University of Minnesota

FISCAL YEAR 2000 FINANCIAL HIGHLIGHTS

(amounts in thousands)

The University of Minnesota's audited financial statements for the year ended June 30, 2000, are presented on the following pages. Fiscal year 2000 showed continued improvement in the balance sheet, with growth in assets of $167,736, most of which was in property, plant, and equipment and longer term investments.

This summary highlights the significant items from the financial statements.

Balance Sheet

Total fund balances at June 30, 2000, were $2,328,035, an increase of $156,198 over last year. The endowment funds showed the largest growth, with an increase of $150,466 in response to market value appreciation of the assets held in portfolios, including $114,152 and $59,442 realized gains and adjustments to market value of true and quasi-endowments, respectively. Realized gains and adjustments to market value during the current year were higher than those recorded in fiscal year 1999 by $80,471.

The balance in the plant funds decreased $5,865 during the year, as compared to an increase of $29,057 in fiscal year 1999 when transfers from other funds were significantly larger at $69,188. The current year decrease was due primarily to high levels of construction activity including the Morris Science IV building, Duluth library, Mechanical Engineering building, and expenditures for furnishings and noncapitalized equipment.

Total assets of $3,223,704 at June 30, 2000, increased $167,736 or 5.5 percent from a year ago, primarily due to increases in investments and property, plant, and equipment, net of accumulated depreciation. Cash and short-term investments decreased $106,463, mostly due to sizable expenditures in the plant funds for construction and buildings. Investments in securities showed a market value of $864,559 at June 30, 2000, an increase of $122,714 as compared to a year ago. Unrealized gains in the combined endowment fund pool added $150,208 to total investments in the current year, offset by a reduction of $27,730 due to the liquidation of a group income pool investment in which proceeds from the sale of the hospital had been deposited.

Property, plant, and equipment (net) grew $137,572, composed of additions of $210,980, opposite an accumulated depreciation increase of $73,408. Buildings and construction projects increased $182,909, with the most significant additions for the Morris Science IV building, Mechanical Engineering renovations, Riverbend Commons, Molecular and Cellular Biology, St. Paul parking ramp, Duluth Library, and Walter Digital Library.

Statement of Changes in Fund Balances

Plant fund revenues and additions increased $49,154 in fiscal year 2000 as a result of higher levels of property, plant, and equipment additions during the year, primarily for construction projects including the Morris Science IV building, Riverbend Commons, Duluth Library, Molecular and Cellular Biology, Mechanical Engineering renovations, and St. Paul parking ramp. State appropriations grew $22,672, largely because of higher expenditures on plant projects, resulting in the recognition of higher levels of appropriation revenue. Plant fund expenditures and other deductions increased approximately $78,500 due to growth in construction projects, while expenditures for roofs, windows, and masonry; purchases of furnishings; and repairs and maintenance projects added another $19,148 to expenditure levels. During fiscal year 1999, the University changed its method for depreciating certain buildings to comply with the requirement of the federal government that the method used to calculate depreciation for facilities and administrative rate proposals be the same method used by the University for its financial statements. This “componentization” method caused a $40,702 cumulative decrease in the plant funds, which was not repeated in FY2000.

Statement of Current Funds Revenues, Expenditures, and Other Changes

During fiscal year 2000, current fund balances increased $8,855 as compared to a decrease of $46,425 reported in fiscal year 1999, a year during which high volumes of transfers to plant funds were initiated to fund construction-related projects.

Current fund revenues and other additions increased $58,547 or approximately 3.4 percent. Federal, state, and other government grants and contracts increased $42,139, with approximately $32,190 related to activity for the Army High Performance Computing Research Center funded by the Department of the Army. The University received a one-time payment of $7,250 from Glaxo Wellcome Inc. in October 1999 in partial settlement of the lawsuit related to an antiviral drug used to treat AIDS. The new indirect cost rate that went into effect on July 1, 1999, added 1 percent to the amount of recovery available from the federal government on most federally funded projects.

Current fund expenditures and mandatory transfers increased $72,644, reflecting increases in salaries and benefits, additional expense associated with the semester conversion, and facilities improvements activity throughout the University. Higher spending levels resulting from the initiation of new projects and the receipt of new grants in the research area were seen in the newly formed neuroscience department, radiology, Cancer Center, surgery, physics and astronomy, and epidemiology.

Independent Auditors' Report

To the Board of Regents
University of Minnesota

We have audited the accompanying consolidated balance sheet of the University of Minnesota (the University) as of June 30, 2000, and the related consolidated statements of changes in fund balances and of current funds revenues, expenditures, and other changes for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2000, and the consolidated changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we will issue a separate report on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

Minneapolis, Minnesota
October 13, 2000

University of Minnesota

CONSOLIDATED BALANCE SHEET

June 30, 2000

(with comparative totals for 1999)

(in thousands)

			Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds	Totals (Memorandum Only)	
			Unrestricted	Restricted				2000	1999
Assets	Cash and temporary investments		$158,375	$ 76,249	$ 5,757	$ 52,165	$ 283,984	$ 576,530	$ 682,993
	Receivables, net		182,892	93,283	64,156		9,487	349,818	337,904
	Inventories		16,470					16,470	14,916
	Prepaid expenses and deferred charges		2,293	5,408			2,011	9,712	9,218
	Investments		41,370	1,234		813,914	8,041	864,559	741,845
	Property, plant, and equipment, net						1,406,245	1,406,245	1,268,673
	Other assets		370					370	419
Total assets			$401,770	$176,174	$69,913	$866,079	$1,709,768	$3,223,704	$3,055,968
Liabilities and fund balances	Liabilities	Accounts payable	$ 61,348	$ 9,665	$ 17		$ 18,480	$ 89,510	$ 98,666
		Accrued liabilities and other	126,348	36,485	339	$ 50,706	18,551	232,429	217,045
		Unearned income	32,737	1				32,738	29,905
		Long-term debt					540,992	540,992	538,515
		Interfund borrowing	7,776	2,140			(9,916)		
	Total liabilities		228,209	48,291	356	50,706	568,107	895,669	884,131
	Fund balances	Unrestricted Undesignated	145,796					145,796	156,417
		Designated	27,765				137,089	164,854	168,463
		Restricted		127,883	16,293			144,176	127,454
		U.S. government grants and other refundables			53,264			53,264	50,687
		Endowment				529,127		529,127	424,283
		Quasi-endowment, restricted				250,210		250,210	218,040
		Quasi-endowment, unrestricted				36,036		36,036	22,584
		Net investment in plant					1,004,572	1,004,572	1,003,909
	Total fund balances		173,561	127,883	69,557	815,373	1,141,661	2,328,035	2,171,837
Total liabilities and fund balances			$401,770	$176,174	$69,913	$866,079	$1,709,768	$3,223,704	$3,055,968

See notes to consolidated financial statements.

University of Minnesota

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

Year ended June 30, 2000

(with comparative totals for the year ended June 30, 1999)

(in thousands)

Revenues and other additions	Unrestricted revenues	
	Federal appropriations	
	State appropriations	
	Federal grants and contracts	
	State grants and contracts	
	Other government grants and contracts	
	Private gifts, grants, and contracts	
	Endowment income	
	Investment income	
	Realized (losses) gains and adjustments to market value, net	
	Student loan interest	
	Expended for plant facilities, including $56,707 charged to current funds expenditures	
	Retirement of indebtedness	
	Other additions	
Total revenues and other additions, net		
Expenditures and other deductions	Education and general	
	Auxiliary enterprises	
	Indirect costs recovered	
	Adjustments to carrying value of loans	
	Administrative and collection costs	
	Expended for plant facilities, including $24,934 not capitalized	
	Retirement of indebtedness	
	Debt incurred	
	Interest on indebtedness	
	Depreciation of investment in plant	
	Disposal of plant, net of accumulated depreciation of $39,851	
Total expenditures and other deductions		
Interfund transfers, (deductions) additions	Mandatory	Principal and interest
		Renewals and replacements
		Student aid matching
	Nonmandatory	
Total transfers		
(Decrease) increase before cumulative effect of change in accounting principle		
Cumulative effect of change in accounting principle (Note 1)		
Net (decrease) increase for the year		
Fund balances at beginning of year		
Fund balances at end of year		

See notes to consolidated financial statements.

Current Funds		Loan Funds	Endowment Funds		Plant Funds			Totals (Memorandum Only)	
Unrestricted	Restricted		True	Quasi	Unrestricted	Restricted	Net Investment in Plant	2000	1999
$1,171,298								$1,171,298	$1,165,658
	$ 17,357							17,357	16,178
	84,816					$ 82,336		167,152	141,477
	292,431	$ 1,046				459		293,936	256,465
	57,786					400		58,186	43,885
	3,587					581		4,168	6,778
	225,962	136	$ 1,632		$ 1,330	5,002	$ 3,846	237,908	215,582
	15,629	52						15,681	11,137
	1,409	50			12,012	653		14,124	11,191
	(63)		114,152	$ 59,442	(2,321)	(14)		171,196	91,177
		2,215						2,215	1,867
							255,165	255,165	230,083
							4,343	4,343	5,094
		61			722			783	7,804
1,171,298	698,914	3,560	115,784	59,442	11,743	89,417	263,354	2,413,512	2,204,376
1,014,259	627,600							1,641,859	1,578,263
154,001	2,376							156,377	148,036
	64,721							64,721	55,391
		368						368	304
		700						700	611
					143,175	94,318		237,493	164,119
					309	4,034		4,343	5,094
						5,955		5,955	7,956
					21,495	2,774		24,269	18,597
							113,846	113,846	111,900
					(209)		7,592	7,383	7,123
1,168,260	694,697	1,068	—	—	164,770	107,081	121,438	2,257,314	2,097,394
(6,600)	(97)					6,697			
(708)						708			
(689)	506	183							
(2,743)	11,931	67	(10,940)	(13,820)	146,499	10,259	(141,253)		
(10,740)	12,340	250	(10,940)	(13,820)	146,499	17,664	(141,253)	—	—
(7,702)	16,557	2,742	104,844	45,622	(6,528)	—	663	156,198	106,982
									(40,702)
(7,702)	16,557	2,742	104,844	45,622	(6,528)	—	663	156,198	66,280
181,263	111,326	66,815	424,283	240,624	143,617	—	1,003,909	2,171,837	2,105,557
$ 173,561	$127,883	$69,557	$529,127	$286,246	$137,089	$ —	$1,004,572	$2,328,035	$2,171,837

University of Minnesota

CONSOLIDATED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

Year ended June 30, 2000

(with comparative totals for the year ended June 30, 1999)

(in thousands)

