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UNIVERSITY OF MINNESOTA

ANNUAL REPORT

1982



UNIVERSITY OF MINNESOTA

Office of the Vice President for Finance and Treasurer
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100 Church Street S.E.
Minneapolis, Minnesota 55455
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March 1, 1983

To Whom It May Concern:

This report on the financial condition of the University of Minnesota on June 30, 1982, and the results of operations for the fiscal year that ended on that date has been prepared with minimal expenditure of time and expense in keeping with the austere financial challenges facing the University.

The State of Minnesota realized significantly less revenue than expected during fiscal year 1982 and sharply reduced its outlays for University operations. The State of Minnesota has also reduced appropriations to the University for fiscal year 1983. As the result of these reductions in state support, academic and support operations are being adjusted to maintain the University's financial health. Extensive budgetary review activities during the past two years have enabled the University to react to reduced appropriations on the basis of far-ranging internal discussion and agreement, and to implement highly selective cuts designed to maintain the University's academic strength.

Private support for the wide-ranging teaching, research and service activities of the University of Minnesota continues at a gratifying level. Indeed, for the fiscal year that ended June 30, 1982, private support for the University reached the highest level ever achieved by the University of Minnesota.

Respectfully submitted,

A handwritten signature in cursive script that reads "Frederick M. Bohen".

Frederick M. Bohen
Vice President for Finance
and Treasurer

FMB:pl

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October 29, 1982

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have examined the statements of financial condition of the University of Minnesota as of June 30, 1982, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the University of Minnesota at June 30, 1982, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of recording vacation pay as described in Note B to the financial statements.

Touche Ross & Co.

Certified Public Accountants

STATEMENT OF FINANCIAL CONDITION
 Current and Noncurrent Funds (In Thousands)

	Current Funds			Noncurrent Funds	Total All Funds June 30	
	Unrestricted	Restricted	Total		1982	1981
ASSETS				(Page 5)	(Memorandum Only)	
Cash and temporary investments	\$ 60,960	\$ 24,496	\$ 85,456	\$ 67,190	\$ 152,646	\$ 160,573
Receivable-Note C	52,438	27,146	79,584	92,850	172,434	175,565
Inventories	17,238		17,238		17,238	16,828
Prepaid expenses and deferred charges	10,210		10,210	313	10,523	5,048
Investments				99,142	99,142	108,612
Deposits with trustee				10,172	10,172	8,737
Investment in plant-Note E				989,520	989,520	941,605
TOTAL ASSETS	<u>\$ 140,846</u>	<u>\$ 51,642</u>	<u>\$ 192,488</u>	<u>\$1,259,187</u>	<u>\$ 1,451,675</u>	<u>\$ 1,416,968</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 20,928	\$ 2,127	\$ 23,055	\$ 3,039	\$ 26,094	\$ 34,077
Accrued liabilities	26,213	4,165	30,378	3,172	33,550	16,583
Unearned income	9,010		9,010		9,010	7,535
Notes and bonds payable-Note F				82,675	82,675	68,800
Deposits held in custody for others				1,962	1,962	2,115
Interfund balances	<u>3,066-</u>		<u>3,066-</u>	<u>3,066</u>	<u>-</u>	<u>-</u>
	53,085	6,292	59,377	93,914	153,291	129,110
CONTINGENCIES AND COMMITMENTS (NOTES E and I)						
FUND BALANCES						
Current funds	87,761	45,350	133,111		133,111	126,214
Loan funds				38,604	38,604	38,856
Endowment funds				106,726	106,726	113,867
Life income funds				159	159	159
Plant funds				<u>1,019,784</u>	<u>1,019,784</u>	<u>1,008,762</u>
TOTAL FUND BALANCES	<u>87,761</u>	<u>45,350</u>	<u>133,111</u>	<u>1,165,273</u>	<u>1,298,384</u>	<u>1,287,858</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 140,846</u>	<u>\$ 51,642</u>	<u>\$ 192,488</u>	<u>\$1,259,187</u>	<u>\$ 1,451,675</u>	<u>\$1,416,968</u>

