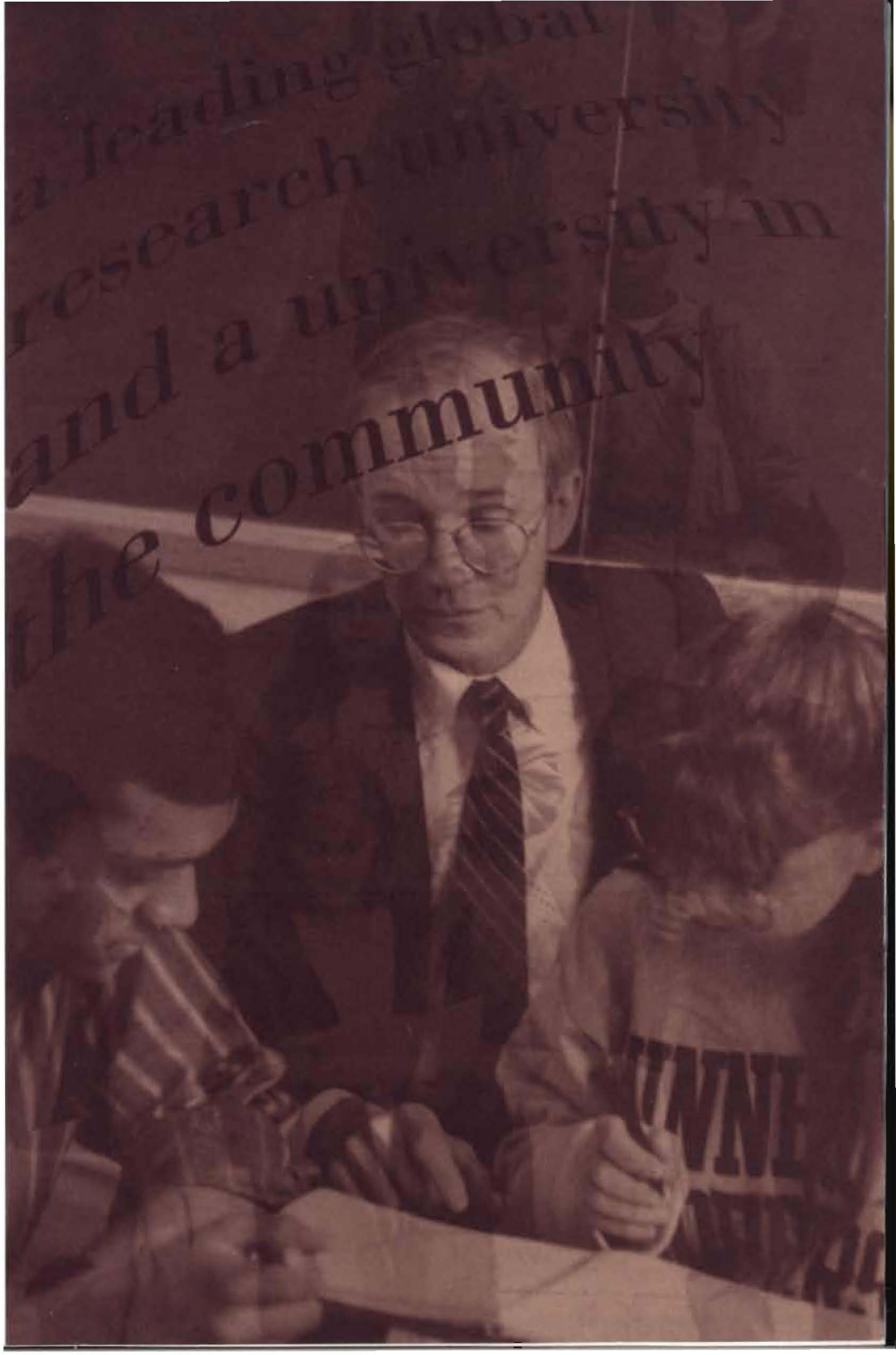
University of Minnesota

Annual Report

Resource management helps attain the University's goals.

1993



A Profile of the University of Minnesota

History

The University of Minnesota was founded as a preparatory school in 1851, seven years before the territory of Minnesota became a state. The Morrill Act or Land-Grant Act, signed into law by President Lincoln in 1862, played a big part in the school's survival. The act gave each state a grant of land within its borders; the income from the land was to be used to provide education for people of the state.

In 1869 the school reorganized and became an institution of higher education. At the first commencement four years later, two students received bachelor of arts degrees. The first doctor of philosophy degree was awarded in 1888. In that same year, the Department of Agriculture opened on the University Farm in St. Paul.

The Duluth campus joined the University in 1947; the Morris campus opened in 1960, the Crookston campus in 1966. The Waseca campus, which opened in 1971, closed in August 1992.

Enrollment (fall quarter 1992)	Men	Women	Total
Twin Cities	19,972	18,047	38,019
Duluth	4,061	3,588	7,649
Crookston	647	705	1,352
Morris	841	1,082	1,923
Total Collegiate	25,521	23,422	48,943
Extension Classes			21,864
Grand Total			70,807

Minority Enrollment (fall quarter 1992)	
All campuses	4,380
Asian or Pacific Islander	2,266
African American	1,075
Hispanic	640
American Indian or Alaskan	399

International Students (fall quarter 1992)	
International students representing 125 countries	2,974

Degrees Granted	
Degrees awarded in 1992-93 (including 612 Ph.D.'s)	10,815
Total degrees awarded through June 1993 (including 20,734 Ph.D.'s)	472,918

Dear Friends,

I gave our editorial staff an impossible assignment for this year's Annual Report. "Capture what has happened at the University." That's easy enough to say, but the more realistic goal is to convey what has been accomplished, using critical measures whenever possible.

I'm proud to report again that the University awarded more than 10,000 degrees last year. I'm proud to report again that Minnesota's return on investment from public and private support of the University of Minnesota is alive and well—that University faculty members were awarded 32 new patents and $263 million for sponsored research last year. I'm proud that most measures of personal contacts with Minnesota's citizens have increased again.

Those numbers don't begin to measure the service and impact of University people, as illustrated last spring with Minnesota Extension Service personnel helping farmers and communities cope with flooding and other weather problems. They can't measure what University people contribute by serving in the community, by listening to real needs.

Both kinds of measures, the numbers and the personal stories, are featured in this report. I hope they convey to you a sense of change for the better—a sense that we're not yet where we want to be, but headed in the right direction.

The autumn of 1993 is a crowded calendar of campus and statewide consultation on "University 2000: The University of Minnesota for the 21st Century." I've offered my vision of the University's two-fold role as a leading global research university and a university in the community, both roles, I emphasize, requiring continued improvement in the quality of undergraduate education.

That vision, too, is a "critical measure." It's a measure of my own confidence that the University of Minnesota has already accomplished long-range quality improvements—improvements that validate, reinforce, and encourage a vision of accomplishing much more.

Cordially,

Nils Hasselmo

Nils Hasselmo
President

The story of the University of Minnesota is the story of people: teachers teaching, students learning, faculty members making important research discoveries, people in the community benefiting from the University's knowledge. These five profiles tell some of the stories.

His AIDS research is a continuation of his earlier interest, with a new urgency

Ashley Haase

Working in his lab at 8 o'clock one evening in November, microbiology professor Ashley Haase made a discovery that was too exciting to keep to himself. With a new technique, he was looking at lymph node tissue from an HIV-infected person under his microscope, and he saw that an extraordinarily large number of cells had been infected with the AIDS-causing virus.

"I was on the 15th floor of the Mayo Memorial Building and I didn't find anybody there, so I went to the 14th floor," he says. "I found a graduate student and a postdoc." They both came up to Haase's floor, saw what he had seen, and shared his excitement.

The discovery wasn't good news—it showed that the virus is at work as soon as a person is infected, long before symptoms appear—but it was a major breakthrough in understanding how the disease works.

"My wife asked me, 'What is this going to do for patients?' " Haase says. The answer, in the short run, is probably not much for either diagnosis or treatment. But a more realistic understanding of how AIDS works has to be a step forward, even though the path may look thornier than ever. "The problem is far more complex than anything we have ever had in virology and probably in infectious disease," he says.

Finding a cure for AIDS may be further away than people had hoped, Haase says, but important gains can be made in prolonging and improving the lives of people with AIDS. Earlier treatment with better drugs emerging from the development pipeline may delay the onset of symptoms.

"This is one diabolical, wily customer," Haase says about the AIDS-causing virus. "It can hide effectively. It can replicate itself. It can mutate like crazy. It uses the immune system's own signals to activate itself and destroy the immune system in the process."