				2000		Totals (Memorandum Only)	
				Unrestricted	Restricted	2000	1999
Revenues	Tuition and fees			$ 281,369		$ 281,369	$ 279,083
	Federal appropriations				$ 17,357	17,357	16,153
	State appropriations			510,192	80,961	591,153	579,218
	Federal grants and contracts			53,150	237,228	290,378	254,309
	State grants and contracts			1,272	54,386	55,658	49,426
	Other government grants and contracts			252	3,821	4,073	4,235
	Private gifts, grants, and contracts			7,858	218,839	226,697	226,643
	Endowment income			120	15,629	15,749	11,187
	Investment income			23,577	1,409	24,986	29,206
	Realized (losses) gains and adjustments to market value, net			(6,309)	(63)	(6,372)	(1,546)
	Sales and services of educational activities			98,667		98,667	98,074
	Sales and services of auxiliary enterprises			201,150		201,150	196,330
Total revenues				1,171,298	629,567	1,800,865	1,742,318
Expenditures	Education	Instruction		389,969	82,806	472,775	448,010
and mandatory	and general	Research		59,919	313,751	373,670	341,514
transfers		Public service		37,579	128,109	165,688	145,798
		Academic support		168,606	43,639	212,245	203,557
		Student services		55,388	5,404	60,792	62,489
		Institutional support		139,706	3,462	143,168	160,669
		Operation and maintenance of plant		116,223	675	116,898	124,682
		Scholarships and fellowships		46,869	49,754	96,623	91,544
	Education and general expenditures			1,014,259	627,600	1,641,859	1,578,263
	Mandatory	Principal and interest		5,629	97	5,726	5,487
	transfers for	Student aid matching		689	(506)	183	144
	Total education and general			1,020,577	627,191	1,647,768	1,583,894
	Auxiliary	Expenditures		154,001	2,376	156,377	148,036
	enterprises	Mandatory	Principal and interest	971		971	1,106
		transfers for	Renewals and replacements	708		708	144
	Total auxiliary enterprises			155,680	2,376	158,056	149,286
Total expenditures and mandatory transfers				1,176,257	629,567	1,805,824	1,733,180
Other transfers,	Excess of restricted additions under expenditures				5,643	5,643	(3,668)
(deductions)	Refunded to grantors				(1,017)	(1,017)	(2,695)
additions	Nonmandatory transfers			(2,743)	11,931	9,188	(49,200)
Total other transfers, (deductions) additions				(2,743)	16,557	13,814	(55,563)
Net (decrease) increase for the year				$ (7,702)	$ 16,557	$ 8,855	$ (46,425)

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The consolidated financial statements of the University of Minnesota (the University) are presented in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). As outlined in Governmental Accounting Standards Board (GASB) Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, the University has elected to follow the American Institute of Certified Public Accountants' college guide model. Additionally, the University's financial statements are presented discretely in the state of Minnesota's financial statements as a component unit.

Basis of Consolidation—The consolidated financial statements include the accounts of the University of Minnesota and RUMINCO, Ltd. (a wholly owned captive insurance company). Accordingly, all references herein to "University of Minnesota" include the consolidated results of the above entities. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting—The consolidated financial statements of the University have been prepared on the accrual basis of accounting. The consolidated 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.

In observance of the limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the consolidated financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by the fund groups.

Within each fund group, fund balances restricted by outside sources are indicated and distinguished from unrestricted funds that have been internally designated. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds, in contrast to unrestricted funds, which may be used in achieving any purpose of the University.

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.

All gains and losses arising from the sale, collection, 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 that owned or owns 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 fund.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds recognize revenues and expenditures when funds are expended for current operating purposes.

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 are otherwise designated by University policies. Undesignated amounts represent collegiate balances and central reserves.

Interfund borrowings total $9,916 at June 30, 2000, and have been made principally from the plant fund to the current unrestricted and restricted funds. These borrowings are payable over one to ten years with interest of 6 percent.

Fund Classifications

Current Unrestricted Funds—Funds over which the University retains full control to use in achieving its institutional purposes, including instruction, research, public service, and general supporting activities.

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

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

Endowment and Similar Funds—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. 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—Funds used to account for property, plant, and equipment transactions of the University. Plant funds consist of three subgroups: unrestricted (funds held without external restrictions, but designated by the University for current or future plant needs); restricted (externally restricted funds to be used for plant needs in accordance with the restrictions); and net investment in plant (funds invested in institutional properties, less accumulated depreciation, and related debt).

Other Accounting Policies

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 generally carried at market value. Also included in cash and temporary investments are invested assets related to indebtedness and collateral received under the University's securities lending program.

Investments—Investments in securities are recorded at market value on a trade-date basis and adjusted periodically for changes in market value. Market values of thinly traded alternative investments, including venture capital and real estate investments, are generally based on investment manager quarterly valuation estimates.

Both endowment funds and long-term operating reserves are included in investments. Authorized investment vehicles for the endowment funds include equities, both domestic and international in developed and emerging markets; alternative investments, such as venture capital, real estate, and other limited partnerships; and fixed-income securities. In addition, short selling and trading in futures and options are permissible. The long-term reserves investment policy allows investment in domestic government, agency, and corporate fixed-income securities, both long- and short-term; foreign sovereign fixed-income securities; master notes; money market mutual funds; fixed-income limited partnerships; high-yield securities; financial futures; options and interest rate swaps; and equities and equity-related alternatives. Actual investments on June 30, 2000, were consistent with the approved investment guidelines.

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 the date of gift. Depreciation is determined using the straight-line method based on the estimated useful lives of the assets.

Interest is expensed as incurred. The effect of not capitalizing interest in conjunction with major capital additions, compared with the effect of expensing interest, is immaterial.

Unearned Income—Tuition revenues and prepaid costs for summer school sessions, which are conducted primarily after year-end, are deferred and are recognized in the following year.

State Appropriations—State appropriations are recognized as revenue in the current unrestricted funds when received for current operations or made available by legislative acts. State appropriations are recognized as revenue in the current restricted funds to the extent expended for current operations.

Change in Accounting Principle—During the year ended June 30, 1999, the University changed its method for depreciating certain buildings to comply with the requirement of the federal government in its OMB Circular A-21 that the depreciation methods used to calculate the depreciation amounts for facilities and administrative rate proposals be the same methods used by the University for its financial statements. This change in depreciation method, which “componentizes” and assigns various useful lives to the individual components of certain research buildings at the University, as opposed to using one life for the entire building as was previously used for financial statement purposes, was applied as of July 1, 1998, by a $40,702 cumulative decrease in the net investment in plant funds.