See notes to financial statements

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STATEMENT OF CHANGES IN FUND BALANCES
Current and Noncurrent Funds (In Thousands)

	Current Funds			Noncurrent Funds	Total All Funds Year Ended June 30	
	Unrestricted	Restricted	Total		1982	1981
REVENUES AND OTHER ADDITIONS				(Page 6)	(Memorandum Only)	
Unrestricted revenue	\$ 568,750	\$	\$ 568,750	\$	\$ 568,750	\$ 506,136
Federal appropriations		12,106	12,106		12,106	11,145
State appropriations		34,454	34,454	1,343	35,797	69,976
Federal grants and contracts		100,667	100,667	146	100,813	98,575
State grants and contracts		5,776	5,776		5,776	5,698
Local grants and contracts		1,339	1,339		1,339	1,313
Private grants and contracts		63,957	63,957	5,234	69,191	61,216
Investment income		8,125	8,125	8,541	16,666	13,358
Other additions	1,344		1,344	108,972	110,316	88,785
TOTAL REVENUES AND OTHER ADDITIONS	570,094	226,424	796,518	124,236	920,754	856,202
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general	352,032	196,888	548,920		548,920	497,564
University Hospitals	134,401	75	134,476		134,476	118,604
Auxiliary enterprises	59,206	36	59,242		59,242	53,371
Indirect costs recovered		19,100	19,100		19,100	17,792
Refund to grantors		212	212		212	590
Expended for plant facilities				61,603	61,603	57,835
Other deductions				77,030	77,030	16,874
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	545,639	216,311	761,950	138,633	900,583	762,630
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)						
Mandatory						
Principal and interest	6,353-	216-	6,569-	6,569	-	-
Renewals and replacements	358-		358-	358	-	-
Nonmandatory	10,107-	992-	11,099-	11,099	-	-
TOTAL TRANSFERS	16,818-	1,208-	18,026-	18,026	-	-
NET INCREASE FOR THE YEAR	7,637	8,905	16,542	3,629	20,171	93,572
Fund balance at beginning of the year, as restated	80,124	36,445	116,569	1,161,644	1,278,213	1,194,286
FUND BALANCE AT END OF THE YEAR	\$ 87,761	\$ 45,350	\$ 133,111	\$ 1,165,273	\$ 1,298,384	\$ 1,287,858

See notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
Current Funds (In Thousands)

