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UNIVERSITY OF MINNESOTA

#94475

FINANCIAL

REPORT

1987

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9 R. 279
6 1987



Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.

1700 IDS Center

Minneapolis, MN 55402

The Board of Regents
University of Minnesota:

We have examined the balance sheet of the University of Minnesota as of June 30, 1987 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 aforementioned financial statements present fairly the financial position of the University of Minnesota at June 30, 1987 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.

Peat Marwick Main & Co.

October 23, 1987



Member Firm of
Klynveld Peat Marwick Goerdeler

UNIVERSITY OF MINNESOTA

 Balance Sheet
 (in thousands)

 June 30, 1987
 (with comparative totals for 1986)

Assets	Current funds		Loan funds	Endowment and similar funds	Plant funds	Total all funds	
	Unrestricted	Restricted				1987	1986
Cash and temporary investments (note 3)	\$ 189,038	73,307	3,010	15,700	345,198	626,253	624,611
Receivables (note 2)	105,287	32,101	41,600	-	108,883	287,871	244,154
Inventories	25,085	-	-	-	-	25,085	22,253
Prepaid expenses and deferred charges	3,238	-	-	-	14,425	17,663	19,250
Investments (notes 3 and 4)	-	-	6	227,481	12,996	240,483	215,780
Investment in unconsolidated subsidiary	9,401	-	-	-	-	9,401	6,620
Investment in plant (notes 5 and 8):							
Land	-	-	-	-	25,709	25,709	25,285
Buildings and improvements	-	-	-	-	1,046,332	1,046,332	998,118
Equipment	-	-	-	-	342,511	342,511	291,472
Other	-	-	-	-	95,496	95,496	89,443
Total assets	\$ 332,049	105,408	44,616	243,181	1,991,550	2,716,804	2,536,986
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	34,583	3,348	6	-	5,736	43,673	47,642
Accrued liabilities	41,896	5,493	-	28	10,401	57,818	58,399
Notes payable, bonds payable and capital lease obligations (note 5)	-	-	-	-	457,840	457,840	483,224
Unearned income	12,825	-	-	-	-	12,825	14,314
Deposits held in custody for others	2,720	-	-	-	-	2,720	2,839
Interfund borrowing	(824)	41	527	-	256	-	-
Total liabilities	91,200	8,882	533	28	474,233	574,876	606,418
Fund balances:							
Unrestricted	240,849	-	299	-	131,193	372,341	297,866
Restricted	-	96,526	9,984	-	101,412	207,922	179,039
U.S. Government grants and other refundables	-	-	33,800	-	-	33,800	33,363
Endowment	-	-	-	118,464	-	118,464	104,398
Term endowment	-	-	-	10,657	-	10,657	16,500
Quasi endowment - restricted	-	-	-	55,461	-	55,461	55,733
Quasi endowment - unrestricted	-	-	-	58,507	-	58,507	49,050
Life income	-	-	-	64	-	64	168
Net investment in plant	-	-	-	-	1,284,712	1,284,712	1,194,451
Total fund balances	240,849	96,526	44,083	243,153	1,517,317	2,141,928	1,930,568
Total liabilities and fund balances	\$ 332,049	105,408	44,616	243,181	1,991,550	2,716,804	2,536,986

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA

Statement of Changes in Fund Balances
(in thousands)

Year ended June 30, 1987
(with comparative totals for 1986)