Use of Estimates—The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2000 (amounts in thousands)

use of management's estimates relate to allowances for uncollectible accounts and self-insurance and vacation pay accruals.

Memorandum Totals—The consolidated financial statements include certain prior-year summarized comparative information. This information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, this information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 1999, from which the summarized financial information was derived.

New Accounting Pronouncement—In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis — for Public Colleges and Universities*. This statement is effective for the University for the year ending June 30, 2002. Statement No. 35 will affect the presentation of the University's consolidated financial report. The statement also requires the University to utilize the economic resources measurement focus as well as the accrual basis of accounting. The University has not yet determined the effects Statement No. 35 will have on its financial statements.

2. Other Balance Sheet Information

Receivables at June 30, 2000, consisted of the following:

Current unrestricted funds	State appropriations	$127,548
	Student	22,062
	Accrued income	3,464
	Due from Fairview	6,825
	Other	28,195
	Less allowance for uncollectible accounts	(5,202)
		182,892
Current restricted funds	Sponsored contract and grant receivables	62,742
	Due from Fairview	1,634
	Other	33,808
	Less allowance for uncollectible accounts	(4,901)
		93,283
Loan funds	Notes receivable	67,030
	Accrued interest	1,294
	Less allowance for uncollectible accounts	(4,168)
		64,156
Plant funds	State appropriations	7,808
	Accrued interest	345
	Note receivable	883
	Other	451
		9,487
Total		$349,818

Year ended June 30, 2000 (amounts in thousands)

Property, plant, and equipment at June 30, 2000, consisted of the following:

Land		$ 33,608
Buildings and improvements (useful lives range from 10 to 40 years)		1,710,039
Equipment	Technology equipment (useful lives range from 3 to 12 years)	232,382
	Other equipment (useful lives range from 3 to 20 years)	347,013
Construction in progress		177,012
Other (useful lives range from 7 to 10 years)		170,834
		2,670,888
Less accumulated depreciation		(1,264,643)
Net property, plant, and equipment		$1,406,245

Accrued liabilities and other at June 30, 2000, consisted of the following:

Current unrestricted funds	Self-insurance	$ 23,475
	Accrued vacation	35,141
	Accrued retirement costs and other benefits	22,008
	Accrued payroll	23,198
	Securities lending obligation	12,212
	Other accruals	10,314
		126,348
Current restricted funds	Accrued vacation	18,005
	Accrued payroll	13,829
	Securities lending obligation	3,733
	Other accruals	918
		36,485
Loan funds	Securities lending obligation	339
Endowment funds	Securities lending obligation	50,706
Plant funds	Securities lending obligation	8,199
	Accrued interest	1,790
	Other accruals	8,562
		18,551
Total		$232,429

3. Cash and Temporary Investments and Investments

Cash and temporary investments at June 30, 2000, consisted of the following:

		Temporary Investment Pool	Invested Assets Related to Indebtedness	Collateral Under Securities Lending Program	Total
Current funds	Unrestricted	$146,163		$12,212	$158,375
	Restricted	72,516		3,733	76,249
Loan funds		5,418		339	5,757
Endowment and similar funds		1,459		50,706	52,165
Plant funds		136,030	$139,755	8,199	283,984
Total		$361,586	$139,755	$75,189	$576,530

Included in invested assets related to indebtedness are restricted investments that are held by the bond trustee for sinking funds of $10,899 and for reserve funds of $1,334 required to be maintained by the bond indentures at June 30, 2000. Additionally, the University invests unexpended bond proceeds of outstanding University of Minnesota bond issuances, generally in money market funds. The market value of these assets, which are internally managed, was $127,522 at June 30, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2000 (amounts in thousands)

Investments at June 30, 2000, consisted of the following:

	Market	Cost
Cash and temporary investments	$ 35,991	$ 36,462
Government and corporate bonds	160,877	164,740
Corporate stock	543,287	459,461
Limited partnership and equity growth funds	99,225	42,078
Mortgage and other	40	40
Total University of Minnesota investments	839,420	702,781
Investments held by insurance subsidiary	25,139	25,644
Total	$864,559	$728,425

The investment table above includes the University's insurance subsidiary's investments, which are invested in fixed-income securities and money market funds. The University's investments (including securities considered by the University to be temporary investments) are classified as risk category 1 as defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments and Repurchase Agreements.* 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 University's deposits are not considered to be significant for classification.

Certain University 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, including the University's insurance subsidiary, by fund (in thousands, except for market value per unit including accrued income):

	CEF	GIP	SIF	Insurance Subsidiary	Total
Current funds Unrestricted		$16,231		$25,139	$ 41,370
Restricted		1,234			1,234
Endowment funds	$779,726	32,076	$2,112		813,914
Plant funds		8,041			8,041
Total	$779,726	$57,582	$2,112	$25,139	$864,559
Total pooled units	8,685	491	N/A		
Market value per unit including accrued income	$89.77	$117.25	N/A		

Based on CEF's spending policy, 5.5 percent of the three-year moving average of the unit value of the fund is distributed annually for spending purposes. When investment income (i.e., interest and dividends) is less than 5.5 percent, accumulated capital gains are used to supplement investment income in order to meet the spending policy. When capital gains are so used, they are reported as a nonmandatory transfer from endowment to current funds. During the year ended June 30, 2000, net nonmandatory transfers of $17,871 were made from the endowment to current funds for this purpose. If investment income exceeds the amount needed for distribution, the excess remains in the respective endowment funds.