	Year Ended June 30			
	1982		1981	
	Unrestricted	Restricted	TOTAL	TOTAL
REVENUES				(Memorandum Only)
Tuition and fees	\$ 74,842	\$	\$ 74,842	\$ 67,473
Federal appropriations		11,701	11,701	11,448
State appropriations	217,358	33,947	251,305	219,141
Federal grants and contracts	17,838	82,416	100,254	98,297
State grants and contracts	164	5,803	5,967	5,687
Local grants and contracts	42	1,365	1,407	1,280
Private gifts, grants, and contracts	1,617	57,665	59,282	52,972
Endowment income	5,027	3,854	8,881	7,438
Other investment income	15,154	248	15,402	11,185
Sales and services of educational activities	41,505		41,505	37,825
Sales and services of auxiliary enterprises	66,857		66,857	63,399
Sales and services of hospitals	128,346		128,346	112,812
TOTAL CURRENT REVENUES	568,750	196,999	765,749	688,957
EXPENDITURES AND MANDATORY TRANSFERS				
Educational and general				
Instruction	165,353	47,990	213,343	194,441
Research	8,032	98,656	106,688	99,263
Public service	11,828	36,361	48,189	44,123
Academic support	44,754	2,789	47,543	42,367
Student services	21,801	2,141	23,942	19,316
Institutional support	45,254	1,692	46,946	42,443
Operation and maintenance of plant	51,000	58	51,058	44,578
Scholarships and fellowships	4,010	7,201	11,211	11,033
Educational and general expenditures	352,032	196,888	548,920	497,564
Mandatory principal and interest transfers	3,386	216	3,602	1,473
TOTAL EDUCATION AND GENERAL	355,418	197,104	552,522	499,037
Auxiliary Enterprises				
Expenditures	59,206	36	59,242	53,371
Mandatory transfers for:				
Principal and interest	2,889		2,889	2,225
Renewals and replacements	358		358	276
TOTAL AUXILIARY ENTERPRISES	62,453	36	62,489	55,872
University Hospitals				
Expenditures	134,401	75	134,476	118,604
Mandatory principal and interest transfers	78		78	81
TOTAL UNIVERSITY HOSPITALS	134,479	75	134,554	118,685
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	552,350	197,215	749,565	673,594
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS)				
Excess of restricted receipts over transfers to revenues		10,325	10,325	4,037
Refunded to grantors		(212)	(212)	(590)
Nonmandatory transfers	(10,107)	(992)	(11,099)	(13,983)
Miscellaneous	1,344		1,344	1,069
TOTAL OTHER ADDITIONS (DEDUCTIONS)	(8,763)	9,121	358	(9,467)
NET INCREASE FOR YEAR	\$ 7,637	\$ 8,905	\$ 16,542	\$ 5,896

STATEMENT OF FINANCIAL CONDITION
 LOAN, ENDOWMENT, PLANT, AND OTHER NONCURRENT FUNDS (In Thousands)

	Student Loan Funds	Endowment Funds	Life Income Funds	Agency Funds	Plant Funds	Total Noncurrent Funds June 30	
						1982	1981
						(Memorandum Only)	
Cash and temporary investments	\$ 1,971	\$ 8,219	\$ 7	\$ 2,346	\$ 54,647	\$ 67,190	\$ 67,756
Receivables-Note C	38,855				53,995	92,850	119,714
Prepaid expenses and deferred charges					313	313	346
Investments-Note D	14	98,507	166		455	99,142	108,612
Deposits with trustee	17				10,155	10,172	8,737
Investment in plant-Note E							
Land					25,205	25,205	24,916
Buildings and improvements					713,001	713,001	662,131
Equipment					183,262	183,262	192,517
Books, museum, collections, and other					68,052	68,052	62,041
TOTAL ASSETS	\$ 40,857	\$ 106,726	\$ 173	\$ 2,346	\$1,109,085	\$ 1,259,187	\$1,246,770
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 5	\$	\$ 14	\$	\$ 3,020	\$ 3,039	\$ 6,303
Accrued liabilities	66			384	2,722	3,172	3,797
Notes payable-Note F					46,890	46,890	32,208
Bonds payable-Note F					35,785	35,785	36,592
Deposits held in custody for others				1,962		1,962	2,115
Due to current funds	2,182				884	3,066	4,111
TOTAL LIABILITIES	2,253		14	2,346	89,301	93,914	85,126
FUND BALANCES							
Loan Funds							
U.S. government loan programs							
Federal portion	31,057					31,057	31,803
University portion	3,451					3,451	3,534
University funds							
Restricted	3,891					3,891	3,071
Unrestricted	205					205	448
Endowment Funds							
Endowment		68,382				68,382	76,250
Term endowment		12,209				12,209	13,125
Quasi-endowment - restricted		23,445				23,445	22,468
Quasi-endowment - unrestricted		2,690				2,690	2,024
Life Income Funds							
			159			159	159
Plant Funds							
Unexpended							
Restricted							
Unrestricted					50,999	50,999	81,390
Renewals and replacement - restricted					46,244	46,244	31,813
Retirement of indebtedness - restricted					7,410	7,410	6,174
Net investment in plant					4,195	4,195	3,948
					910,936	910,936	885,437
TOTAL FUND BALANCES	38,604	106,726	159		1,019,784	1,165,273	1,161,644
TOTAL LIABILITIES AND FUND BALANCES	\$ 40,857	\$ 106,726	\$ 173	\$ 2,346	\$1,109,085	\$ 1,259,187	\$1,246,770