	Current funds		Loan funds	Endowment and term endowment funds	Quasi endowment funds	Life income funds	Plant funds		Net investment in plant	Total all funds	
	Unrestricted	Restricted					Unrestricted	Restricted		1987	1986
Revenues and other additions:											
Unrestricted revenues	\$ 848,498	-	-	-	-	-	-	-	-	848,498	755,599
Federal appropriations	-	12,213	-	-	-	-	-	-	-	12,213	13,462
State appropriations	-	63,163	49	-	-	-	-	47,779	-	110,991	59,688
Federal grants and contracts	-	141,427	442	-	-	-	-	-	-	141,869	135,070
State grants and contracts	-	10,539	-	-	-	-	-	-	-	10,539	8,135
Local grants and contracts	-	1,789	-	-	-	-	-	5,335	-	7,124	3,345
Private gifts, grants and contracts	-	102,448	314	221	458	-	-	1,018	-	104,459	93,633
Endowment and investment income	-	13,838	199	-	-	13	35,734	674	-	50,458	41,428
Realized gains (losses) and adjustments to market value, net	-	(673)	(5)	2,005	12,354	(6)	1,292	(23)	-	14,944	35,218
Student loan interest	-	-	1,469	-	-	-	-	-	-	1,469	1,123
Expended for plant facilities including \$36,037 charged to current funds	-	-	-	-	-	-	-	-	76,294	76,294	99,310
Notes and bonds payable expended	-	-	-	-	-	-	34,350	-	-	34,350	51,805
Retirement of indebtedness	-	-	-	-	-	-	-	-	25,384	25,384	3,568
Other additions	-	-	153	-	-	-	49	-	-	202	837
Total revenues and other additions	848,498	344,744	2,621	2,226	12,812	7	71,425	54,783	101,678	1,438,794	1,302,221
Expenditures and other deductions:											
Education and general	488,017	294,971	-	-	-	-	-	-	-	782,988	730,613
Auxiliary enterprises	81,636	24	-	-	-	-	-	-	-	81,660	80,318
University hospitals	196,785	35	-	-	-	-	-	-	-	196,820	175,213
Indirect costs recovered	-	30,700	-	-	-	-	-	-	-	30,700	27,287
Loan cancellation	-	-	1,044	-	-	-	-	-	-	1,044	960
Administrative and collection costs	-	-	515	-	-	-	-	-	-	515	477
Expended for plant facilities including \$27,818 not capitalized	-	-	-	-	-	-	31,400	36,675	-	68,075	103,171
Retirement of indebtedness	-	-	-	-	-	-	-	25,384	-	25,384	3,568
Interest on indebtedness	-	-	-	-	-	-	-	27,520	-	27,520	26,750
Loss on debt refinancing	-	-	-	-	-	-	-	-	-	-	9,927
Disposal of plant facilities	-	-	-	-	-	-	-	-	11,417	11,417	10,276
Other deductions	-	395	-	-	-	-	916	-	-	1,311	976
Total expenditures and other deductions	766,438	326,125	1,559	-	-	-	32,316	89,579	11,417	1,227,434	1,169,536
Transfers among funds - additions (deductions):											
Mandatory:											
Principal and interest	(2,519)	(19)	-	-	-	-	(44,022)	46,560	-	-	-
Renewals and replacements	(256)	-	-	-	-	-	10	246	-	-	-
Nonmandatory	(15,852)	(2,996)	301	5,997	(3,627)	(111)	15,835	453	-	-	-
Total transfers	(18,627)	(3,015)	301	5,997	(3,627)	(111)	(28,177)	47,259	-	-	-
Net increase (decrease) for the year	63,433	15,604	1,363	8,223	9,185	(104)	10,932	12,463	90,261	211,360	132,685
Fund balances at beginning of year	177,416	80,922	42,720	120,898	104,783	168	120,261	88,949	1,194,451	1,930,568	1,797,883
Fund balances at end of year	\$ 240,849	96,526	44,083	129,121	113,968	64	131,193	101,412	1,284,712	2,141,928	1,930,568

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA

 Statement of Current Funds Revenues, Expenditures and Other Changes
 (in thousands)

 Year ended June 30, 1987
 (with comparative totals for 1986)