Before Haase began studying AIDS, he was working on a group of agents that caused slowly evolving

a major breakthrough in understanding how the disease works

Total funds for research and development in 1991 (most recent year reported): $331.5 million
— ranked 3rd nationally in 1991
— up from 7th in 1990

infectious diseases in sheep and goats. One of these slow agents, the visna virus in sheep, is a distant relative of the AIDS virus.

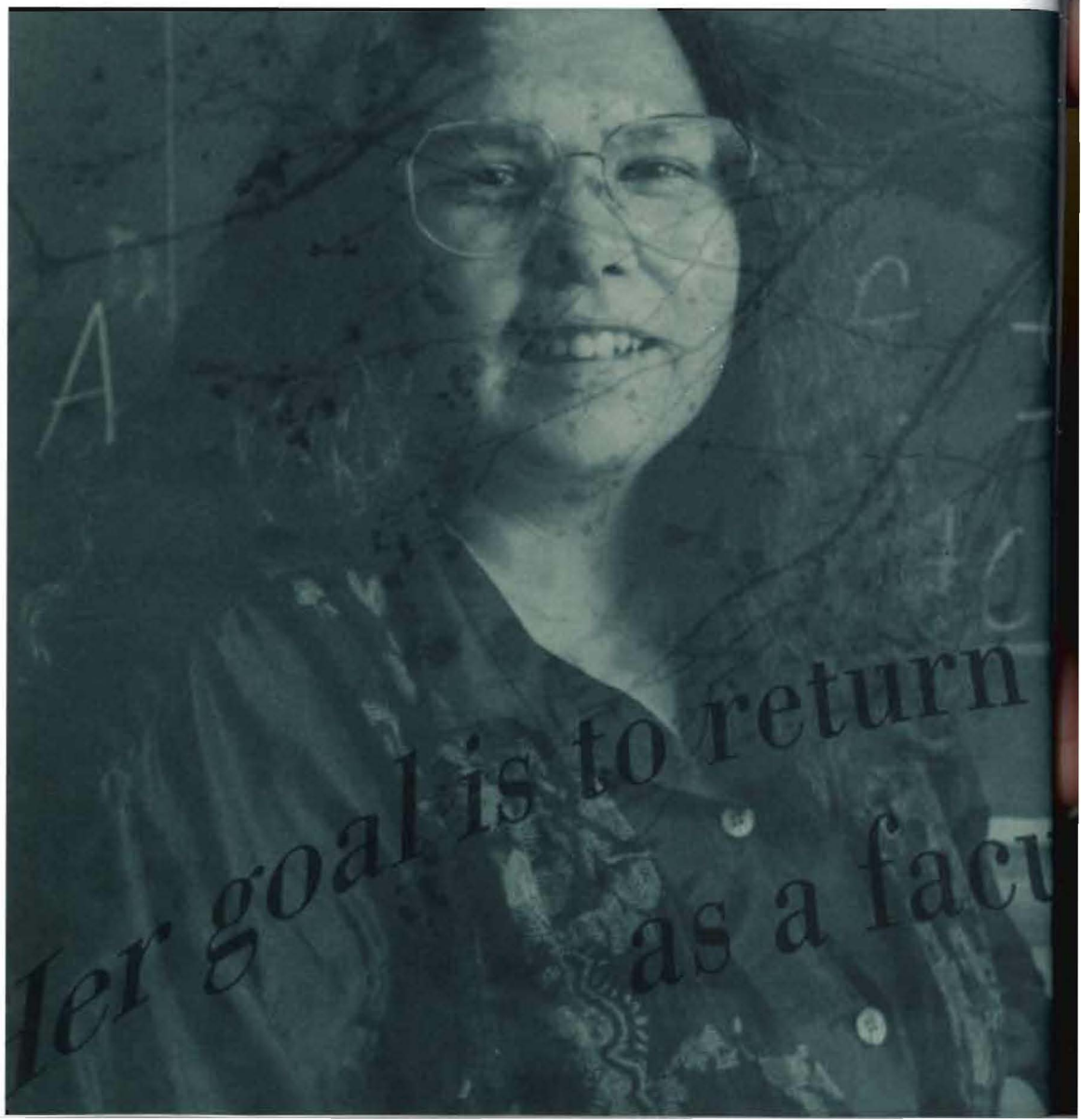
Research on AIDS is a continuation of Haase's earlier interest, with a new urgency. "The human aspect, the terrible toll, is something that energizes you and focuses you," he says. "But what drives you intellectually, day to day, is just the interest in the problem. When I wake up in the morning, I think about very detailed research problems, so we can devise good experiments to get clean results."

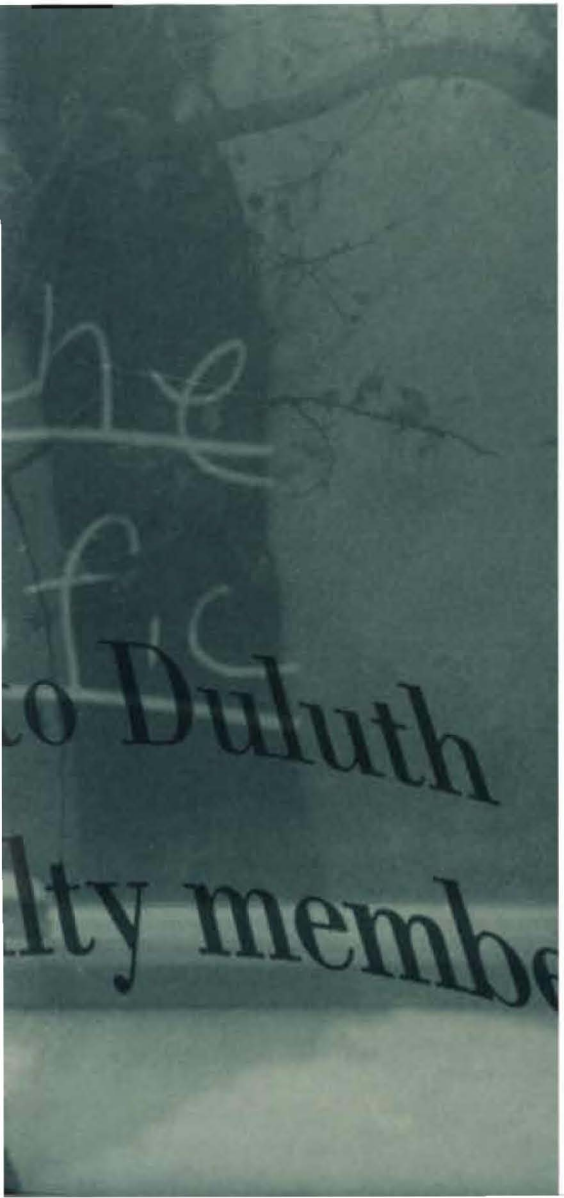
"It can consume about 100 percent of your thinking power," Haase says. "About the only time you're not thinking about it is when you're doing administrative work, or talking to someone who needs your attention."

Haase is a department head and teacher as well as a researcher, but the demands of his schedule have forced him to give up patient care. "For a doctor, that's hard to give up," he says. "You want to be sure that what you're doing in the lab is going to have an impact." ■

Her path led to the Duluth campus and the American Indian Learning Center

Josephine Barber





Federal funds for research and development in 1991: $164.9 million
— ranked 11th nationally in 1991
— up from 14th in 1990

When she was a little girl playing cowboys and Indians, Josephine Barber always wanted to be the Indian. She didn't know it at the time, but she was an American Indian by heritage, an Ojibwa.

Adopted as an infant, Barber believed what her birth certificate said, that she was French. She didn't learn of her Indian ancestry until she was 26.

"It took me another 10 years to really commit to that," she says. Her path led to the Duluth campus—where she received her bachelor's degree this spring—and the American Indian Learning Resource Center.

Discovering she was an Indian was good news for Barber. "For the most part, I was elated," she says. "It gave me permission to be who I was, to think the way I always thought but was afraid to say."

When she was about nine and her pet dog died, Barber remembers, "I asked my dad, 'Where did Cindy's spirit go?' He said, 'Josie, animals don't have spirits.' That was the first time I chose not to believe what he told me. Something inside told me that can't be true."

Barber is still close to her dad—"He's a wonderful, wonderful, caring man," she says—and she doesn't criticize the values of the culture she grew up in. It's just that her own values are Indian values.

Although claiming her Indian identity felt right, Barber found it unsettling to be in the dominant culture one day and a member of a minority group the next. "Walking that red road is not easy," she says. "I have felt prejudice."

Barber credits Ed Schoenborn and Rick Smith from the American Indian Learning Resource Center with helping her sort through the issues. "Whether you're a traditional Indian or more progressive, whether you're from the city or from a reservation, whether you're from outside the Indian community trying to find your way back, they're there for everyone.