See notes to financial statements

STATEMENT OF CHANGES IN FUND BALANCES
 LOAN, ENDOWMENT, PLANT, AND OTHER NONCURRENT FUNDS (In Thousands)

	Student Loan Funds	Endowment Funds	Life Income Funds	Plant Funds	Total Noncurrent Funds Year Ended June 30	
					1982	1981
REVENUES AND OTHER ADDITIONS					(Memorandum Only)	
State appropriations	\$ 108	\$	\$	\$ 1,235	\$ 1,343	\$ 43,889
Federal grants and contracts				146	146	419
Private grants and contracts	295	972		3,967	5,234	5,499
Investment income	310	862		7,369	8,541	6,824
U.S. government advances	976				976	1,637
Interest on loans	785				785	836
Permanent University Fund additions		120			120	88
Other additions	39			218	257	4,415
Expended for plant facilities 1982-\$18,398; 1981-\$20,834 charged to current fund expenditures)				76,740	76,740	69,489
Notes-bonds payable expended				26,255	26,255	8,330
Retirement of indebtedness				3,839	3,839	2,882
TOTAL REVENUES AND OTHER ADDITIONS	2,513	1,954		119,769	124,236	144,308
EXPENDITURES AND OTHER DEDUCTIONS						
Bad debt expense and loan cancellations	2,660				2,660	2,525
Administrative and collection costs	450				450	659
Realized gains and losses and adjustment to market value		10,070			10,070	63
Expended for plant facilities				61,603	61,603	54,480
Retirement of indebtedness				3,839	3,839	2,882
Interest on indebtedness				4,931	4,931	3,355
Disposal of plant facilities				55,080	55,080	10,706
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	3,110	10,070		125,453	138,633	74,670
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)						
Mandatory						
Principal and interest				6,569	6,569	3,779
Renewals and replacements				358	358	276
Nonmandatory	345	975		9,779	11,099	13,983
TOTAL TRANSFERS	345	975		16,706	18,026	18,038
NET INCREASE (DECREASE) FOR THE YEAR	(252)	(7,141)		11,022	3,629	87,676
Fund balance at beginning of the year	38,856	113,867	159	1,008,762	1,161,644	1,073,968
FUND BALANCE AT END OF THE YEAR	\$ 38,604	\$ 106,726	\$ 159	\$ 1,019,784	\$ 1,165,273	\$ 1,161,644

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

University of Minnesota

June 30, 1982

NOTE A-Summary of Significant Accounting Policies

The financial statements are presented generally 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 with the exception of recording gifts when received, which is common practice for colleges and universities. The omission of the preceding accrual does not have a material effect on the financial statements. Also, as permitted by generally accepted accounting principles for colleges and universities, the University of Minnesota does not provide for depreciation of physical properties. Fund accounting principles are employed to ensure observation of limitations and restrictions placed on the use of certain resources available to the University.

FUND CLASSIFICATIONS

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

CURRENT

UNRESTRICTED-funds over which the University retains full control, to use in achieving its institutional purposes including instruction, research, public service, and general supporting activities.

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 the express purpose of making student loans. This is a revolving fund 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, have various stipulations relating to the maintenance of principal. The principal of true endowment funds is invested permanently for the purpose of producing present and future income. Term endowment funds are similar to true endowment funds except that all or part of the principal may be expended upon the passage of a certain time period or the occurrence of a particular event. Quasi-endowment-restricted funds represent specific purpose gifts that have not yet been used for their designated purpose. Quasi-endowment-unrestricted funds are gifts to the University without restriction that have not been allocated by the University.