To enhance the return on investments, the Regents of the University have authorized participation of all of its invested assets in a global securities lending program. The program is managed by the University's custodian bank, which lends securities to approved broker-dealers in return for cash or other acceptable collateral. By contractual agreement, the level of collateralization must be at least 100 percent of the market value of the securities loaned. Types of securities lent include domestic and foreign equities and domestic government, agency, and corporate bonds, as well as foreign sovereign fixed-income securities. Collateral received is generally in the form of cash, although U.S. government or agency securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit are also acceptable as collateral. This collateral is not included in the market value amounts of the individual investment pools. The University retains all rights to ownership of the loaned securities, receives all dividend and interest income, and reserves the right at any time to terminate any loan of securities. Neither the University nor its securities lending agent has the ability to pledge or sell collateral securities unless a borrower defaults.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, the University records the market value of the collateral as an asset in the balance sheet along with a corresponding liability. At June 30, 2000, the University had securities with market values of approximately $72,717 involved in loans. These loans were supported by collateral of approximately $75,189, which is included in cash and temporary investments in the consolidated balance sheet. Of this collateral amount, approximately $67,770 was cash and approximately $7,419 was acceptable noncash collateral.

Since the value of collateral received exceeded the market value of the securities on loan, the University did not have any credit risk at fiscal year-end. The University and the borrowers of its securities maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such pools as of June 30, 2000, was 69 days. Since the loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. If the University had to terminate a term loan, the lending agent has the ability to substitute the same security from a different client while returning the University's security.

Income and cost from its participation in this securities lending program were $3,166 and $2,971, respectively, for the year ended June 30, 2000.

The combined investment return, based on average month-end market values, was approximately 24.8 percent for the year ended June 30, 2000.

The University has entered into various forward contracts to manage its exposure against foreign currency exchange rate fluctuations. As of June 30, 2000, the University had $43,830 in open foreign currency purchase contracts and $25,536 in open foreign currency sales contracts with a net market value of $(292).

Year ended June 30, 2000 (amounts in thousands)

4. Long-Term Debt

Outstanding debt at June 30, 2000, consisted of the following:

General Obligation Bonds, Series 1999A, at weekly floating rates, due at various dates through 2034	$200,650
General Obligation Bonds, Series 1996A, at 4.5% to 5.75%, due at various dates through 2021	190,826
General Obligation Bonds, Series 1993A, at 4.80%, due in 2003	84,000
Obligations to the state of Minnesota pursuant to Infrastructure Development Bonds, at 4.4% to 6.9%, due at various dates through 2020	48,298
Various auxiliary enterprise bonds, at 3%, due at various dates through 2013, collateralized by revenues of self-supporting auxiliary enterprises and the full faith and credit of the University	12,240
Other	4,978
Total	$540,992

The full faith and credit of the University is pledged for payment of principal and interest related to all of the General Obligation Bonds, Series 1993A, 1996A, and 1999A.

In December 1998, the Regents of the University of Minnesota authorized the issuance of up to $330,000 in new general obligation debt securities to provide funds for certain approved capital projects and to pay the costs of issuing the debt. The debt securities may be issued in one or more series. They may be issued as obligations, the interest on which is not includable in gross income for U.S. income tax purposes, or as obligations, the interest on which is so includable.

On February 17, 1999, the University issued the first series of debt securities under this authorization. The $200,650 Series 1999A General Obligation Bond was issued as a variable rate demand bond, initially in a weekly rate mode. In the event that the University's variable rate demand bonds are tendered but not immediately remarketed by the financial institution appointed for such purposes, liquidity will be provided by the University. The proceeds from this bond are being used to fund a variety of new capital and renovation projects, including a new Molecular and Cellular Biology Building, the new RiverBend Commons residence complex, and various other academic and parking facilities, primarily on the University's Twin Cities campus. The remaining $129,350 authorized debt will be issued on an as-needed basis as additional approved capital projects get under way.

Effective February 17, 1999, the University entered into a floating-to-fixed interest rate swap agreement for a notional amount of $200,650. The University makes monthly payments at the fixed rate of 4.16 percent, and receives the weighted average rate that was paid to Series 1999A bondholders during the previous month. The final maturity date of this swap is in 2034, although there are specified notional reductions annually beginning in 2002.

The University has entered into a fixed-to-floating interest rate swap agreement on a notional amount of $190,000. The University makes floating-rate interest payments monthly based upon the weekly Bond Market Association (BMA) Municipal Swap Index. The University receives fixed-rate interest payments ranging from 4.45 percent to 5.43 percent semiannually.

The University has also entered into a floating-to-fixed interest rate swap agreement on a notional amount of $70,000.

Year ended June 30, 2000 (amounts in thousands)

The University will make fixed-interest payments at a rate of 4.98 percent, while receiving a floating-interest payment at a rate based on the BMA index. Settlement takes place on a quarterly basis. The swap has a 20-year final maturity, although after 10 years, if the trailing 90-day average of the BMA exceeds 7 percent, the counterparty may opt to terminate the swap.

The University has also entered into two swap agreements for notional amounts totaling $75,000. The University will make fixed-interest payments of approximately 4.89 percent and receive interest payments at a floating rate based on the BMA index. Settlement takes place on a quarterly basis. Each of these swaps has a 15-year final maturity. The counterparties have the option after 10 years to adjust the basis upon which the floating rate is calculated from the BMA index to 64 percent of the three-month LIBOR.

As a result of the preceding activity, the University's percentages of fixed-rate and floating-rate debt were 92 percent and 8 percent, respectively, at fiscal year-end.

The University has sold a put option, which allows the counterparty to put up to $190,000 of Series 1996A University bonds or eligible government or municipal securities to the University. The option may be exercised at any time.

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 capital projects. The amount of outstanding debt issued by the state on behalf of the University was $144,895 as of June 30, 2000.

Included as part of plant fund balances at June 30, 2000, was $10,899 for renewals and replacements required by related debt covenants.