"They were my anchor," she says of Schoenborn and Smith. "I don't know where I'd be without them. I

don't think I would have excelled the way I did."

This fall Barber is starting work on her Ph.D. in anthropology on the Twin Cities campus. Her goal is to return to Duluth as a faculty member.

"My fellow students are crying for more American Indian professors. We have Dr. [Robert] Powless. He's a great man. I have learned a lot from him. The Indian community feels the culture is best taught by someone who knows the culture and is American Indian.

"I'd like to spend time on the reservation with the Indian community, learning from them, so I can bring some of that back. I need to learn it myself first."

People, most of them not Indians, tell Barber she will get her Ph.D. and go where the money is. "That value is not there for me," she says. "For me the value is in being of assistance. This will be the way that will be my way." ■

In high school, she was a teen teacher in alcohol decisions, a Minnesota Extension Service program offered in 42 counties

Teri Shingledecker

Before Teri Shingledecker started high school in Hastings, she made a decision not to drink. For her four years in high school, she was also a teen teacher in the Alcohol Decisions program, talking with grade-school students about the decisions they would make.

One concern stands out for the younger students, she says. "If you don't drink, are you going to be a nerd?" Her response: "All the kids who drink still like me. It's not that you're a social outcast."

Alcohol Decisions, a Minnesota Extension Service program, began seven years ago in Dakota County and is now offered in 42 counties, with 22,000 grade school students participating each year.

In Dakota County, extension educator Mary Duncomb got the idea for Alcohol Decisions after talking with some 4-H teenagers about a car accident in which minors had been drinking and two were killed. She sought out expertise from the University. "We're an extension of the University, listening to grass roots or community needs and making a match," she says. Teenagers were trained to go into fourth- and fifth-grade classrooms for three one-hour sessions, talking candidly about the pressures in high school and playing games to make learning fun.

"We teach them different ways to say no," Shingledecker says. "We give them different scenarios and techniques, like the broken record. 'No, I don't want to. No, I don't want to.' They get a kick out of doing those." Other activities include videos, crossword puzzles, and an alcohol awareness version of bingo.

The sessions make an impression on the younger kids, Shingledecker says. "I was in the marching band, and I would go to a football game and kids from three years ago would still remember me," she says.

In her senior year, Shingledecker worked with sixth graders in the Positive Choices program. "It's more of a challenge," she says. "In the fifth grade, they're so

Number of contacts made by
Minnesota Extension Service
— 833,748 in 1992
(nearly 1 out of 5 Minnesotans)
— up from 735,665 in 1991

Patents awarded to the University in 1992: 32
— ranked 9th nationally in 1992
— up from 10th in 1991
(31 patents)

open to talk. All of a sudden in sixth grade, they have to be cool." Sixth grade in Hastings is the first year of middle school.

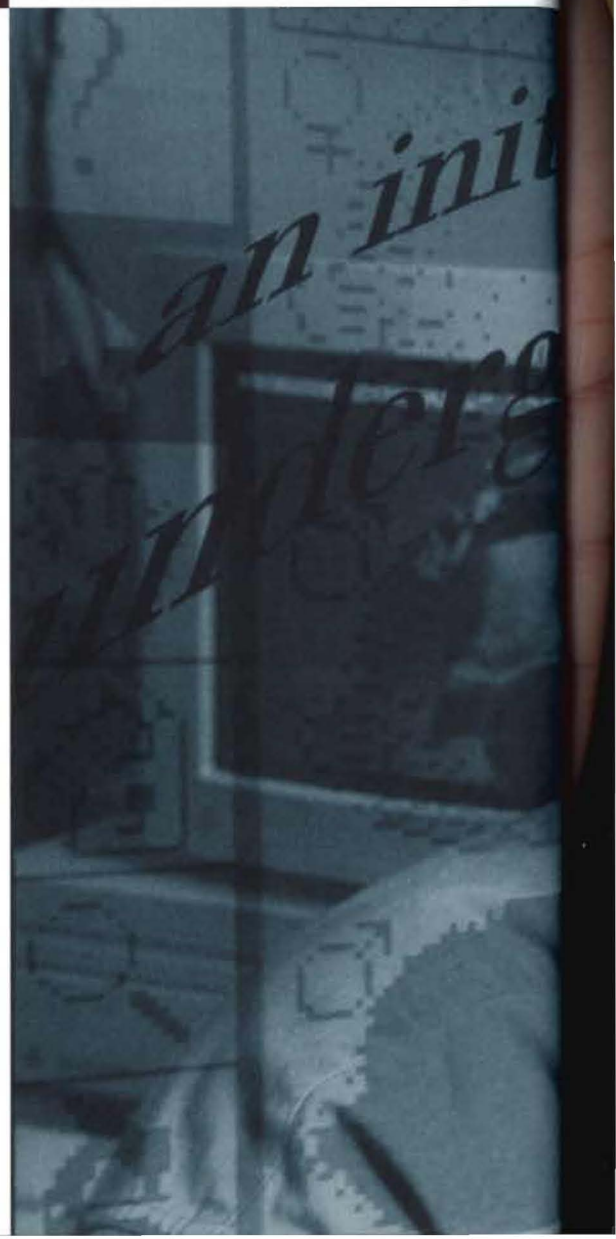
To overcome the students' reluctance to talk, the teen teachers ask for written questions. "They want to know what it's like in senior high," Shingledecker says. "You have to be careful. You don't want to scare them too much, but we tell them the truth."

The session in May this year was two months after a shooting in which a high school sophomore was killed. "We talked about it the whole entire hour," she says.

The impact on the young students is important, Duncomb says, but the target audience is the teenagers. University researchers found that teenagers learn by teaching younger kids.

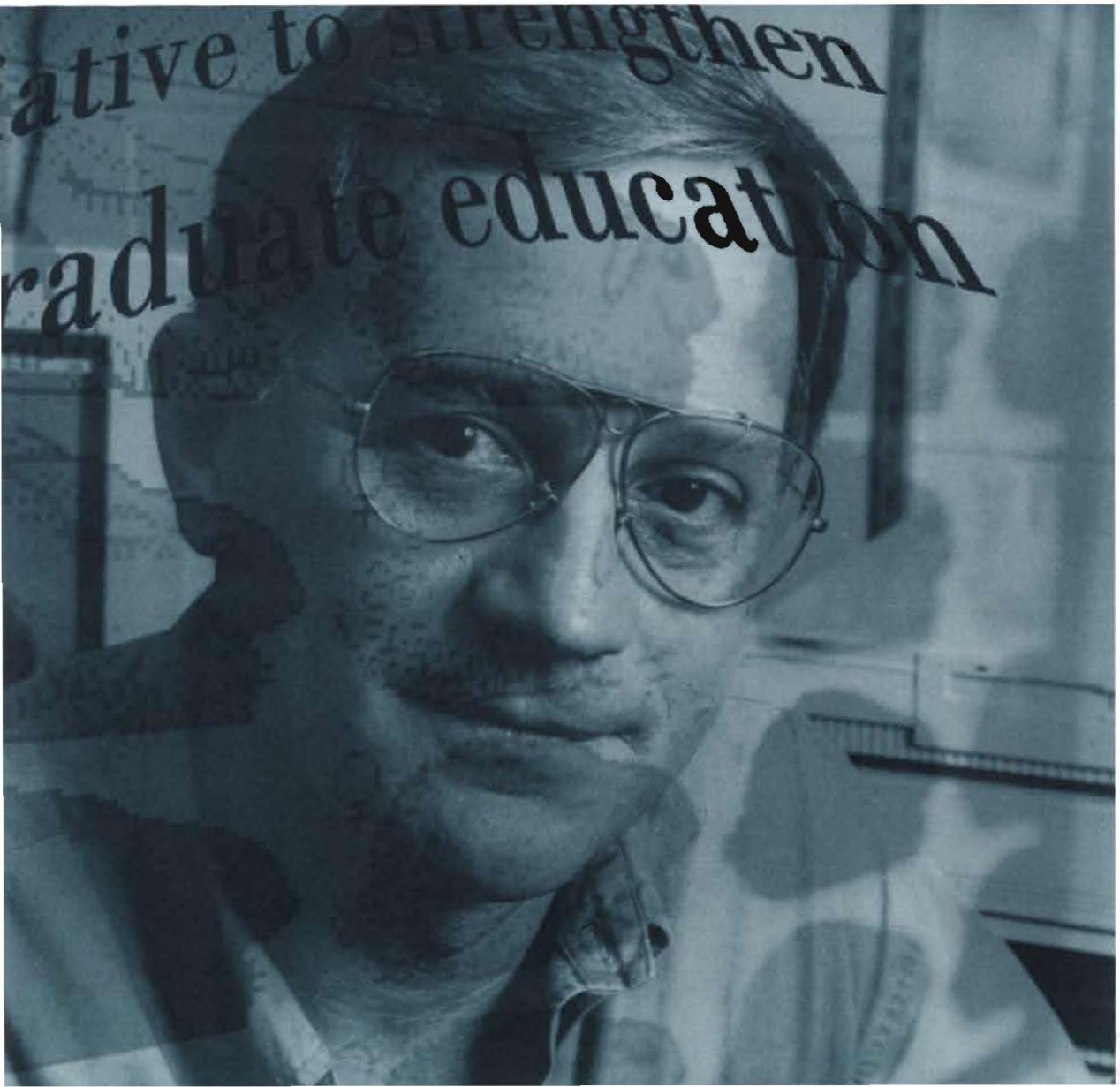
In talking with teen teachers, she says, "they felt comfortable and a little bit noble about talking to the younger kids, but they were a little more hesitant with their peers. I was smiling, because I could see how they were influencing their peers. These kids have taken a stand, and their friends know it." ■