LIFE INCOME

Gifts and bequests on which the income is paid to persons specified by the donor during the lifetime of the beneficiary; thereafter the principal becomes available to the University for use as specified by the originator.

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PLANT

Assets relating to investment in physical plant including new building construction, major building alterations and renovation and debt on University facilities.

AGENCY

Assets held in custody by the University for organizations or individuals.

CASH AND TEMPORARY INVESTMENTS

The cash balances of the various fund groups of the University are invested in two investment pools. The Temporary Investment Pool consists primarily of high-grade, short-term commercial paper and the Group Income Pool consists primarily of high-grade, long-term corporate and government bonds carried at cost which approximates market at June 30, 1982.

INVESTMENTS

Investments are carried at market value.

INVENTORIES

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

INVESTMENT IN PLANT

Land, buildings, and other property included in the plant funds are stated at cost at dates of acquisition or fair market value at date of donation in the case of gift. Although no provision is made for depreciation of physical plant and equipment, the investment in plant is reduced annually by the cost of equipment and other property disposals.

REVENUE RECOGNITION

Current fund revenues include all unrestricted gifts and other unrestricted resources earned during the reporting period, and restricted current funds to the extent that such funds were expended for current operating purposes. Revenues and related expenditures incurred in connection with the current summer session are deferred at June 30.

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NOTE B -- VACATION PAY:

In accordance with Financial Accounting Standards Board Statement No. 43, "Accounting for Compensated Absences", the University changed its method of accounting for vacation pay for civil service employees from the cash to the accrual basis. As a result of the application of the Statement, the current unrestricted fund balance at July 1, 1981 has been charged with the cumulative effect of the change in the amount of \$9,645,000. The current unrestricted fund balance at July 1, 1981, has been restated from \$89,769,000 to \$80,124,000 as a result of the change. The impact of the accounting change on the net increase in unrestricted current fund balance for the year ended June 30, 1982 is not material.

The accrued vacation pay liability at June 30, 1982 for twelve month academic employees is not determinable. The maximum potential liability is approximately \$4,000,000.

NOTE C -- RECEIVABLES

At June 30, 1982 and 1981, the receivable balances consisted of the following:

	1982		1981	
	(In Thousands)			
Current funds				
Unrestricted				
University Hospitals.	\$ 35,126		\$ 31,031	
Less allowance.	<u>3,930</u>		<u>3,060</u>	
	31,196		27,971	
State appropriations.	6,807		-	
Accrued income.	6,164		5,093	
Other	<u>8,271</u>	\$ 52,438	<u>6,582</u>	\$ 39,646
Restricted				
Unbilled charges.	23,130		15,651	
Other	<u>4,016</u>	<u>27,146</u>	<u>554</u>	<u>16,205</u>
		79,584		55,851
Loan funds				
Notes receivable.	47,103		47,037	
Accrued interest.	<u>1,187</u>		<u>1,068</u>	
	48,290		48,105	
Less allowance.	<u>9,435</u>	38,855	<u>8,621</u>	39,484
Plant funds				
Federal grants.	1,908		2,797	
State appropriations.	51,762		77,248	
Accrued interest.	<u>325</u>	53,995	<u>185</u>	80,230
	\$ <u>172,434</u>		\$ <u>175,565</u>	

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NOTE D -- ENDOWMENT INVESTMENTS

Investments at June 30, 1982 and 1981, consisted of the following:

	1982		1981	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
	(In Thousands)			
U.S. Treasury bills and commercial paper	\$10,205	\$ 10,081	\$ 13,504	\$ 13,387
Corporate bonds.	38,678	40,560	36,174	39,475
Common and preferred stock	47,341	45,744	56,235	43,287
Mortgages and other.	2,283	2,283	2,075	2,075
	<u>\$98,507</u>	<u>\$ 98,668</u>	<u>\$107,988</u>	<u>\$ 98,224</u>

The combined investment yield earned on investments of the University, based on the average of month-end market values of investments held, for the years ended June 30, 1982 and 1981, was 9.2% and 7.7%, respectively.

