



UNIVERSITY OF MINNESOTA

FINANCIAL
REPORT

1986

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The Board of Regents
University of Minnesota:

We have examined the balance sheet of the University of Minnesota as of June 30, 1986 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, 1986 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, Mitchell & Co.

October 24, 1986

UNIVERSITY OF MINNESOTA

Balance Sheet
(in thousands)

June 30, 1986
(with comparative totals for 1985)

Assets	Current funds		Loan funds	Endowment and similar funds	Plant funds	Total all funds	
	Unrestricted	Restricted				1986	1985
Cash and temporary investments (note 3)	\$ 153,243	66,192	3,357	10,660	391,159	624,611	469,432
Receivables (note 2)	80,554	27,135	40,024	-	96,441	244,154	247,300
Inventories	22,252	1	-	-	-	22,253	21,277
Prepaid expenses and deferred charges	10,742	-	-	-	15,128	25,870	14,431
Investments (notes 3 and 4)	-	-	8	215,216	556	215,780	178,733
Investment in plant (notes 5 and 8):							
Land	-	-	-	-	25,285	25,285	25,129
Buildings and improvements	-	-	-	-	998,118	998,118	907,147
Equipment	-	-	-	-	291,472	291,472	248,275
Other	-	-	-	-	89,443	89,443	82,928
Total assets	\$ 266,791	93,328	43,389	225,876	1,907,602	2,536,986	2,194,652
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 35,116	5,207	6	-	7,313	47,642	37,366
Accrued liabilities	40,527	4,853	-	27	12,992	58,399	46,041
Notes payable, bonds payable and capital lease obligations (note 5)	-	-	-	-	483,224	483,224	297,823
Unearned income	11,968	2,346	-	-	-	14,314	13,349
Deposits held in custody for others	2,839	-	-	-	-	2,839	2,190
Interfund borrowing	(1,075)	-	663	-	412	-	-
Total liabilities	89,375	12,406	669	27	503,941	606,418	396,769
Fund balances:							
Unrestricted	177,416	-	189	-	120,261	297,866	268,558
Restricted	-	80,922	9,168	-	88,949	179,039	212,310
U.S. Government grants and other refundables	-	-	33,363	-	-	33,363	32,996
Endowment	-	-	-	104,398	-	104,398	89,968
Term endowment	-	-	-	16,500	-	16,500	14,003
Quasi-endowment - restricted	-	-	-	55,733	-	55,733	44,973
Quasi-endowment - unrestricted	-	-	-	49,050	-	49,050	33,064
Life income	-	-	-	168	-	168	162
Net investment in plant	-	-	-	-	1,194,451	1,194,451	1,101,849
Total fund balances	177,416	80,922	42,720	225,849	1,403,661	1,930,568	1,797,883
Total liabilities and fund balances	\$ 266,791	93,328	43,389	225,876	1,907,602	2,536,986	2,194,652

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA
Statement of Changes in Fund Balances
(in thousands)

Year ended June 30, 1986
(with comparative totals for 1985)