Percentage of entering students from top 20% of their high school class
— 46% in 1992-93
— up from 40% in 1991-92



He developed a computerized multimedia presentation now used in introductory biology classes

Rick Peifer



As students walk into their biology class, drawings of two brown rabbits are on the large screen that hangs from the auditorium ceiling. Today's lecture is on genetics, and the first question is about the rabbits. What color will their offspring be?

Rick Peifer, the teacher, pushes a couple of keys at a computer terminal, and 30 baby rabbits appear: 15 of them the same light brown as their parents, 7 white, and 8 dark brown.

Coat color in rabbits is determined by a mechanism called incomplete dominance. After watching some more computer mating, the class sees how it works.

Drawings and photographs, animated diagrams, charts, simulations, and videos are all part of a computerized multimedia presentation now used in introductory biology classes on the Twin Cities campus. "I love it. It makes learning so much easier," says student

Stacy Kilbury. "So much of science and biology is so abstract. This makes it more tangible."

As part of an initiative to strengthen undergraduate education, the University made a pool of money available three years ago to improve large classes. Peifer wrote a proposal on behalf of the general biology program and was awarded $125,000 out of the $200,000 offered that first year. "They gave us the lion's share of what they divvied out," he says.

Retention of freshmen for the second year — 83.6% of 1991 freshmen — up from 77.7% of 1984 freshmen

A big chunk of the money was used to upgrade the equipment in three of the largest auditoriums on the campus, auditoriums used not just for biology classes but for many large-enrollment classes. "That was the whole intention," Peifer says. "We wanted to benefit people way beyond our doors."

Another key to the proposal was hiring graduate students to help create a customized data base on general biology topics and to teach faculty members how to use it. "The graduate students were mentors to the faculty, not the other way around," Peifer says. "Without those graduate students this whole project would have fallen flat on its face."

Within the University, parts of the project have been incorporated into psychology classes, Medical School and School of Dentistry classes, and classes on the Duluth and Morris campuses. Universities across the country have invited Peifer to give presentations on it. He usually takes graduate students with him, and as an unanticipated benefit, the graduate students have found themselves in demand for teaching jobs at other universities. "It gives our graduate students a competitive edge," Peifer says.

Because of strong interest in the software, Peifer, graduate student Steve Fifield, and another partner formed a private company to market it as a commercial product. All royalties are going to the University, with 75 percent going back into the general biology program for course development.

Most important to Peifer, the computerized multimedia show is helping talented, caring teachers do their jobs even better. He knows it has enhanced his own teaching.

"The presentation is my road map. I don't need to look at lecture notes," he says. "I can be much more spontaneous, much more conversational. It gives me a chance to interact more with the students." ■

A political science professor at the University for 20 years, she volunteered to teach the introductory class three years ago

Virginia Gray

Percentage of freshmen who received a bachelor's degree within five years

— 39% of 1987 freshmen

— up from 33% of 1983 freshmen

Political science professor Virginia Gray makes sure her undergraduate students see the excitement of research.

"I bring in my own research. I bring in my colleagues to talk about their research. I give the students information that literally no one has ever heard before," she says. "The advantage the University offers is that you do get instruction that's on the cutting edge."

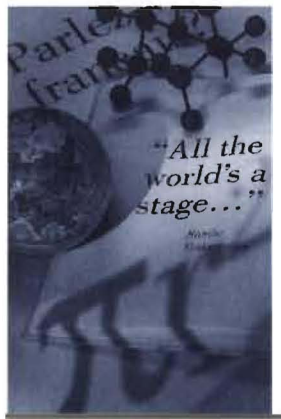
Students in Gray's introductory course on American government this summer participated in a survey, given by graduate students who are working on a book on tolerance. The graduate students then returned and talked about the five years they've spent on the book. "Students see that research is work, but it's also fun," Gray says.

Gray, who has been at the University 20 years, began teaching the introductory class three years ago. "I volunteered to do that because I think it's important," she says. "We have some good young people teaching introductory courses, but most of the time the more senior professors are probably better. You bring a perspective and a maturity you didn't have earlier."

In Gray's class on state politics, each student looks into the politics and government of one state and gives a report. "Many of these are very good," Gray says. "That gives the class an excitement it doesn't have if you are just lecturing. The students teach each other."

The course is comparative, and Gray says some students are surprised to discover how good Minnesota's government is. "Some of them come in thinking Minnesota is perfect and we can't learn from anybody else. Others come in very cynical, and to their amazement they find out this is one of the best. There's also lots we can learn from other states."

Gray's time is divided among her several roles: classroom teaching, advising graduate students, research on state government and public policy, and service to the University, the political science discipline, and the community. She was the University's faculty lobbyist for four years. In 1993-94 she will be on sabbatical at the University of North Carolina.



Percentage of students meeting all preparation requirements

— 75% in 1992-93

— up from 17% in 1986

"I like to keep busy," Gray says. "I don't think I work harder than other people. Most faculty members are very hardworking people, some would say workaholic."

Of all her responsibilities, the one that takes the most time is advising graduate students. The job includes recruiting students, guiding them as they write first- and second-year research papers, sitting on their examination committees, advising in the intense and lengthy process of thesis writing, writing letters of recommendation, and helping them find jobs as faculty members.

"You have a lifelong relationship," she says. "You're able to keep up with them. They're at various stages of their careers wanting advice. You see them at national meetings, you see what they publish."

When Gray's advisees get together, they tell her things they remember about her and quote the things she always said. "This is the area of teaching where you can see your mark on a person," she says. ■

Hospital admissions
— 18,073 in 1991-92
— down from 18,161 in 1990-91

Outpatient clinic visits
— 345,498 in 1991-92
— up from 331,811 in 1990-91

Total surgeries
— 19,380 in 1991-92
— up from 18,719 in 1990-91

Books and journal articles loaned by University Libraries to other Minnesota libraries
— more than 200,000 in 1992-93
— ranked 1st in nation in inter-library lending, ahead of even the Library of Congress

Books circulated by University Libraries to individual borrowers from outside the University
— 66,256 in 1992-93
— up 10% from 1991-92

Understanding the Financial Statements

The major objective of college and university financial reports is to provide information for evaluating how resource management helps attain the institution's goals. The University of Minnesota's financial activity and condition are reflected in the three basic financial statements—Balance Sheet, Statement of Changes in Fund Balances, and Statement of Current Funds Revenues, Expenditures, and Other Changes—presented in the last section of this Annual Report.

Like most nonprofit institutions, colleges, and universities, the University of Minnesota maintains its institutional accounts using the fund-accounting concept. This form of accounting puts resources into separate groups, or funds, according to their particular uses. Each fund has a name that reflects its purpose: current funds, loan funds, endowment and similar funds, and plant funds. Within these fund groups, a distinction is made between unrestricted and restricted funds. Unrestricted funds may be spent for anything; the person or organization that gave the funds did not specify a purpose for the funds. Restricted funds are subject to legally binding limits established by the person or organization providing these funds for specific purposes, programs, departments, or schools.

Current Funds

Current funds support day-to-day University operations. The term "current" implies that the resources will be spent in the near term and that they will be used for operating purposes. The Statement of Current Funds Revenues, Expenditures, and Other Changes (REOC) explains current funds activity for the current reporting period. The REOC does not show profits and losses, as commonly shown in a for-profit corporation's financial statements, but presents the details of current funds revenues by source, expenditures by function, and all other changes in current funds.

Education and General Expenditures

The University's three primary activities of learning, teaching, and serving are included in education and general expenditures. This category also includes support of academic and student activities, physical plant, and student aid. More than two thirds of the University's education and general funds are spent on the three primary activities. However, instruction and support activities are financed primarily from unrestricted sources, while research and public service activities are financed mostly from restricted sources.