	1987			1986
	Unrestricted	Restricted	Total	Total
Revenues:				
Tuition and fees	\$ 118,068	-	118,068	113,970
Federal appropriations	-	12,267	12,267	13,431
State appropriations	317,701	63,742	381,443	329,565
Federal grants and contracts	25,647	115,116	140,763	134,893
State grants and contracts	79	10,222	10,301	7,803
Local grants and contracts	44	1,815	1,859	1,358
Private gifts, grants and contracts	4,975	88,224	93,199	82,489
Endowment income	8,324	3,043	11,367	17,329
Investment income	13,483	620	14,103	13,165
Realized gains (losses) and adjustments to market value, net	(1,818)	-	(1,818)	2,494
Sales and services of educational activities	61,543	-	61,543	56,181
Sales and services of auxiliary enterprises	90,396	-	90,396	89,049
Sales and services of hospitals	207,275	-	207,275	169,226
Equity in earnings of unconsolidated subsidiary	2,781	-	2,781	1,322
Total revenues	848,498	295,049	1,143,547	1,032,275
Expenditures and mandatory transfers:				
Education and general:				
Instruction	234,730	42,852	277,582	260,638
Research	4,154	157,699	161,853	146,771
Public service	15,989	52,571	68,560	68,556
Academic support	70,830	12,450	83,280	71,533
Student services	30,787	2,985	33,772	32,510
Institutional support	52,197	1,691	53,888	48,120
Operation and maintenance of plant	66,080	1,466	67,546	66,085
Scholarships and fellowships	13,250	23,257	36,507	36,400
Education and general expenditures	488,017	294,971	782,988	730,613
Mandatory principal and interest transfers	862	19	881	3,149
Total education and general	488,879	294,990	783,869	733,762
Auxiliary enterprises:				
Expenditures	81,636	24	81,660	80,318
Mandatory transfers for:				
Principal and interest	1,000	-	1,000	854
Renewals and replacements	256	-	256	328
Total auxiliary enterprises	82,892	24	82,916	81,500
University hospitals:				
Expenditures	196,785	35	196,820	175,213
Mandatory principal and interest transfers	657	-	657	-
Total University hospitals	197,442	35	197,477	175,213
Total expenditures and mandatory transfers	769,213	295,049	1,064,262	990,475
Other transfers - additions (deductions):				
Excess of restricted additions over expenditures	-	18,995	18,995	12,036
Refunded to grantors	-	(395)	(395)	(321)
Nonmandatory transfers	(15,852)	(2,996)	(18,848)	(22,964)
Total other transfers - additions (deductions)	(15,852)	15,604	(248)	(11,249)
Net increase in fund balances	\$ 63,433	15,604	79,037	30,551

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA

Notes to Financial Statements

June 30, 1987

(1) Summary of Significant Accounting Policies

The financial statements 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 with the exception of recording gifts when received, which is a 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 (the University) does not provide for depreciation of physical properties.

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 replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

In order to observe the limits 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.

Within each fund group, fund balances restricted by outside sources are so indicated. These externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Regents retains full control to use in achieving any of its institutional purposes.

(Continued)

UNIVERSITY OF MINNESOTA

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 permanently to produce income. 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 gifts restricted for specific purposes for which the University has established endowments. Such restricted gifts are recorded as additions directly to the quasi endowment restricted fund. Quasi endowment unrestricted funds are funds without restriction that have been allocated by the University for investment purposes. Quasi endowments may be spent for their restricted or unrestricted purposes.

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 donor.

Plant

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

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UNIVERSITY OF MINNESOTA

Cash and Temporary Investments

The cash balances of the various fund groups of the University may be invested in two investment pools. The Temporary Investment Pool consists primarily of money market mutual funds and short-term U.S. Government securities. These investments are carried at amortized cost, which approximates the market value at June 30, 1987. The Group Income Pool consists primarily of long-term corporate and government bonds, commercial paper and money market mutual funds which are carried at current market value. Also included in cash and temporary investments are investments restricted for construction projects and bond reserve funds (see note 3).

Investments

Investments are recorded at market value and adjusted periodically as such value changes. The University holds a substantial portion of the assets of permanent and quasi endowment funds in investment pools.

Inventories

Inventories held 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 dates of donation in the case of gifts. 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.

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. Interest of \$140,000 and \$5,483,000 was capitalized during 1987 and 1986, respectively.

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UNIVERSITY OF MINNESOTA

Revenue Recognition

Current funds revenues include all unrestricted resources earned during the year and restricted revenues to the extent that such funds were expended for current operating purposes. Revenues and related expenditures incurred in connection with the 1987 summer sessions are deferred at year end.

Vacation Pay

The University accrues a liability for vacation pay for all civil service employees. The accrued vacation pay liability at June 30, 1987 for 12-month academic employees is not determinable. The maximum unrecorded potential liability for academic employees at June 30, 1987 is approximately \$10,297,000.

Income Taxes

The University is exempt from federal income taxes as an instrumentality of the state of Minnesota and under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain 1986 financial statement amounts have been reclassified to conform with the 1987 presentation.