	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		1986	1985
Revenues and other additions:											
Unrestricted revenues	\$ 754,266	-	-	-	-	-	11	-	-	754,277	737,264
Federal appropriations	-	13,462	-	-	-	-	-	-	-	13,462	13,334
State appropriations	-	59,640	48	-	-	-	-	-	-	59,688	112,734
Federal grants and contracts	-	134,641	429	-	-	-	-	-	-	135,070	118,835
State grants and contracts	-	8,135	-	-	-	-	-	-	-	8,135	7,034
Local grants and contracts	-	1,433	-	-	-	-	-	1,912	-	3,345	1,391
Private gifts, grants and contracts	-	89,632	135	467	2,883	2	-	514	-	93,633	83,739
Endowment and investment income	-	10,389	358	-	-	12	31,379	612	-	42,750	27,573
Realized gains (losses) and adjustments to market value, net	-	-	-	15,754	18,526	(11)	949	-	-	35,218	32,021
Student loan interest	-	-	1,123	-	-	-	-	-	-	1,123	1,290
Expended for plant facilities including \$38,364 charged to current funds	-	-	-	-	-	-	-	-	99,310	99,310	80,992
Notes and bonds payable expended	-	-	-	-	-	-	51,720	85	-	51,805	70,136
Retirement of indebtedness	-	-	-	-	-	-	-	-	3,568	3,568	20,429
Gain on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	7,086
Other additions	-	-	203	-	-	-	240	394	-	837	577
Total revenues and other additions	754,266	317,332	2,296	16,221	21,409	3	84,299	3,517	102,878	1,302,221	1,314,435
Expenditures and other deductions:											
Education and general	452,726	277,887	-	-	-	-	-	-	-	730,613	669,489
Auxiliary enterprises	80,260	58	-	-	-	-	-	-	-	80,318	78,846
University hospitals	175,166	47	-	-	-	-	-	-	-	175,213	154,810
Indirect costs recovered	-	27,287	-	-	-	-	-	-	-	27,287	22,056
Loan cancellation	-	-	960	-	-	-	-	-	-	960	953
Administrative and collection costs	-	-	477	-	-	-	-	-	-	477	561
Expended for plant facilities including \$42,225 not capitalized	-	-	-	-	-	-	54,739	48,432	-	103,171	102,556
Retirement of indebtedness	-	-	-	-	-	-	-	26,750	-	26,750	20,429
Interest on indebtedness	-	-	-	-	-	-	-	3,568	-	3,568	12,808
Loss on debt refinancing	-	-	-	-	-	-	9,927	-	-	9,927	13,946
Disposal of plant facilities	-	-	-	-	-	-	-	-	10,276	10,276	14,283
Other deductions	-	321	-	-	-	-	655	-	-	976	1,067
Total expenditures and other deductions	708,152	305,600	1,437	-	-	-	65,321	78,750	10,276	1,169,536	1,091,804
Transfers among funds - additions (deductions):											
Mandatory:											
Principal and interest	(3,986)	(17)	-	-	-	-	(26,106)	30,109	-	-	-
Renewals and replacements	(328)	-	-	-	-	-	10	318	-	-	-
Nonmandatory	(22,013)	(950)	(452)	706	5,337	3	16,736	633	-	-	-
Total transfers	(26,327)	(967)	(452)	706	5,337	3	(9,360)	31,060	-	-	-
Net increase (decrease) for the year	19,787	10,765	407	16,927	26,746	6	9,618	(44,173)	92,602	132,685	222,631
Fund balances at beginning of year	157,629	70,157	42,313	103,971	78,037	162	110,643	133,122	1,101,849	1,797,883	1,575,252
Fund balances at end 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

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA

Statement of Current Funds Revenues, Expenditures and Other Changes
(in thousands)Year ended June 30, 1986
(with comparative totals for 1985)

	1986			1985
	Unrestricted	Restricted	Total	Total
Revenues:				
Tuition and fees	\$ 113,970	-	113,970	104,660
Federal appropriations	-	13,431	13,431	13,745
State appropriations	268,947	60,618	329,565	303,780
Federal grants and contracts	23,076	111,817	134,893	120,425
State grants and contracts	100	7,703	7,803	6,284
Local grants and contracts	-	1,358	1,358	1,305
Private gifts, grants and contracts	4,111	78,378	82,489	73,380
Endowment income	13,280	4,049	17,329	17,179
Investment income	14,188	299	14,487	14,565
Realized gains (losses) and adjustments to market value, net	2,138	356	2,494	3,195
Sales and services of educational activities	56,181	-	56,181	55,092
Sales and services of auxiliary enterprises	89,049	-	89,049	86,349
Sales and services of hospitals	169,226	-	169,226	172,350
Total revenues	754,266	278,009	1,032,275	972,309
Expenditures and mandatory transfers:				
Education and general:				
Instruction	218,327	42,311	260,638	250,808
Research	4,635	142,136	146,771	126,703
Public service	17,820	50,736	68,556	63,599
Academic support	58,576	12,957	71,533	60,262
Student services	29,619	2,891	32,510	30,022
Institutional support	46,791	1,329	48,120	43,159
Operation and maintenance of plant	64,749	1,336	66,085	64,457
Scholarships and fellowships	12,209	24,191	36,400	30,479
Education and general expenditures	452,726	277,887	730,613	669,489
Mandatory principal and interest transfers	3,132	17	3,149	1,075
Total education and general	455,858	277,904	733,762	670,564
Auxiliary enterprises:				
Expenditures	80,260	58	80,318	78,846
Mandatory transfers for:				
Principal and interest	854	-	854	256
Renewals and replacements	328	-	328	(7,466)
Total auxiliary enterprises	81,442	58	81,500	71,636
University hospitals:				
Expenditures	175,166	47	175,213	154,810
Total expenditures and mandatory transfers	712,466	278,009	990,475	897,010
Other transfers - additions (deductions):				
Excess of restricted addi- tions over expenditures	-	12,036	12,036	12,037
Refunded to grantors	-	(321)	(321)	(147)
Nonmandatory transfers	(22,014)	(950)	(22,964)	(54,459)
Total other transfers - additions (deductions)	(22,014)	10,765	(11,249)	(42,569)
Net increase in fund balances	\$ 19,787	10,765	30,552	32,730

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA

Notes to Financial Statements

June 30, 1986

(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.

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UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

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 and general supporting activities.