Auxiliary Enterprises

The University operates a number of self-supporting operations called auxiliary enterprises. Examples include residence halls, food services, student unions, bookstores, and men's intercollegiate athletics. Although these activities support the University's operations, each is managed as a self-supporting enterprise that covers its operating costs primarily by charging fees.

Hospital and Medical Clinics

The University also operates a 719-bed hospital and various medical clinics. This enterprise, too, is self-supporting, but it is categorized separately for financial reporting. The University of Minnesota Hospital and Clinic uses hospital accounting and reporting standards. Hospital financial statements are separately audited and a separate report is issued.

Loan Funds

Loan funds consist of money lent to or available for loan to students. As loans are repaid throughout the year, that money becomes available for loans to other students. This fund grows modestly each year, primarily from interest on outstanding loans and minimal new federal and state contributions. Although the University loan fund provides significant financial support to students, most student loans are granted by the private sector under the Guaranteed Student Loan Program. Such student loans, along with other loans from external sources, are not reflected in the University's financial statements.

Endowment and Similar Funds

Endowment funds are gifts for which the donors may stipulate as a condition that the principal may never be spent and must be invested to provide present and future income. Income generated by endowment fund principal may either be spent or added to the principal. Endowment and similar funds include true endowments, term endowments, quasi endowments, and annuity and life income funds. True endowment principal cannot be spent; term endowment principal may be spent after a specified time period or event; quasi endowments may be spent at any time.

This fund group is managed to preserve the endowment's value by limiting the earnings payout to inflation-adjusted amounts. Earnings in excess of the amount paid out are recorded as an increase to the endowment.

Plant Funds

The last fund classification relates to the University's physical plant assets. It contains a record of funds invested in institutional properties minus accumulated depreciation; funds reserved for capital additions and for renewal and replacement of institutional properties; and finally, funds set aside to pay off debts related to institutional properties. Funds for operating the facilities (custodial service, utilities, day-to-day maintenance) are accounted for in the current funds group.

This summary of fund groups and the University's activity in each is intended as a preface to, rather than a substitute for, reading the financial statements that follow.

Report of Independent Accountants

To the Board of Regents of the University of Minnesota:

We have audited the accompanying balance sheet of the University of Minnesota as of June 30, 1993, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. We previously audited and reported upon the financial statements of the University for the year ended June 30, 1992, which condensed statements are presented for comparative purposes only. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Minnesota as of June 30, 1993, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Minneapolis, Minnesota
October 14, 1993

University of Minnesota

Balance Sheet

June 30, 1993 (with comparative totals for 1992)
(in thousands)

		Current Funds		Loan	Endowment and	Plant	Totals	
		Unrestricted	Restricted	Funds	Similar Funds	Funds	1993	1992
Assets	Cash and temporary investments	$ 199,912	$ 50,159	$ 4,365	$ 8,583	$ 135,047	$ 398,066	$ 434,657
	Receivables	109,034	64,046	49,667		86,322	309,069	385,032
	Inventories	22,339					22,339	23,403
	Prepaid expenses and deferred charges	9,702	7,499			2,326	19,527	15,110
	Investments	15,683	11,181		359,763	113,877	500,504	464,681
	Investment in unconsolidated subsidiary	12,347					12,347	11,127
	Investment in plant, net					1,057,619	1,057,619	1,008,241
	Other assets	11,825					11,825	11,312
Total assets		$ 380,842	$ 132,885	$ 54,032	$ 368,346	$1,395,191	$2,331,296	$2,353,563
Liabilities and Fund Balances	Liabilities:							
	Accounts payable	$ 49,762	$ 5,029	$ 50		$ 6,134	$ 60,975	$ 70,695
	Accrued liabilities and other	112,604	11,680		$ 58	5,125	129,467	148,537
	Unearned income	22,547					22,547	20,288
	Long-term debt					250,275	250,275	325,981
	Interfund borrowing	7,212	737	31		(7,980)		
	Total liabilities	192,125	17,446	81	58	253,554	463,264	565,501
	Fund balances:							
	Unrestricted:							
	Undesignated	175,350					175,350	169,827
	Designated	13,367				207,140	220,507	263,063
	Restricted		115,439	13,173		97,148	225,760	226,873
	U.S. government grants and other refundables			40,778			40,778	39,476
	Endowment				195,440		195,440	171,966
	Term endowment				7,561		7,561	6,979
	Quasi-endowment, restricted				117,187		117,187	108,311
	Quasi-endowment, unrestricted				48,020		48,020	42,283
	Life income				80		80	72
	Net investment in plant					837,349	837,349	759,212
	Total fund balances	188,717	115,439	53,951	368,288	1,141,637	1,868,032	1,788,062
Total liabilities and fund balances		$ 380,842	$ 132,885	$ 54,032	$ 368,346	$1,395,191	$2,331,296	$2,353,563

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

University of Minnesota

Statement of Changes in Fund Balances

For the year ended June 30, 1993 (with comparative totals for the year ended June 30, 1992)
(in thousands)

			Current Funds		Loan Funds
			Unrestricted	Restricted	
Revenues and Other Additions	Unrestricted revenues		$1,110,933		
	Federal appropriations			$ 24,562	
	State appropriations			83,483	
	Federal grants and contracts			226,486	$ 481
	State grants and contracts			23,188	
	Other government grants and contracts			2,663	
	Private gifts, grants, and contracts			146,175	96
	Endowment income			14,483	
	Investment income			1,021	165
	Realized gains (losses) and adjustments to market value, net				(52)
	Student loan interest				1,715
	Expended for plant facilities (including $60,860 charged to current funds expenditures)				
	Retirement of indebtedness				
	Other additions				31
Total revenues and other additions			1,110,933	522,061	2,436
Expenditures and Other Deductions	Education and general		664,467	446,536	
	Auxiliary enterprises		109,406	3,516	
	University hospital and medical clinics		292,864	11,201	
	Indirect costs recovered			41,253	
	Loan cancellation				418
	Administrative and collection costs				719
	Expended for plant facilities, including $4,370 not capitalized				
	Retirement of indebtedness				
	Loss on bond defeasance				
	Debt incurred				
	Interest on indebtedness				
	Depreciation of investment in plant				
	Disposal of plant, net of accumulated depreciation of $89,912				
	Other deductions			875	
Total expenditures and other deductions			1,066,737	503,381	1,137
Interfund Transfers, Additions (Deductions)	Mandatory:	Principal and interest	(5,030)	(50)	
		Renewals and replacements	(283)		
		Loan fund matching grant	(232)	177	55
	Nonmandatory		(38,300)	(2,434)	(37)
Total transfers			(43,845)	(2,307)	18
	Net increase (decrease) for the year		351	16,373	1,317
Fund balances, beginning of year			188,366	99,066	52,634
Fund balances, end of year			$ 188,717	$ 115,439	$ 53,951

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

Endowment Funds		Plant Funds			Totals	
True	Quasi	Unrestricted	Restricted	Net Investment in Plant	1993	1992
					$1,110,933	$1,095,603
					24,562	14,509
			$ 2,000		85,483	151,912
		$ 23			226,990	197,300
			784		23,972	16,842
					2,663	7,314
$ 3,165			4,237	$ 898	154,571	142,313
					14,483	13,446
260	$ 1,809	17,612	207		21,074	17,215
22,555	14,404	5,663	(3,009)		39,561	33,228
					1,715	1,614
				141,707	141,707	113,385
				73,081	73,081	7,054
		81			112	677
25,980	16,213	23,379	4,219	215,686	1,920,907	1,812,412
					1,111,003	1,107,036
					112,922	112,812
					304,065	296,497
					41,253	39,018
					418	76
					719	475
		55,316	29,901		85,217	73,265
		72,602	479		73,081	7,054
				7,227	7,227	
				2,139	2,139	7,747
		7,709	964		8,673	13,023
				92,160	92,160	92,898
				1,067	1,067	3,222
				118	993	263
		135,627	31,344	102,711	1,840,937	1,753,386
		3,998	1,580	(498)		
			283			
(1,916)	(1,600)	71,191	7,436	(34,340)		
(1,916)	(1,600)	75,189	9,299	(34,838)		
24,064	14,613	(37,059)	(17,826)	78,137	79,970	59,026
179,017	150,594	244,199	114,974	759,212	1,788,062	1,729,036
$ 203,081	$ 165,207	$ 207,140	$ 97,148	$ 837,349	$1,868,032	$1,788,062

University of Minnesota

Statement of Current Funds Revenues, Expenditures, and Other Changes

For the year ended June 30, 1993 (with comparative totals for the year ended June 30, 1992)
(in thousands)