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UNIVERSITY OF MINNESOTA

(2) Receivables

At June 30 the receivables balances consisted of the following:

	<u>1987</u>		<u>1986</u>	
	(in thousands)			
<u>Current unrestricted funds</u>				
University Hospitals	\$ 59,632		47,550	
Less allowance for uncol- lectible accounts	<u>(5,827)</u>		<u>(4,710)</u>	
	53,805		42,840	
State appropriations	30,136		18,233	
Accrued income	9,236		9,147	
Student and other	<u>12,110</u>	105,287	<u>10,334</u>	80,554
<u>Current restricted funds</u>				
Unbilled charges, due principally from federal government	20,920		19,105	
Other	<u>11,181</u>	32,101	<u>8,030</u>	27,135
<u>Loan funds</u>				
Notes receivable	49,166		47,777	
Accrued interest	<u>1,414</u>		<u>1,453</u>	
	50,580		49,230	
Less allowance for uncol- lectible accounts	<u>(8,980)</u>	41,600	<u>(9,206)</u>	40,024
<u>Plant funds</u>				
Notes receivable	4,730		-	
Federal grants	180		253	
State appropriations	96,117		87,735	
Accrued interest	<u>7,856</u>	<u>108,883</u>	<u>8,453</u>	<u>96,441</u>
Total		\$ <u>287,851</u>		<u>244,154</u>

(Continued)

UNIVERSITY OF MINNESOTA

(3) Cash and Temporary Investments

Assets of funds participating in the Temporary Investment Pool are pooled based on each participant's investment at cost. Assets of funds participating in the Group Income Pool are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month. Fund participation information for each of these pools is summarized as follows:

	Temporary Investment Pool <u>(in thousands)</u>	Group Income Pool units
Current unrestricted	161,654	244,026
Current restricted	63,941	82,819
Loan	2,675	2,991
Endowment	15,700	227,938
Plant	<u>97,254</u>	<u>102,400</u>
	<u>341,224</u>	<u>660,174</u>
Market value per unit at June 30, 1987	\$ <u>1.00</u>	<u>112.45</u>
Average annual earnings per unit, exclusive of net gains	\$ <u>.08</u>	<u>10.23</u>

The investment in each of these pools is recorded as cash and temporary investments for all funds, except that the endowment funds' participation in the Group Income Pool is recorded as investments in the accompanying balance sheet.

Also included in cash and temporary investments are restricted investments which are held by the bond trustee for construction projects and for reserve funds required to be maintained by the bond indentures. The amounts held by the trustee aggregated \$49,975,000 and \$71,687,000 for construction and \$186,454,000 and \$211,902,000 for reserve funds at June 30, 1987 and 1986, respectively.

(Continued)

UNIVERSITY OF MINNESOTA

(4) Investments

Investments, principally of the endowment funds, at June 30 consisted of the following:

	<u>1987</u>		<u>1986</u>	
	<u>Market</u> (in thousands)	<u>Cost</u> (in thousands)	<u>Market</u> (in thousands)	<u>Cost</u> (in thousands)
Short-term cash equivalents	\$ 17,273	17,280	14,706	14,629
Bonds	101,530	100,648	96,744	89,070
Common and preferred stock	117,757	96,932	100,434	62,176
Mortgages and other	<u>3,923</u>	<u>3,971</u>	<u>3,896</u>	<u>3,857</u>
	\$ <u>240,483</u>	<u>218,831</u>	<u>215,780</u>	<u>169,732</u>

The combined investment yield, exclusive of securities lending and other portfolio management strategies revenue, based on average month-end market values was 7.03% and 5.79% for the year ended June 30, 1987 and 1986, respectively.

The decline in the securities market in October 1987 has resulted in an overall decline in the market value of the endowment fund assets of approximately 9%.

The Group Investment Fund assets and the Permanent University Fund assets included in the endowment funds are pooled on a market value basis with each individual endowment subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month. Participation information for each of these pools is summarized as follows:

	<u>Group Investment</u> <u>Fund units</u>	<u>Permanent University</u> <u>Fund units</u>
Endowment	1,505,669	702,712
Term endowment	202,911	-
Quasi endowment restricted	1,230,822	-
Quasi endowment unrestricted	220,464	6,223
Life income	<u>3,735</u>	<u>-</u>
	<u>3,163,601</u>	<u>708,935</u>
Market value per unit at June 30, 1987	\$ <u>30.83</u>	<u>116.48</u>
Average annual earnings exclusive of net gains	\$ <u>1.08</u>	<u>5.93</u>

(Continued)

UNIVERSITY OF MINNESOTA

Investment income relating to endowment fund assets is recorded as revenue in the current funds. The University has established a spending policy under which earnings of the Group Investment Fund are distributed at a rate of 5% 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 5% return, the excess is transferred to quasi endowment funds from current funds. For the year ended June 30, 1987 a \$492,000 nonmandatory transfer was made from the endowment to current funds.