The 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, 2000, are as follows:

Fiscal year ending June 30	
2001	$ 5,284
2002	19,273
2003	20,435
2004	103,648
2005	19,786
Thereafter	372,566
	$540,992

5. Pension Plans

Plan Descriptions

The University contributes to a single-employer defined contribution plan, the Faculty Retirement Plan (FRP); and two cost-sharing multiple-employer defined benefit plans, the State Employees' Retirement Fund (SERF) of the Minnesota State Retirement System and the Public Employee Police and Fire Fund (PEPFF) of the Public Employees Retirement Association pension plans. In addition, some employees eligible for the FRP may be eligible for additional benefits from the University of Minnesota Supplemental Benefits Plan (SBP), which is a single-employer defined benefit plan. For faculty members employed prior to 1963, and female participants employed prior to July 1, 1982, the SBP is being funded in an amount equal to or greater than the amount required under Chapter 356 of the Minnesota statutes. All SBP participants are retired. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries.

Year ended June 30, 2000 (amounts in thousands)

The SERF and the PEPFF each issue a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan, as follows:

Minnesota State Retirement System
MidAmerica Bank Building, Suite 300
175 W. Lafayette Frontage Road
Saint Paul, Minnesota 55107-1425
(651) 296-2761

Public Employees Retirement Association
514 Saint Peter Street, #200
Saint Paul, Minnesota 55102
(651) 296-7460 or 1-800-652-9026

Funding Policy and Annual Pension Cost

The University's annual pension cost and related information for each plan is as follows:

	FRP	SERF	PEPFF	SBP
University contributions, fiscal year ended				
June 30, 2000	$45,732	$11,842	$217	$927
June 30, 1999	44,616	11,033	266	909
June 30, 1998	38,809	10,442	288	502
Current contribution rates				
University	13.0%	4.0%	11.4%	
Plan members	2.5	4.0	7.6	

These contribution amounts are equal to contractually required contributions for each year in compliance with state statute. The University makes all contributions to the SBP using a variable rate.

The following information pertains to the SBP as of July 1:

	1999	1998	1997
Pension benefit obligation	$19,367	$18,952	$18,875
Net assets available for benefits	9,769	10,393	10,664
Unfunded accrued liability	$ 9,598	$ 8,559	$ 8,211
Funded ratio (net assets as a percentage of the pension benefit obligation)	50.44%	54.84%	56.50%

The actuarial present value of accumulated plan benefits in the SBP was not calculated.

6. Related Parties

On December 31, 1996, the University of Minnesota Hospital and Clinic (UMHC) operations and certain assets and liabilities were transferred to Fairview Hospital and Healthcare Services (Fairview). Fairview and the University also agreed to affiliate with each other in support of the research, education, and patient care missions of the University's Academic Health Center (AHC). Under this affiliation agreement, the University provided transition support for health-related research and education of the

Year ended June 30, 2000 (amounts in thousands)

AHC's operations performed on the hospital campus through August 1999 and shares equally with Fairview in any deficit in the research and education budget ranging between $8,000 and $12,000 annually.

The University also provides certain services to Fairview, and Fairview provides certain services to the University, to be reimbursed at negotiated rates. These services include items such as utilities, mailing and addressing services, police protection, printing services, miscellaneous services related to telecommunications, and such other items as are necessary to support the relationship, for which $8,708 was billed to Fairview in fiscal year 2000. Fairview billed the University $1,158 in fiscal year 2000 for pharmaceuticals, medical professionals, and transcription services.

The University of Minnesota Foundation, the Minnesota Medical Foundation, the Minnesota Landscape Arboretum Foundation, and the Minnesota 4-H Foundation (the foundations) are independent corporations formed for the purpose of obtaining and disbursing funds for the sole benefit of the University.

At June 30, 2000, the combined net assets of the foundations (not included in the consolidated financial statements of the University) were $1,174,790, of which approximately $197,121 was temporarily restricted, $682,630 was permanently restricted, and the remaining $295,039 was unrestricted.

Summarized, unaudited financial information with respect to the foundations for the year ended June 30, 2000, is as follows:

		University of Minnesota Foundation	Minnesota Medical Foundation	Minnesota Landscape Arboretum Foundation	Minnesota 4-H Foundation	Total
Net assets at beginning of year		$700,398	$253,684	$19,222	$3,882	$ 977,186
Additions	Gifts, pledges, and other additions	116,737	50,294	5,325	767	173,123
	Investment income and adjustments to market value, net	110,957	26,473	1,573	602	139,605
Total additions		227,694	76,767	6,898	1,369	312,728
Deductions	Distributions to the University	62,097	28,213	2,873	373	93,556
	Administration and other deductions	15,621	4,753	857	337	21,568
Total deductions		77,718	32,966	3,730	710	115,124
Net increase for the year		149,976	43,801	3,168	659	197,604
Net assets at end of year		$850,374	$297,485	$22,390	$4,541	$1,174,790

The foundations are subject to audit by other independent auditors.

Year ended June 30, 2000 (amounts in thousands)

7. Commitments and Contingencies

Construction projects in progress, principally buildings, that have been included in the assets of the plant funds at June 30, 2000, approximate $177,012. The estimated cost to complete these facilities is $451,527, which is to be funded from plant fund assets, and $77,289 in appropriations available from the state of Minnesota.