				1993 Unrestricted	1993 Restricted	1993 Total	1992 Total
Revenues:	Tuition and fees			$ 181,152		$ 181,152	$ 165,995
	Federal appropriations				$ 16,464	16,464	15,664
	State appropriations			352,691	81,582	434,273	447,641
	Federal grants and contracts			34,305	181,842	216,147	201,313
	State grants and contracts			364	23,314	23,678	15,204
	Other government grants and contracts			472	2,477	2,949	6,224
	Private gifts, grants, and contracts			9,362	139,704	149,066	150,957
	Endowment income			1,611	14,722	16,333	11,046
	Investment income			30,139	1,021	31,160	30,340
	Realized gains and adjustments to market value, net			8,446		8,446	3,260
	Equity in earnings (losses) of unconsolidated subsidiary			3,320		3,320	2,741
	Sales and services of educational activities			74,670		74,670	77,127
	Sales and services of auxiliary enterprises			114,440		114,440	112,174
	Sales and services of hospital and medical clinics			299,961		299,961	291,031
Total revenues				1,110,933	461,126	1,572,059	1,530,717
Expenditures and mandatory transfers:	Education and general:	Instruction		312,014	74,528	386,542	368,766
		Research		51,339	230,577	281,916	280,342
		Public service		20,595	65,815	86,410	76,526
		Academic support		90,519	29,599	120,118	116,513
		Student services		39,187	4,714	43,901	43,669
		Institutional support		42,050	2,943	44,993	78,987
		Operation and maintenance of plant		85,922	417	86,339	94,091
		Scholarships and fellowships		22,841	37,943	60,784	48,142
	Education and general expenditures			664,467	446,536	1,111,003	1,107,036
		Mandatory transfers for:	Principal and interest	754	50	804	60
			Loan fund matching grant	232	(177)	55	55
	Total education and general			665,453	446,409	1,111,862	1,107,151
	Auxiliary enterprises:	Expenditures		109,406	3,516	112,922	112,812
		Mandatory transfers for:	Principal and interest	776		776	725
			Renewals and replacements	283		283	285
	Total auxiliary enterprises			110,465	3,516	113,981	113,822
	University hospital and medical clinics:	Expenditures		292,864	11,201	304,065	296,497
		Mandatory principal and interest transfers		3,500		3,500	
	Total University hospital and medical clinics			296,364	11,201	307,565	296,497
Total current expenditures and mandatory transfers				1,072,282	461,126	1,533,408	1,517,470
Other transfers, additions (deductions):	Excess of restricted additions over expenditures				19,682	19,682	5,742
	Refunded to grantors				(875)	(875)	(263)
	Nonmandatory transfers			(38,300)	(2,434)	(40,734)	(38,072)
Total other transfers, additions (deductions)				(38,300)	16,373	(21,927)	(32,593)
Net (decrease) increase in fund balances				$ 351	$ 16,373	$ 16,724	$ (19,346)

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

1. Summary of Significant Accounting Policies

Accounting Basis

The financial statements of the University of Minnesota (the University) are presented on the accrual basis in accordance with accounting principles outlined in the American Institute of Certified Public Accountants' audit guide, "Audits of Colleges and Universities," and guidelines suggested by the National Association of College and University Business Officers.

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures in the case of normal additions and replacements; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Current fund revenues include all unrestricted resources earned during the year and restricted revenues to the extent such funds were expended for current operating purposes.

Fund Accounting

In order to observe the limitations and restrictions placed on the use of available resources, the University uses the principles of "fund accounting." Resources for various purposes are classified into funds that characterize and reflect sources of revenue and specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

The University's fund balance allocations represent those fund balances that are restricted for specific future uses by legal covenants, state policies or granting agencies, or otherwise designated by University policies. Undesignated amounts represent collegiate balances and central reserves.

Interfund borrowings have been made principally from the plant fund. The amounts due to plant funds from current and loan funds are payable with interest.

All gains and losses arising from the sale or other disposition of investments, and other noncash assets and ordinary income derived from investments, receivables, and the like, are accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in the unrestricted current funds.

The accounts of the University are summarized for financial reporting purposes into the following fund classifications:

Current Unrestricted Funds over which the University retains full control to use in achieving its institutional purposes including instruction, research, public service, general supporting activities, and the investment and cumulative earnings of the University's wholly owned captive insurance company, RUMINCO, Ltd.

Current Restricted Externally restricted operating funds that may be utilized only in accordance with the purpose established by the source of the funds.

Loan Funds provided by the federal government, the state of Minnesota, and private donors for student loans. These are revolving funds in that repayments become available for loans to other students.

Endowment Funds donated by individuals, agencies, and others that, as a condition of the gift instrument, generally require the maintenance of principal. The principal of true endowment funds is invested in perpetuity to produce present and future income, which may either be expended or added to principal.

Term endowment funds are similar to true endowment funds except that all or part of the principal may be expended after a specified period of time or the occurrence of a particular event. Quasi-endowment restricted funds represent restricted gifts and other restricted amounts that do not require the University to preserve the principal in perpetuity. The University has invested these amounts in endowments until the funds are needed. Quasi-endowment unrestricted funds are funds without restrictions that have been allocated by the University for investment purposes.

Plant Funds to be used for acquisition of physical properties for institutional purposes but unexpended at the date of reporting, funds set aside for renewal and replacement of institutional properties, funds set aside for debt service charges and for retirement of indebtedness related to institutional properties, and funds invested in institutional properties, less accumulated depreciation.

Cash and Temporary Investments The cash balances of the various fund groups of the University are invested primarily in domestic and foreign commercial paper, money market mutual funds, short-term corporate obligations, and short- and intermediate-term U.S. government and agency securities. These investments are carried at amortized cost, which approximates the market value at June 30, 1993. Also included in cash and temporary investments are invested assets related to indebtedness.

Investments Investments in securities are recorded at market value on a trade date basis and adjusted periodically for changes in market value.

Investment in Unconsolidated Subsidiary

The University has a wholly owned captive insurance company, RUMINCO, Ltd., for professional and general liability, educators' legal liability, comprehensive automobile liability, and certain other liability claims. The estimated liability for known claims and certain unreported claims and incidents and related contributions to RUMINCO, Ltd., are based upon an independent actuarial determination. The investment in unconsolidated subsidiary represents the excess of RUMINCO, Ltd.'s, assets over the estimated liabilities at June 30, 1993.

Inventories

Inventories held for resale are carried at the lower of cost (first-in, first-out) or market value and other inventories are carried primarily at cost.

Net Investment in Plant

Land, buildings, and other property are recorded at cost, except those received as gifts or bequests, which are recorded at market value at date of gift. Depreciation is determined using the straight-line method based on the estimated useful lives of the assets.

Interest is normally expensed as incurred, except when it is incurred in conjunction with major capital additions, and then it is shown as an addition to investment in plant. The amount of interest capitalized, net of interest income on bond trustee held investments, is determined by applying current interest rates to the funds required to finance the construction.

Unearned Income

Tuition revenues and prepaid costs for summer school sessions are deferred at year-end and are recognized in the following year when the classes have been completed.

2. Other Balance Sheet Information

Receivables at June 30, 1993, consisted of the following (in thousands):

Current unrestricted funds:		
University hospital	$ 67,030	
State appropriations	29,262	
Student	12,069	
Notes receivable	5,597	
Accrued income	9,612	
Other	14,182	
Less allowance for uncollectible accounts		(28,718)
		$ 109,034
Current restricted funds:		
Unbilled charges, due principally from federal government	$ 37,590	
Other	26,456	
		$ 64,046
Loan funds:		
Notes receivable	56,157	
Accrued interest	1,226	
Less allowance for uncollectible accounts		(7,716)
		49,667
Plant funds:		
State appropriations	84,499	
Accrued interest	1,823	
		86,322
Total		$ 309,069

Net investment in plant at June 30, 1993, consisted of the following (in thousands):

Land	$ 36,801
Buildings and improvements	1,251,681
Equipment	576,965
Other	143,872
	2,009,319
Less accumulated depreciation	(951,700)
Net investment in plant	$1,057,619

Accrued liabilities at June 30, 1993, consisted of the following (in thousands):

Current unrestricted funds:		
Self-insurance	$ 35,290	
Accrued vacation	32,562	
Accrued retirement costs	15,292	
Accrued payroll	11,155	
Other accruals	18,305	
		$ 112,604
Current restricted funds:		
Accrued vacation	10,228	
Accrued payroll	1,126	
Other accruals	326	
		11,680
Endowment fund:		
Accrued fees	58	
		58
Plant funds:		
Environmental clean-up accrual	3,163	
Accrued interest	1,962	
		5,125
Total		$ 129,467

3. Cash and Temporary Investments

Cash and temporary investments at June 30, 1993, consisted of the following (in thousands):

	Temporary Investment Pool	Invested Assets Related to Indebtedness	Total
Current funds:			
Unrestricted	$ 199,912		$ 199,912
Restricted	50,159		50,159
Loan funds	4,365		4,365
Endowment and similar funds	8,583		8,583
Plant funds	89,427	$ 45,620	135,047
Total	$ 352,446	$ 45,620	$ 398,066

Included in invested assets related to indebtedness are restricted investments that are held by the bond trustee for sinking funds and for reserve funds required to be maintained by the bond indentures. The amount held by the trustee aggregated $11,317,000 for sinking funds and $20,746,000 for reserve funds at June 30, 1993. Investments of $13,557,000 related to the construction of the athletic facility were internally managed at June 30, 1993.