The distributed endowment earnings of the Permanent University Fund is limited to the lesser of 5.5% of the three-year moving average of the market value of the fund assets or the actual investment income. When investment income exceeds the 5.5% return, the excess is transferred to endowment funds. These earnings which are shown as a nonmandatory transfer aggregated \$1,082,000 for the year ended June 30, 1987.

To enhance the return on investment, the University maintains a securities lending program involving the endowment and short-term investment portfolios. As governed by defined guidelines and agreements, the University loans securities 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% of the market value of the securities loaned. 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 at any time terminate any loan of securities. At June 30, 1987 the University had securities of approximately \$225,000,000 (including \$13,000,000 of University of Minnesota Foundation securities) involved in loans. These loans were supported by collateral of approximately \$232,000,000.

In addition, the University employs other portfolio management strategies involving the purchase or borrowing of securities and the subsequent sale of these and other University securities 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 by utilizing hedged, minimal risk techniques which are short-term in duration. The University had outstanding approximately \$264,000,000 in market value in these strategies which involved approximately \$258,000,000 in securities purchased or borrowed. Total income earned on the securities lending and investment strategies was \$6,045,000 for the year ended June 30, 1987.

(Continued)

UNIVERSITY OF MINNESOTA

(5) Notes Payable, Bonds Payable and Capital Lease Obligations

At June 30 the outstanding indebtedness of the University consisted of the following:

	<u>1987</u>	<u>1986</u>
	(in thousands)	
General Obligation Refunding Bonds, Series 1986A, at 6.0% to 7.82% due at various dates through 2005 except capital appreciation bonds at 6% to 7.75% due 2005-2011	\$ 109,210	109,210
General Obligation Refunding Bonds, Series 1985A, at 6.5% to 9.68%, due at various dates through 2005, except for capital appreciation bonds at 9.25% to 10.5% due from 1996-2011	5,445	7,915
Variable Rate Demand Bonds, Series 1985E, 1985F, 1985G, 1985H and 1985I, at 4.45% due at various dates through 2017	170,000	170,000
Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D, at 4.45% to 6.125% in 1987 and 1986 due from 2013-2017 (redeemed July 21, 1987)	65,000	65,000
Variable Rate Demand Bonds, Series 1984A, 4.45% to 6.125% in 1987 and 1986 due at various dates through 2004 (redeemed July 21, 1987)	86,200	86,200
Various auxiliary enterprise bonds, at 3%, collateralized by revenues of self-supporting auxiliary enterprises and the full faith and credit of the University	19,275	19,725
Various auxiliary enterprise revenue bonds, at 3.5%, collateralized by revenues of the applicable auxiliary enterprise	-	35
Notes payable to banks at 1/2 of the sum of the bank's prime rate plus three percentage points, collateralized by the full faith and credit of the University	159	15,824
Installment notes payable to computer equipment vendor, at 5% to 8.5%, collateralized by the related equipment	186	447
Obligations under capital leases, at 6.75% to 11.75%	<u>2,365</u>	<u>8,868</u>
Total	\$ <u>457,840</u>	<u>483,224</u>

(Continued)

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During the year ended June 30, 1986 the University sold \$170,000,000 in Variable Rate Demand Bonds, Series 1985E through I. Approximately \$144,000,000 of the proceeds were deposited in the escrow fund established under the bond indentures to redeem both the Series 1984A Bonds and the Series 1985B through D Bonds. On July 21, 1987 the University redeemed the Series 1984A Bonds and 1985B through D Bonds.

During the year ended June 30, 1986 the University issued General Obligation Refunding Bonds, Series 1986A, for the defeasance of \$89,236,139 of General Obligation Refunding Bonds, Series 1985A. Proceeds of the Series 1986A Bonds were deposited with a trustee in an amount sufficient, together with the interest earned thereon, to be used to meet debt service requirements of the defeased Series 1985A Bonds as they become due. The amount of defeased Series 1985A Bonds outstanding was \$89,236,139 at June 30, 1987 and 1986. As a result of this refinancing, the University recognized a loss of \$9,927,000 in 1986. This loss from the advance refunding of long-term debt is reflected as a deduction from unrestricted plant fund balance.