The University owns certain steam production facilities, which produce steam for heating and cooling the Twin Cities campuses and which by agreement are managed, operated, and maintained by an unaffiliated company. The term of the agreement is for 25 years and commenced 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, 2000, is as follows:

Fiscal year ending June 30	
2001	$ 5,805
2002	5,805
2003	5,805
2004	5,805
2005	5,805
Thereafter	69,662
	$98,687

The University is obligated under various operating leases for the use of real property and equipment. Future commitments for operating leases, predominantly related to real estate, are as follows:

Fiscal year ending June 30	
2001	$ 9,638
2002	8,307
2003	6,641
2004	6,119
2005	4,085
2006 through 2016	38,590
	$73,380

Total operating lease expenditures for the year ended June 30, 2000, were $22,695, of which $13,571 was for real property and $9,124 was for equipment.

The University is a defendant in cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters. 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 material adverse effect on the overall financial position of the University.

Year ended June 30, 2000 (amounts in thousands)

8. 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 $10,090 at June 30, 1999, (the date of the most recent federal tax return), which expires in fiscal years 2007 through 2014.

9. Self-Insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned single parent captive insurance company (see Note 1). Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total estimated expense of a claim is estimated and booked as a liability when it is probable a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims.

The University is also self-insured for workers' compensation through an internally maintained fund, and excess insurance is maintained through the Workers' Compensation Reinsurance Association (WCRA). The internal fund for workers' compensation is maintained only to fund the current year's expected payouts. Each year, an actuarial estimate of the University's liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

Changes in the reported liabilities since June 30, 1999, are shown below:

	June 30, 1999, Liability	New Claims	Claim Payments	Other Adjustments	June 30, 2000, Liability
RUMINCO, Ltd.	$11,580	$2,004	$2,355	$(1,754)	$ 9,475
Workers' Compensation	14,700	550	2,554	1,304	14,000

Other adjustments reflect reserve changes on prior years' claims, IBNR for new claims, and the change in IBNR for previous years.

SUMMARY OF THE INVESTED ASSETS OF THE REGENTS OF THE UNIVERSITY OF MINNESOTA

As of June 30, 2000 (amounts in thousands)

The invested assets of the Regents of the University of Minnesota are managed through several different investment pools.

The Consolidated Endowment Fund represents individual endowment funds supporting the teaching and learning, research and discovery, and outreach and public service mission of the University.

Long-Term Reserves in the Group Income Pool support various capital and infrastructure needs.

Short-Term Reserves in the Temporary Investment Pool are the working capital funds of the institution.

Separately Invested Funds are typically gift funds that, by donor intent, cannot be combined in the endowment pool.

Invested Assets Related to Indebtedness are funds raised through the issuance of University bonds and spent relatively quickly in support of capital projects.

Consistent with the overall purpose of its funds, each pool has a different set of investment objectives. Endowment funds—essentially permanent funds—have the longest timelines, and therefore have objectives consistent with maximizing total return. Long- and short-term reserves are funds intended for specific needs. They are invested to maximize income until those needs arise. Assets related to University indebtedness are bond proceeds invested for short-term income until needed for the capital projects for which the bonds were issued.

Consolidated Endowment Fund

The Consolidated Endowment Fund represents the pooling of endowment funds from public sources and more than 1,000 private, individual endowments accumulated throughout the history of the University. The fund's investment objectives are to maximize total return (principal appreciation plus income), to maintain the purchasing power of the fund, and to provide a stable level of support for a broad range of academic programs and scholarships.

Diversification has been the key to the investment strategy and performance of the Consolidated Endowment Fund for the past several years. The long-term asset allocation policy for the fund targets a 50 percent investment in domestic equities, including alternative investments such as venture capital and real estate, and a 30 percent investment in international equities; the remaining 20 percent of the fund is targeted for fixed-income-related investments. The asset allocation policy allows for flexibility by assigning ranges around the target allocations for the equity classes and requires that a minimum of 10 percent of the fund be invested in fixed-income-related securities. This allocation policy is implemented through a diversified group of external, equity and fixed-income investment managers, professionally managed mutual funds and trusts, and limited partnerships.

Up to 5.5 percent of the trailing three-year average value of the fund may be spent annually by participating units to support endowed programs. The spending policy for the Consolidated Endowment Fund requires that the spending rate gradually be reduced to 5 percent if the total return of the fund falls below 9.5 percent annualized for a three-, four-, or five-year trailing period. During the year ended June 30, 2000, the endowment fund generated $30,881 for distribution to departments for spending purposes. The distributed funds were used primarily for instructional needs ($11,173), research support ($7,685), scholarships ($5,896) and academic support ($3,097).

The Consolidated Endowment Fund has experienced a net increase in value from investment performance and contributions every year for the past 10 years. During that period the endowment has grown from $213,617 on June 30, 1990, to $779,726 on June 30, 2000. New contributions to the fund amounted to approximately $70,965 over that time, while the remaining growth of $495,144 resulted from market appreciation. The annualized total return numbers for the Consolidated Endowment Fund for the past one, three, and five years were 27.6 percent, 23.4 percent, and 23.0 percent, respectively.

Long-Term Reserves—Group Income Pool

The University's Long-Term Reserves (invested through the Group Income Pool) differ in terms of purpose and investment objective from the Consolidated Endowment Fund. These reserves will be used for the activities of various auxiliary-enterprise and support-service units and as longer term plant funds for a number of identified capital projects. Unlike the endowments, the long-term reserves are not invested in perpetuity for maximum absolute return. Because these funds cannot be exposed to the same degree of market risk as endowments, they are invested in various classes of U.S. and international fixed-income securities. As of June 30, 2000, 55 percent of the pool was invested in the domestic fixed-income market and 45 percent in international bonds.

Given the nature of the funds, the investment objective for the long-term reserves is to maximize income until the principal is used. All income received on these funds is available for spending. The reserves are invested primarily through external fixed-income managers. For the one-, three-, and five-year periods ended June 30, 2000, the Group Income Pool provided annualized returns of 1.8 percent, 2.7 percent, and 4.5 percent, respectively.