4. Investments

Investments at June 30, 1993, consisted of the following (in thousands):

	Market	Cost
Cash and temporary investments	$ 134,751	$ 134,838
Government and corporate bonds	193,621	182,919
Corporate stock	151,833	134,516
Limited partnership and equity growth funds	20,258	20,317
Mortgages and other	41	41
	$ 500,504	$ 472,631

The investment table above shows the University's risk category 1 investments. Risk category 1 includes securities that are insured or registered or are held by the University or its agent in the University's name. The University has no investments in risk category 2 (uninsured and unregistered securities held by the counterparty's trust department or agent in the University's name) or in risk category 3 (uninsured and unregistered securities held by the counterparty or by its trust department or agent but not in the University's name).

The combined investment return, including revenue from securities lending and other portfolio management strategies, based on average month-end market values was approximately 15.7 percent for the year ended June 30, 1993.

The University's endowment funds are invested in the Consolidated Endowment Fund (CEF), the Group Income Pool (GIP), and the Separately Invested Funds (SIF). CEF and GIP are investment pools that are unitized on a market value basis with each participant subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month.

The following tabulation summarizes all pooled and nonpooled investments by fund (in thousands, except for market value per unit, including accrued income):

	CEF	GIP	SIF	Total
Current funds:				
Unrestricted		$ 15,683		$ 15,683
Restricted		11,181		11,181
Endowment fund	$ 315,773	42,473	$ 1,517	359,763
Plant fund		99,268	14,609	113,877
Total	$ 315,773	$ 168,605	$ 16,126	$ 500,504
Total pooled units	8,268	1,327	N/A	N/A
Market value per unit, including accrued income	$38.19	$127.06	N/A	N/A

Based on the University's spending policy, earnings are distributed at a rate of 5.5 percent of the three-year moving average of the market value of the fund assets; therefore, in certain years accumulated capital gains are used to supplement investment income. When capital gains are so used, they are reported as a nonmandatory transfer from endowment to current funds. When investment income exceeds the above-stated 5.5 percent return, the excess is transferred to the respective endowment funds from current funds for the benefit of each individual endowment. During the year ended June 30, 1993, net nonmandatory transfers of $2,656,195 were made from the endowment to current funds.

To enhance the return on investments, the University maintains a securities lending and arbitrage program involving the University's portfolios. As governed by defined guidelines and agreements, the securities lending transactions involve the loan of securities by the University to brokerage firms, banks, and other approved institutional borrowers in exchange for cash or other collateral acceptable to the University that is at least 95 percent of the market value of the securities loaned. This collateral, in accordance with University guidelines, is invested in other arbitrage transactions. Under the written agreements with the borrowers, the University retains all rights of ownership to the loaned securities, receives all dividend and interest income, and reserves the right to terminate any loan of securities at any time. At June 30, 1993, the University had securities of approximately $188,000,000 involved in loans. These loans were supported by collateral of approximately $186,000,000. Additionally, approximately $137,000,000 of the collateral was invested in other arbitrage strategies. The remaining collateral of approximately $49,000,000 was invested in approved short-term securities.

Under the other arbitrage transactions, the University employs other portfolio management strategies involving the purchase or borrowing of securities and the subsequent sale of these and other University securities, generally with a corresponding hedge against market fluctuations using options, futures, and other securities. As with the lending of securities, these strategies are designed to improve investment return and generally are hedged. Some of these transactions also require the University to pledge cash or securities as collateral, which is held at the University's custodian bank. The total market value of such collateral on June 30, 1993, was approximately $19,000,000. Total income earned on the securities lending and arbitrage strategies including University-owned investments was approximately $4,900,000 for the year ended June 30, 1993.

5. Long-Term Debt

Outstanding debt at June 30, 1993, consisted of the following (in thousands):

General Obligation Refunding Bonds, Series 1986A, at 6.8% to 7.6%, due at various dates through 2001	$ 29,075
Variable Rate Demand Bonds, Series 1985E, 1985F, 1985C, 1985H and 1985I, F and G at 2.45% and E, H and I at 2.05% to 2.5%, due at various dates through 2017	153,000
Various auxiliary enterprise bonds, at 3%, due at various rates through 2013, collateralized by revenues of self-supporting auxiliary enterprises and the full faith and credit of the University	16,280
Commercial Paper Certificates, 1991 Series A at 2.05% to 2.45%	42,000
Obligation to the state of Minnesota pursuant to Infrastructure Development Bonds, at 5.9% to 6.9%, due at various dates through 2012	9,316
Other	604
Total	$ 250,275

The full faith and credit of the University is pledged for payment of principal and interest related to the 1985 bonds and the Commercial Paper. The Variable Rate Demand Bonds are subject to optional tender and mandatory tender by the bondholders in certain circumstances. The University fully expects that tendered bonds will be resold to the public by a remarketing agent. However, in the event that some bonds may not be remarketed, the University has entered into a credit agreement with a bank to provide for purchase of tendered bonds. The Commercial Paper Certificates each mature within one year. The University intends to remarket these certificates through December 31, 2023.

Pursuant to state of Minnesota statute, the University is obligated to pay the state one third of the debt services of Infrastructure Development Bonds (IDB) issued by the state for University projects. The state has issued $30,975,967 on behalf of the University, one third of which is due to the state in installments over 20 years.

Included as part of restricted plant fund balances at June 30, 1993, was $9,385,910 for renewals and replacements required by related debt covenants.

The University has three years remaining on a five-year interest rate swap agreement whereby the University pays fixed interest payments at 5.75 percent on $70,000,000 of Series 1985H and 1985I bonds in exchange for variable interest payments on an equivalent amount of debt. Through May 17, 1993, this variable rate of interest paid was based upon the Kenny Information Index, an index based on the 30-day yield of certain tax-exempt bonds. As of May 18, 1993, the basis for the variable rate interest payment was changed to the PSA Municipal Swap Index, as calculated by Municipal Markets Data, an indexing agent.

On June 23, 1993, the University entered into a one-year swap extension agreement whereby, effective August 18, 1996, the University will pay fixed rate interest payments at 5 percent on $70,000,000 of Series 1985H and 1985I bonds in exchange for variable rate interest payments on an equivalent amount. The PSA Municipal Swap Index is the basis for this variable rate interest payment calculation.

On May 28, 1993, the University defeased $70,435,000 of its General Obligation Refunding Bonds, Series 1986A. Term bonds maturing in 2005, 2010, and 2011 with coupons of 6 percent to 7.75 percent were defeased. The University used current unrestricted funds and amounts available from trustee-held reserve funds totaling approximately $4.8 million to effect the defeasance.

The anticipated principal payments on long-term debt and sinking fund requirements on notes and bonds outstanding and minimum future payments on other obligations at June 30, 1993, are as follows (in thousands):

Fiscal Year Ending June 30	Total
1994	$ 7,498
1995	8,619
1996	9,344
1997	9,553
1998	9,840
Thereafter	205,421
	$ 250,275

Based on the University's intent to remarket certain debt instruments with maturities of less than one year, these principal payments are included in the "Thereafter" amounts above.

6. Pension Plans

Employees of the University meeting age and length of service requirements participate in the faculty (University of Minnesota Supplemental Benefit Plan—SBP), civil service (General Employee Retirement Plan—GERP of the Minnesota State Retirement System—MSRS), or police department (Public Employee Police and Fire Fund—PEPFF of the Public Employees' Retirement Association—PERA) pension plans (the plans). The plans require contributions by both employer and employees. Pension expense of the University for the year ended June 30, 1993, was $47,284,000, which includes the amortization of prior service cost through 2020.

The SBP of the University is a single employer-defined contribution plan and is fully funded. For faculty members employed prior to 1963, the University provides a Faculty Retirement Supplement Defined Benefit Plan that is being funded in the amount equal to or greater than the amount required under Chapter 356 of the Minnesota Statute. The SBP specifies contribution rates of 2.5 percent for the employee and, effective July 1, 1992, the employer is required to contribute 13 percent of the eligible salary. Prior to July 1, 1992, the employer was required to contribute 2.5 percent of the first $5,000 of eligible salary and 13 percent thereafter. Participant benefits vest immediately.