During the year ended June 30, 1985 the University issued General Obligation Refunding Bonds, Series 1985A, and Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D, for the purpose of advance refunding Series 1982 Term Bonds and Series 1982 Serial Bonds and to finance construction of a parking ramp. Proceeds of the Series 1985A Bonds were deposited with a trustee in an amount sufficient, together with the interest earned thereon, to be used to meet debt service requirements of the Series 1982 Bonds as they become due. The amount of defeased Series 1982 Bonds outstanding was \$112,635,000 at June 30, 1987 and 1986.

The full faith and credit of the University is pledged for payment of principal and interest of all outstanding bonds.

Included as part of restricted plant fund balances at June 30, 1987 are \$5,278,381 for renewals and replacements and \$2,981,065 for retirement of indebtedness as required by related debt covenants.

Maturities and sinking fund requirements on notes and bonds payable outstanding at June 30, 1987 during each of the next five years and thereafter are as follows:

Fiscal year ending <u>June 30</u>	<u>(In thousands)</u>
1988	\$ 8,248
1989	8,413
1990	7,791
1991	7,935
1992	9,955
Thereafter	<u>413,133</u>
	\$ <u>455,475</u>

(Continued)

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The University leases certain data processing and office equipment under capital leases. Minimum future lease payments on capital leases at June 30, 1987 are as follows:

<u>Fiscal year ending</u>	<u>(In thousands)</u>
1988	\$ 1,470
1989	898
1990	131
1991	34
1992	<u>5</u>
	2,538
Less interest portion	<u>173</u>
Present value of capital lease obligations	\$ <u>2,365</u>

Included in the Plant Fund group at June 30, 1987 is equipment acquired under capital leases of approximately \$10,221,367.

(6) Pension Expenditures

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). The plans require contributions by both employer and employees. Pension expense of the University for the years ended June 30, 1987 and 1986 was \$32,587,000 and \$31,088,000, respectively, which includes the amortization of prior service cost through 2009.

The Faculty Retirement plan of the University 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 12-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, 1986 University employees represented approximately 30% and 1% of active plan participants in MSRS and PERA, respectively.

At June 30, 1986, the date of the latest actuarial valuation, net assets available for benefits were \$7,523,000, \$1,370,000 and \$405,825,000 for the Faculty Retirement Supplement, MSRS and PERA plans, respectively. The actuarial present value of accumulated plan benefits was not calculated.

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(7) Foundations

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, 1987 and 1986 the net assets of these foundations (not included in the financial statements of the University) were approximately \$179,859,000 and \$133,321,000, of which approximately \$175,230,000 and \$128,312,000 were restricted funds, respectively. During the years ended June 30, 1987 and 1986 these foundations distributed approximately \$23,604,000 and \$18,636,000, respectively, to the University.

In addition, the University leases computing services from Research Equipment, Inc., doing business as the Minnesota Supercomputer Center, Inc. (MSC), a majority-owned subsidiary of the University of Minnesota Foundation. During the years ended June 30, 1987 and 1986 the University made net payments of approximately \$6,900,000 and \$4,600,000, respectively, to MSC for computer usage. At June 30, 1987 the University has outstanding future minimum computer usage payments totaling approximately \$23,000,000 through 1992 under noncancelable agreements with MSC. Additionally, MSC has outstanding future minimum operating lease payments totaling \$7,000,000 for various computer equipment and building space under noncancelable agreements with the University.

During 1986 the University extended a line of credit of \$5,000,000, at 9.7%, expiring June 30, 1992, to MSC. As of June 30, 1987 and 1986 \$4,700,000 and \$250,000, respectively, of this line of credit had been used.

Subsequent to June 30, 1987 MSC repaid the total amount of the outstanding line of credit to the University. Additionally, on July 31, 1987 the University purchased 22,500 shares of Research Equipment, Inc. nonvoting, preferred stock for \$4,500,000.

(8) Commitments and Contingencies

Construction projects in progress, principally buildings, that have been included in the assets of the plant funds at June 30, 1987 approximate \$67,650,000. The estimated cost to complete these facilities is \$59,197,000.

The University owns property called the Rosemount Research Center on which groundwater and surface contamination have been discovered which may have been caused by disposal of hazardous wastes. The University has entered into an agreement with the Minnesota Pollution Control Agency under which the University may be required to clean up the land. The cost of this clean up may be in the range of \$5 to 10 million. It is also possible that residents in the area will file damage claims against the University.

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The University is a defendant in several claims and petitions alleging sex discrimination in employment arising out of a class action Consent Decree entered in 1980. 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 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.

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) 624-7550.

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.