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 which the University has established endowments. Such restricted gifts are recorded as additions directly to quasi-endowment-restricted fund balance. 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

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, ContinuedCash 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, 1986. 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 on a market value basis. The University also lends investments of the endowment and similar funds to certain brokerage firms and in return receives collateral in the form of cash deposits equal to 95% or more of the market value of such investments. The University receives the dividends and interest from the investments during the period of the loan.

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 \$5,483,000 and \$7,716,000 was capitalized during 1986 and 1985, respectively.

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 current summer session are deferred at year end.

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UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, ContinuedVacation Pay

The University accrues a liability for vacation pay for all civil service employees. The accrued vacation pay liability at June 30, 1986 for twelve month academic employees is not determinable. The maximum unrecorded potential liability for academic employees at June 30, 1986 is approximately \$10,000,000.

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.

(2) Receivables

At June 30, the receivables balances consisted of the following:

	<u>1986</u>	<u>1985</u>	
	(In thousands)		
<u>Current Unrestricted Funds</u>			
University Hospitals	\$ 47,550		38,014
Less allowance for uncollectible accounts	<u>(4,710)</u>		<u>(4,122)</u>
	42,840		33,892
State appropriations	18,233		314
Accrued income	7,742		6,980
Student and other	<u>11,739</u>	80,554	<u>8,770</u> 49,956
<u>Current Restricted Funds</u>			
Unbilled charges, due principally from Federal government	19,105		20,015
Other	<u>8,030</u>	27,135	<u>5,188</u> 25,203
<u>Loan Funds</u>			
Notes receivable	47,777		47,962
Accrued interest	<u>1,453</u>		<u>1,320</u>
	49,230		49,282
Less allowance for uncollectible accounts	<u>(9,206)</u>	40,024	<u>(9,006)</u> 40,276
<u>Plant Funds</u>			
Federal grants	253		396
State appropriations	87,735		130,021
Accrued interest	<u>8,453</u>	<u>96,441</u>	<u>1,448</u> <u>131,865</u>
Total		\$ <u>244,154</u>	<u>247,300</u>

(Continued)

UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(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:

<u>Fund</u>	Temporary Investment Pool (in thousands)	Group Income Pool Units
Current unrestricted	\$ 124,784	246,776
Current restricted	58,834	63,725
Loan	3,012	2,991
Endowment	10,660	238,411
Plant	<u>95,760</u>	<u>102,400</u>
	<u>\$ 293,050</u>	<u>654,303</u>
Market value per unit at June 30, 1986	\$ <u>1.00</u>	\$ <u>115.34</u>
Average annual earnings per unit, exclusive of net gains	\$ <u>.09</u>	\$ <u>10.52</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 \$211,902,000 and \$86,621,000 for construction and \$71,687,000 and \$59,486,000 for reserve funds at June 30, 1986 and 1985, respectively.

(Continued)

UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(4) Investments

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

	1986		1985	
	Market (In thousands)	Cost	Market (In thousands)	Cost
Short-term cash equivalents	\$ 14,706	14,629	9,840	9,828
Bonds	96,744	89,070	60,287	56,016
Common and preferred stock	100,434	62,176	105,060	79,470
Mortgages and other	3,896	3,857	3,546	3,536
	<u>\$ 215,780</u>	<u>169,732</u>	<u>178,733</u>	<u>148,850</u>

The combined investment yield, exclusive of securities lending and other portfolio management strategies revenue, based on average month-end market values was 5.91% and 6.6% for the year ended June 30, 1986 and 1985, respectively.

The Group Investment 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. Of the total units, each having a market value of \$25.16, 1,412,438 units were owned by endowment, 203,951 units by term endowment, 1,505,888 units by quasi-endowment and 7,409 units by life income funds at June 30, 1986. The average annual earnings per unit exclusive of net gains, aggregated \$.97 for the year. Endowment earnings in excess of 5% of defined market value are transferred to quasi-endowment to maintain the purchasing power of the principal. These earnings which are shown as a nonmandatory transfer aggregated \$609,000 and \$1,140,000 for the year ended June 30, 1986 and 1985, respectively.

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 approximates 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, 1986, the University had securities of approximately \$397,000,000 loaned which were supported by collateral of approximately \$388,000,000.

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UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(4) Investments, Continued

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 collateral. 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. Total income earned on the investment strategies was \$5,884,000 and \$5,034,000 for the years ended June 30, 1986 and 1985, respectively. At June 30, 1986, the University had outstanding approximately \$64,000,000 in market value in these strategies which involved approximately \$37,000,000 in securities purchased or borrowed.

