

# Minnesota State Colleges & Universities



## Annual Financial Report

For the years ended June 30, 2007 and 2006



**Minnesota**  
STATE COLLEGES  
& UNIVERSITIES

**MINNESOTA  
STATE COLLEGES  
AND UNIVERSITIES**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED JUNE 30, 2007 and 2006**

Prepared by:

Office of the Chancellor  
Minnesota State Colleges and Universities  
Wells Fargo Place  
30 East 7th Street, Suite 350  
St. Paul, Minnesota 55101

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# MINNESOTA STATE COLLEGES AND UNIVERSITIES

## ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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# INTRODUCTION



Minnesota  
STATE COLLEGES  
& UNIVERSITIES

OFFICE OF THE CHANCELLOR

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ST. PAUL, MN 55101-7804

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November 12, 2007

Members of the Board of Trustees  
Chancellor James H. McCormick

I am pleased to submit to you the audited financial report for the Minnesota State Colleges and Universities system for the fiscal years ended June 30, 2007 and 2006. The consolidated financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the consolidated financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the consolidated financial statements, which were audited by the firm of Kern, DeWenter, Viere, Ltd., you will find the statements of net assets, the statements of revenue, expense, and changes in net assets and the statements of cash flows.

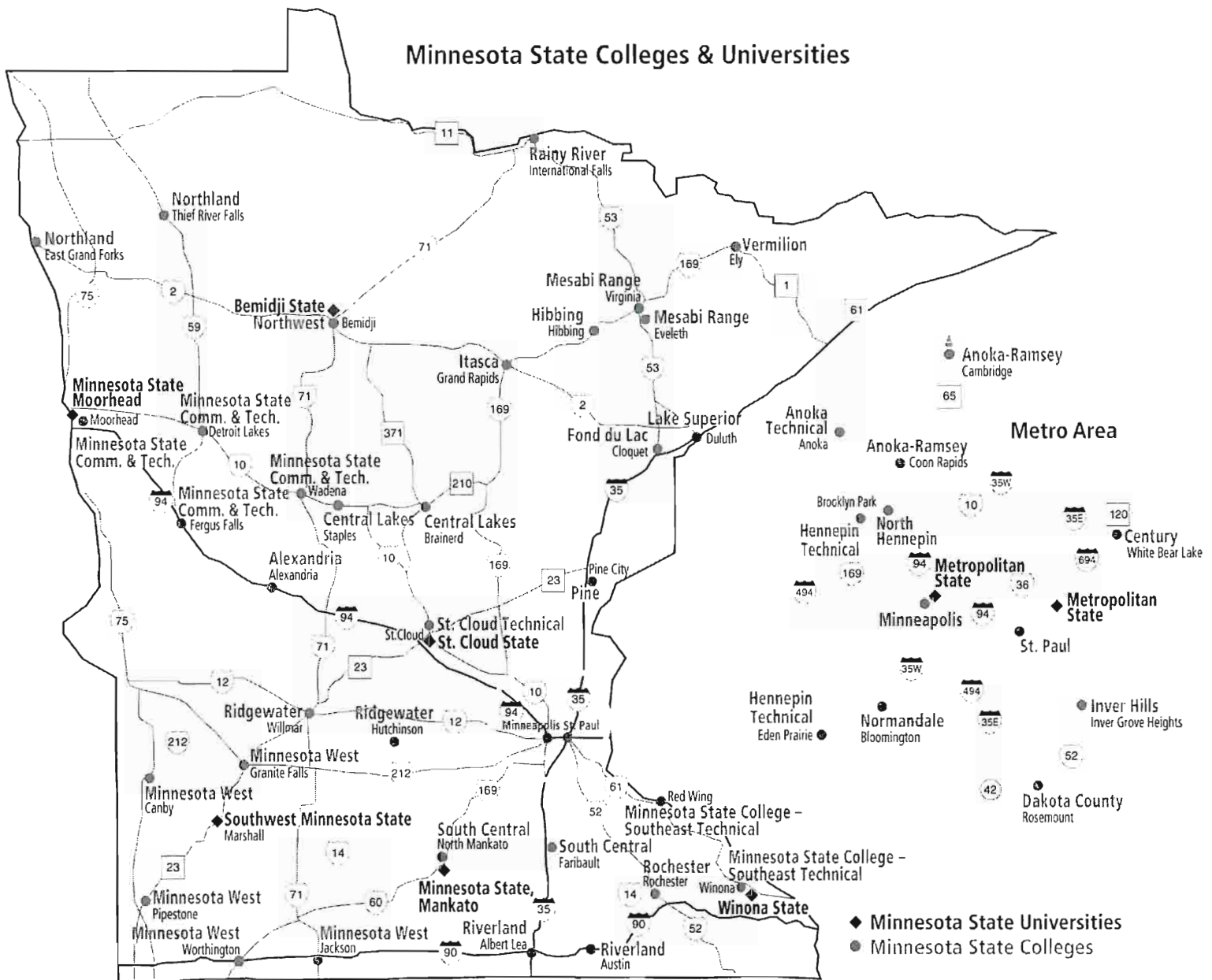
We are also providing separately audited financial statements for the Revenue Fund, all state universities and five of our two year colleges. The completion of separately audited financial statements for twelve of the thirty-two colleges and universities places 62 percent of the revenues of the Minnesota State Colleges and Universities system under separate stand alone audits. It is worth noting that the system wide audit opinion, the Revenue Fund opinion and the opinions for the twelve separate audits are each without qualification, a testimony to the efforts of each and every employee with responsibility for financial information at the fifty-three campuses and in the Office of the Chancellor.