Short-Term Reserves—Temporary Investment Pool

The working capital of the University (used to meet the current obligations of the institution) is invested in the Temporary Investment Pool. Funds in this pool come from appropriations, tuition receipts, federal grants, student loan funds, plant funds, gifts for current use, and other funds derived from University operations.

These funds generally should not be exposed to significant market risk. Therefore, they are typically invested in high-quality, shorter term, fixed-income securities with the objective of maximizing current income while preserving principal and maintaining liquidity. As of June 30, 2000, the holdings in the pool had a yield to maturity of 6.4 percent, an average coupon of 6.4 percent, and an average maturity of 1.5 years. Because the Temporary Investment Pool is the source for virtually all of the University's current expenditures, the size of the pool varies substantially from year to year.

The Temporary Investment Pool is internally managed. The average annual yield of the portfolio for the past one-, three-, and five-year periods was 5.9 percent, 5.8 percent, and 5.9 percent, respectively. An annually specified rate of interest is credited to departments participating in the Temporary Investment Pool. For the 2000 fiscal year the crediting rate was 2 percent. Earnings above this amount are credited to the central reserve fund and used to support institution-wide priorities.

Other University Assets and Programs

Separately Invested Funds—Apart from the pooled endowment funds and reserves, the University maintains additional separately invested assets that are primarily endowment and other restricted funds. However, by virtue of the terms of the gift or administrative decision, these funds are not combined with the major investment pools. As of June 30, 2000, the market value of these invested assets totaled $2,112.

Invested Assets Related To Indebtedness—University assets held by trustees are funds maintained primarily in the debt service reserve funds of outstanding University of Minnesota bond issuances. The issuances include various auxiliary enterprise bonds. The trustees are U.S. Bank Trust and Norwest Bank Minnesota, N.A. The book value (which approximated market value) of these assets held on June 30, 2000, was $12,233.

Additionally, the University invests unexpended bond proceeds of other outstanding University of Minnesota bond issuances. The market value of these assets, which are internally managed, was $127,522 on June 30, 2000. These unexpended bond proceeds from the 1993A, 1996A, and the 1999A issues are intended for various capital projects as determined by the Board of Regents. The combined total of invested assets related to indebtedness as of June 30, 2000, amounted to $139,755.

The Securities-Lending Program—In addition to the management of endowment funds and operating reserves, the University participates in a global securities-lending program offered by its custodian bank. The income from the program is unrestricted and is a source of University central reserve funds, which are used for institution-wide priorities.

The program involves the lending of University securities in exchange for cash or other collateral acceptable to the University. The incremental income originates from investing the cash collateral in relatively short-term, fixed-income securities.

Since beginning participation in the custodian's global securities-lending program in March 1996, the University has earned approximately $956 in additional income.

Independent Auditors' Report

To the Board of Regents
University of Minnesota

We have examined the accompanying Summary of Compounded Annual Investment Performance of the University of Minnesota (the Summary) for the one-, two-, three-, four- and five-year investment periods ended June 30, 2000. Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances. The Summary and the assertions on which it is based are the responsibility of the University's management. Our responsibility is to express an opinion on the Summary based on our examination.

In our opinion, the Summary referred to above presents, in all material respects, the compounded annual total return of the University of Minnesota's major investment pools for the one-, two-, three-, four- and five-year investment periods ended June 30, 2000, computed in accordance with the measurement and disclosure criteria set forth in the accompanying note to the Summary.

Deloitte & Touche LLP

Minneapolis, Minnesota
October 13, 2000

University of Minnesota

SUMMARY OF COMPOUNDED ANNUAL INVESTMENT PERFORMANCE FOR SPECIFIED PERIODS ENDED JUNE 30, 2000

Percent Compounded Annual Total Return

	One Year	Two Years	Three Years	Four Years	Five Years
Major Investment Pools:					
Consolidated Endowment Fund	27.6	23.5	23.3	23.4	23.0
Long-Term Reserves—Group Income Pool	1.8	1.5	2.7	4.1	4.4
Short-Term Reserves—Temporary Investment Pool (average yield)	5.9	5.8	5.8	5.9	5.9

See note to Summary of Compounded Annual Investment Performance.

Note to Summary of Compounded Annual Investment Performance

For specified periods ended June 30, 2000

Investment performance statistics for the Consolidated Endowment Fund and Group Income Pool are calculated monthly in accordance with the "time-weighted" rate of return method recommended by the Association of Investment Manager Research. The method is based on interest and dividends earned, and on realized and unrealized gains and losses, accounted for on a trade-date and accrual basis, net of investment expenses. Principal additions and withdrawals are weighted in, computing the monthly returns based on the timing of these transactions. The monthly returns for each pool are linked to arrive at the annual total return.

Investment performance statistics for the Temporary Investment Pool are calculated daily as a weighted average yield. The daily yields are averaged to arrive at the annual yield.

The Office of the Controller is responsible for the content of this report.

Inquiries regarding the report should be addressed to:

Office of the Controller
University of Minnesota
295C West Bank Office Building
1300 South Second Street
Minneapolis, Minnesota 55454
612-624-0874

Production management, feature writing, and editing provided by Office of University Relations.

Photography by Tom Foley

Historic photos courtesy University Archives

Design by Woychick Design

Printing by Printing Services, University of Minnesota

This publication can be made available in alternative formats for people with disabilities. Direct requests to University Relations, 6 Morrill Hall, 612-624-6868.

The University of Minnesota is committed to the policy that all persons shall have equal access to its programs, facilities, and employment without regard to race, color, creed, religion, national origin, sex, age, marital status, disability, public assistance status, veteran status, or sexual orientation.

The University's mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service.

Contains a minimum of 10% post-consumer recycled fiber. Printed with environmentally friendly inks. Please recycle.

2,300—12/00