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UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

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

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

	<u>1986</u>	<u>1985</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	-
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	7,915	97,410
Variable Rate Demand Bonds, Series 1985E, 1985F, 1985G, 1985H, 1985I, at 6.625% due at various dates through 2017	170,000	-
Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D, at 4.35% to 6.125% in 1986 and 4.35% to 5.40% in 1985 due from 2013 to 2017	65,000	65,000
Variable Rate Demand Bonds, Series 1984A, 4.45% to 6.125% in 1986 and 4.40% to 6.65% in 1985 due at various dates through 2004	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	19,725	20,160
Various auxiliary enterprise revenue bonds, at 3.5%, collateralized by revenues of the applicable auxiliary enterprise	35	70
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	15,824	18,635
Installment notes payable to computer equipment vendor, at 5% to 8.5%, collateralized by the related equipment	447	734
Obligations under capital leases, at 6.75% to 11.75%	<u>8,868</u>	<u>9,614</u>
Total	<u>\$ 483,224</u>	<u>297,823</u>

(Continued)

UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

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

The interest rate on the outstanding Variable Rate Demand Bonds is determined at fixed intervals which are chosen by the University and is based on market interest rates for these types of bonds at the beginning of each interval. The interest rate, beginning October 1, has been fixed by the University until July 1987 at 4.45%.

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

During 1986, the University sold \$170,000,000 in Variable Rate Demand Bonds Series 1985E through I. Approximately \$144,000,000 of the proceeds have been deposited in the escrow fund established under the bond indentures to redeem both the Series 1984A Bonds and the Series 1985B, 1985C and 1985D Bonds on or before July 21, 1987.

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, 1986.

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, 1986.

As a result of the refinancings, the University recognized losses of \$9,927,000 in 1986 and \$13,946,000 in 1985. The losses from the advance refundings of long-term debt are reflected as a deduction from unrestricted plant fund balance.

Also during 1985, the University retired \$13,232,000 of auxiliary enterprise revenue bonds and auxiliary enterprise bonds. This transaction resulted in a gain of \$7,086,000 and is reflected as an addition to net investment in plant.

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UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

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

Included as part of restricted plant fund balances at June 30, 1986 are \$4,627,000 for renewals and replacements and \$2,455,000 for retirement of indebtedness as required by related debt covenants.

Maturities and sinking fund requirements on notes and bonds payable outstanding at June 30, 1986 during each of the next five years are as follows:

<u>Fiscal year ending June 30,</u>	<u>(In thousands)</u>
1987	\$ 4,891
1988	7,914
1989	7,719
1990	10,279
1991	<u>6,862</u>
	<u>\$ 37,665</u>

The University leases certain student housing facilities and data processing and office equipment under capital leases. Minimum future lease payments on capital leases at June 30, 1986 are as follows:

<u>Fiscal year ending</u>	<u>(In thousands)</u>
1987	\$ 3,349
1988	2,134
1989	1,413
1990	597
1991	450
Thereafter	<u>4,462</u>
	12,405
Less interest portion	<u>3,537</u>
Present value of capital lease obligations	<u>\$ 8,868</u>

Included in the Plant fund group at June 30, 1986, are housing facilities and equipment acquired under capital leases of approximately \$16,370,000.

(Continued)

UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(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 year ended June 30, 1986 and 1985 was \$31,088,000 and \$28,218,000, 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, 1986, University employees represented approximately 29% and 1% of active plan participants in MSRS and PERA, respectively.

At June 30, 1985, the date of the latest actuarial valuation, net assets available for benefits were \$6,180,000, \$1,158,383,000 and \$330,662,000 for the Faculty Retirement Supplement, MSRS and PERA plans, respectively. The actuarial present value of accumulated plan benefits was not calculated.

(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, 1986 and 1985, the net assets of these foundations (not included in the financial statements of the University) were approximately \$133,321,000 and \$97,000,000, of which approximately \$128,312,000 and \$92,000,000 were restricted funds. During the years ended June 30, 1986 and 1985, these foundations distributed approximately \$18,636,000 and \$19,500,000, respectively, to the University.

(Continued)

UNIVERSITY OF MINNESOTA

Notes to Financial Statements, Continued

(7) Foundations, Continued

In addition, the University has guaranteed the outstanding balance of computer leases which are an obligation of a majority owned subsidiary of the University of Minnesota Foundation. At June 30, 1986, the aggregate lease payments for the remaining term of the leases were approximately \$15,724,000. During the year ended June 30, 1985, the University made net payments of approximately \$4,639,000 to this subsidiary of the University of Minnesota Foundation for computer usage.

During 1986, the University extended a line of credit of \$5,000,000, at 9.70%; expiring June 30, 1992, to this subsidiary of the University of Minnesota Foundation. As of June 30, 1986, \$250,000 of this line of credit has been used.

(8) Commitments and Contingencies

Construction projects in progress, principally buildings, that have been included in the assets of the plant funds at June 30, 1986, approximate \$45,489,000. The estimated cost to complete these facilities is \$85,368,000.

The University owns property called the Rosemount Research Center on which groundwater and surface contamination has 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.

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.