Statewide plans (GERP and PEPFF) cover employees of the state of Minnesota, school districts, counties, cities, and other political subdivisions. The GERP is a multiple-employer, cost-sharing defined benefit plan administered by the MSRS. Benefits are based on average salary and are fully vested after three years of credited service. Effective January 1, 1993, participants are required to contribute 4.07 percent of their total compensation with a matching University contribution of 4.2 percent. Prior to January 1, 1993, participants were required to contribute 3.99 percent, with a matching employer contribution of 4.12 percent. The PEPFF is a multiple-employer, cost-sharing defined benefit plan administered by PERA. Benefits are based on average salary and are fully vested after three years of credited service. Participants are required to contribute 8.0 percent of their gross salary to PERA. The University is required to contribute 12.0 percent of the participants' gross salary. The contribution rates for both GERP and PEPFF are not actuarially determined, but rather are determined by state statute.

Unaudited information with respect to covered payroll and contributions for the year ended June 30, 1993, is as follows (in thousands):

	Covered Payroll	University Contribution		Participant Contribution	
		Amount	%	Amount	%
SBP	$ 251,080	$ 32,632	13.00	$ 6,277	2.50
GERP	345,876	14,388	4.20	13,939	4.07
PEPFF	2,188	262	12.00	175	8.00
	$ 599,144	$ 47,282		$ 20,391	

The pension benefit obligation is a standardized disclosure measure related to defined benefit plans of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the GERP's and PEPFF's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement plans and employers.

The unfunded vested benefit liabilities of the plans are not actuarially segregated by employer unit. As of June 30, 1993, the University's contributions and employees represented approximately 25 percent and less than 1 percent of all participating entity contributions and active plan participants in GERP and PEPFF, respectively.

Certain unaudited information, principally with respect to SERF's and PEPFF's funding status as a whole, as of June 30, 1992, (the most recent information available) is as follows (in thousands):

	GERP	PEPFF
Pension benefit obligation	$ 2,742,000	$ 821,604
Net assets available for benefits, at cost	$ 2,577,000	$ 963,565
Unfunded (assets in excess of) pension benefit obligation	$ 165,000	$ (141,961)

Ten-year historical trend information showing the GERP's and PEPFF's progress in accumulating sufficient assets to pay benefits when due is presented in each plan's respective June 30, 1992, comprehensive annual financial report.

At June 30, 1992, the SBP had a projected benefit obligation of $17,533,000, an unfunded accrued liability of $5,745,000, and net assets available for benefits of $11,788,000. The actuarial present value of accumulated plan benefits was not calculated.

7. Related Parties

The University of Minnesota Foundation, the University of Minnesota Medical Foundation, and the Minnesota Landscape Arboretum Foundation are independent corporations formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. At June 30, 1993, the combined net assets of these foundations (not included in the financial statements of the University) were approximately $475,730,000 of which approximately $415,961,000 were restricted funds. During the year ended June 30, 1993, these foundations distributed approximately $38,352,000 to the University, which has been recorded as private gifts.

The University purchases computing services from Minnesota Supercomputer Center, Inc. (MSCI), a corporation that is majority owned by the University of Minnesota Foundation. During the year ended June 30, 1993, the University made net payments of $8,000,000 to MSCI for computer usage under the terms of this lease. On July 1, 1992, the University entered into a four-year, noncancellable lease with MSCI for computer usage at a minimum charge of $8,000,000 each year beginning July 1, 1992. Additionally, MSCI has outstanding future minimum operating lease payments totaling $335,000 per year for building space under a noncancellable agreement with the University. This lease obligation is payable in cash.

The University owns 22,500 shares of $10 cumulative nonvoting preferred stock in MSCI with a cost of $4,500,000. This investment is recorded at cost in "other assets" of the current unrestricted fund. No dividend has been declared on this preferred stock and none has been recognized by the University.

The University has a $512,000 nonmember deposit in the University of Minnesota Federal Credit Union (UMFCU), which is noninterest bearing and was repaid on July 1, 1993. The amount is included in "other assets" in the current unrestricted fund. Additionally, the University has a $3,125,000 certificate of deposit in the UMFCU, which bears interest at 3.25 percent annually. The deposit is included in cash and short-term investments and matured on July 1, 1993.

During 1993 the University received a $2.1 million dividend from Ruminco, Ltd.

8. Commitments and Contingencies

Construction projects in progress, principally buildings, that have been included in the assets of the plant funds at June 30, 1993, approximate $61,091,000. The estimated cost to complete these facilities is $234,206,000, to be funded from currently available plant fund assets.

Groundwater and surface contamination, which may have been caused by disposal of hazardous wastes, was discovered in 1984 on University-owned property called Rosemount Research Center. The total remaining cost of this cleanup is estimated at $3,163,000, which has been accrued in the financial statements at June 30, 1993.

The University has long held that medical residents are students for social security purposes and therefore has not collected social security taxes from these individuals or remitted to the Social Security Administration the employer share of these taxes. In August 1990, the University was notified by the Social Security Administration that medical residents are not considered by their agency to be students for social security purposes. If that is the case, the University estimates it would owe approximately $5,000,000, excluding interest, in social security taxes for calendar years 1985 and 1986, representing both the employer and employee share. The University is vigorously contesting this assessment. No liability for these taxes has been recorded in the financial statements.

The University owns certain steam production facilities, which produce steam for heating and cooling the Twin Cities campuses, which by agreement are managed, operated, and maintained by an unaffiliated company. The term of the agreement is for 25 years and commenced on July 1, 1992. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs as well as contingent payments based on monthly usage. The minimum fixed amount of the required payments at June 30, 1993, is as follows (in thousands):

Fiscal Year Ending June 30	Total
1994	$ 5,499
1995	5,499
1996	5,499
1997	5,499
1998	4,849
Thereafter	92,131
	$ 118,976

A federal grand jury sitting in Minnesota is currently investigating the Minnesota Anti-Lymphocyte Globulin Program (MALG). The MALG Program was run by the surgery department of the University's Medical School and produced an anti-rejection drug for organ transplant surgery until a clinical hold was issued by the United States Food and Drug Administration (the FDA) in August of 1992. The FDA has alleged numerous serious violations of the Federal Food, Drug and Cosmetics Act in the operations of the MALG Program. The University became

aware of the grand jury investigation in December of 1992. Published reports have indicated that, in addition to the violations of law identified by the FDA, the investigation is focused on at least three areas. These are: (1) whether the University improperly billed Medicare and Medicaid for an investigational drug; (2) whether the University used money from federal grants for unauthorized purposes; and (3) whether the University broke the law by charging for MALG, especially in selling it at a profit. Neither indictments nor any civil actions have been initiated as a result of the investigation, which is not yet complete. In addition, the University is a defendant in other cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters, including various claims pending against the University with the state Department of Human Rights and the Federal Equal Employment Opportunity Commission. While any litigation has an element of uncertainty and the University cannot, therefore, predict how these cases will be finally resolved, management and its general counsel believe the outcomes of the cases, individually and combined, will not have a materially adverse effect on the University's financial condition.

9. Income Taxes

The University is generally exempt from federal and state income taxes as an instrumentality of the state of Minnesota and under Section 501(c)(3) of the Internal Revenue Code. Certain activities are subject to unrelated business income tax. Related to these activities, the University has a net operating loss carryforward of approximately $2,300,000 at June 30, 1992, which expires in fiscal years 2003 through 2007.

10. Subsequent Events

Subsequent to June 30, 1993, a variety of long-term debt activity transpired. Included in this activity were the following transactions:

- On July 22, 1993, an additional $12,000,000 of Commercial Paper Certificates, Series 1991B, were issued at an initial rate of 2.55 percent.
- An August 12, 1993, $12,840,000 of the Series 1986A General Obligation Refunding Bonds were advance refunded.
- On August 12, 1993, the University issued $84,000,000 General Obligation Bonds, Series 1993A. The bonds were issued with an interest rate of 4.80 percent and will mature on August 15, 2003. Approximately $14,000,000 of the bond proceeds were used to fund the advance refunding described above; the remaining bond proceeds will provide funds for certain capital projects at the University of Minnesota Hospital and Clinic.

Subsequent to June 30, 1993, the Board of Regents approved an indefinite extension to the Voluntary Retirement/Severance Plan.

The Office of Budget and Finance is responsible for the financial information in this report.

This publication is available in alternative formats upon request. Inquiries regarding this report should be addressed to:

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