NOTE E -- CONSTRUCTION IN PROGRESS AND COMMITMENTS

Construction projects in process, principally buildings, that have been included in the assets of the plant funds at June 30, 1982, approximate \$69,910,000. The estimated cost to complete these facilities is \$120,567,000 which is principally related to the hospital renewal project. It is anticipated that term financing of approximately \$160,000,000 will be placed in fiscal 1983 to finance the project.

NOTE F -- NOTES AND BONDS PAYABLE

Notes and bonds payable represent general obligations of the University. Principal and interest are being paid from the net income of specific auxiliary activities or from student fees. The obligations bear interest at rates varying from 2.75% to 9.75% and mature at various dates through October 1, 2022. Obligations outstanding at June 30, 1982, mature as follows:

	(In Thousands)
1983.	\$ 24,405
1984.	3,018
1985.	4,093
1986.	3,058
1987.	2,816
1988 and thereafter.	45,285
	<u>\$ 82,675</u>

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NOTE G -- PENSION EXPENSE

All employees of the University meeting age and length of service requirements participate in either, civil service (Minnesota State Retirement System - MSRS), faculty (University of Minnesota), or Police Department (Police and Fire Fund of Public Employees Retirement Association - PERA) pension plans. The plans require contributions by both employer and employees. Pension expense of the University for the years ended June 30, 1982 and 1981 was \$27,006,000 and \$24,383,000, respectively, which includes the amortization of prior service cost through 2009.

The Faculty Retirement Plan of the University of Minnesota is a defined contribution plan and is fully funded. For Faculty members employed prior to 1963 the University provides a Faculty Retirement Supplement which is being funded in the amount equal to the annual benefits payable to retirees, plus the amount necessary to fund the actuarial deficit over a twelve year period.

Statewide plans (MSRS and PERA) cover employees of the State of Minnesota, school districts, counties, cities and other political subdivisions. The unfunded vested benefit liabilities of the plans are not actuarially segregated by employer unit. As of June 30, 1982 University employees represented approximately 30.4 percent and 1.4 percent of active plan participants in MSRS and PERA respectively.

At June 30, 1981, the date of the latest actuarial valuation net assets available for benefits were \$2,073,000, \$675,227,000 and \$174,896,000 for the Faculty Retirement Supplement, MSRS and PERA plans respectively. The actuarial present value of accumulated plan benefits was not calculated.

NOTE H -- FOUNDATIONS

The University of Minnesota Foundation, the University of Minnesota Medical Foundation, and the Arboretum Foundation are independent corporations formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. At June 30, 1982, the net assets of these foundations (not included in the financial statements of the University) were approximately \$80,577,000, of which more than \$76,859,000 were restricted funds. During the year ended June 30, 1982, these foundations distributed approximately \$8,348,000 to the University.

NOTE I-LITIGATION AND OTHER CONTINGENCIES

The University is a defendant in over 150 claims alleging sex discrimination in employment arising out of a class action Consent Decree entered in 1980. In addition, the Court which entered the Decree has also ordered the University to pay over two (2) million dollars in attorneys' fees, expenses and interest to counsel for the class. The University intends to appeal this order. The University is also a defendant in other cases involving, among other matters, alleged medical malpractice, civil rights violations, and breaches of contract. While any litigation has an element of uncertainty, and the University cannot therefore predict how these cases will be finally resolved, management and the General Counsel believe that the outcomes of the cases, individually and combined, will not have a materially adverse effect on the University's financial condition.

Additional copies and copies of complete supplementary schedules are available upon request from University of Minnesota, Administrative Services Center, 1919 University Avenue, St. Paul, Minnesota, 55104, telephone (612) 373-5571.

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, creed, color, sex, national origin, or handicap.