865,910	16,002,630
Duluth	3,791,467	2,207,610		5,999,077
Morris	1,137,078	723,134		1,860,212
Crookston	631,925	113,611		745,536
Waseca	424,192	120,605		544,797
Support Services	13,897,482			13,897,482
Trust Funds	19,149,331	1,550		19,150,881
Totals	\$114,761,234	\$28,301,956	\$865,910	\$143,929,100

pended on the Variety Club Heart Hospital expansion, \$12.1 million was spent on the completion of Health Sciences Unit A, and \$2.6 million was expended on the Health Sciences Parking Ramp. Other projects were also undertaken at the Minneapolis location, including a \$.5 million expenditure for Phase I of pollution control equipment.

In St. Paul, major building expenditures included \$1.5 million on an addition to Commonwealth Terrace and \$1.2 million on an animal housing facility. Another \$.8 million was spent on a new classroom-office building.

On the Duluth campus, major projects included \$1.6 million expended on a classroom-laboratory building, \$1.3 million on a student housing unit, and about \$.8 million on both theatre and physical education facilities.

At Morris, major expenditures included \$1.7 million on the humanities building and \$.6 million on Phase II of library construction.

Minor improvements at Crookston, Waseca, and all other locations accounted for the remaining expenditures of Plant Funds.

NOTES TO FINANCIAL STATEMENTS

- (1) Amounts shown as Cash and Temporary Investments represent the respective equities of the several funds in an undivided cash and securities pool, which had a market value of:

Cash Temporary Investment

June 30, 1974	June 30, 1973
\$(9,490,398)	\$(7,301,452)
64,061,129	48,172,697
<u>\$54,570,731</u>	<u>\$40,871,245</u>

- (2) The Group Income Pool is made up of funds designated for specific purposes, such as expansion and remodeling of dormitories. These funds are usually accumulated over a period of years, and investments in this pool are generally longer term than those in the Temporary Pool. Amounts shown as Invested in Group Pool represent the respective equities of the several funds in an undivided cash and securities pool that had a market value on June 30, 1974, of \$32,811,910.
- (3) This amount is an adjustment to market value influenced by the amount available for investment.
- (4) Reserve for Loan Funds does not reflect funds in the amount of \$352,698 invested in the Group Investment Pool.
- (5) Endowment Funds are carried at market value except for a minor amount of assets held by the University for which a market value is not readily available and which are presumed to be at market value. A detailed listing of the assets is available on request. Endowments are reduced by a mortgage payable in amount of \$11,153.
- (6) These amounts, except for net investment in Plant, are primarily due to entries made on an incorrect type of document, which resulted in an inconsistency with the computer program. The entries have been identified and reconciled.