For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of the report. The Finance Division and the finance staff at every college and university are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. We rely upon the administrative and finance staff at each college and university in provision of that assurance. Many people assisted in this effort and are deserving of our appreciation.

Sincerely,

Laura M. King  
Vice Chancellor – Chief Financial Officer

# Minnesota State Colleges & Universities



## TWO-YEAR COLLEGES

Alexandria Technical College  
 Anoka-Ramsey Community College  
 Anoka Technical College  
 Central Lakes College  
 Century College  
 Dakota County Technical College  
 Fond du Lac Tribal & Community College  
 Hennepin Technical College  
 Hibbing Community College\*  
 Inver Hills Community College  
 Itasca Community College\*  
 Lake Superior College  
 Mesabi Range Community & Technical College\*  
 Minneapolis Community & Technical College  
 Minnesota State College – Southeast Technical

Minnesota State Community & Technical College  
 Minnesota West Community & Technical College  
 Normandale Community College  
 North Hennepin Community College  
 Northland Community & Technical College  
 Northwest Technical College\*\*  
 Pine Technical College  
 Rainy River Community College\*  
 Ridgewater College  
 Riverland Community College  
 Rochester Community and Technical College  
 St. Cloud Technical College  
 Saint Paul College  
 South Central College  
 Vermilion Community College\*

## STATE UNIVERSITIES

Bemidji State University  
 Metropolitan State University  
 Minnesota State University, Mankato  
 Minnesota State University Moorhead  
 St. Cloud State University  
 Southwest Minnesota State University  
 Winona State University

*\*Hibbing, Itasca, Mesabi Range, Rainy River and Vermilion make up the Northeast Higher Education District, a consortium of five state colleges.*

*\*\*Northwest Technical College is aligned with Bemidji State University*



## Minnesota State Colleges and Universities

### ALEXANDRIA TECHNICAL COLLEGE

Alexandria  
Kevin Kopischke, President  
1-888-234-1222  
www.alextech.edu

### ANOKA-RAMSEY COMMUNITY COLLEGE

Cambridge, Coon Rapids  
Patrick Johns, President  
(763) 433-1100  
www.anokaramsey.edu

### ANOKA TECHNICAL COLLEGE

Anoka  
Anne Weyandt, President  
(763) 576-4850  
www.anokatech.edu

### BEMIDJI STATE UNIVERSITY

Bemidji  
Jon Quistgaard, President  
1-877-236-4354  
www.bemidjistate.edu

### CENTRAL LAKES COLLEGE

Brainerd, Staples  
Larry Lundblad, President  
1-800-933-0346  
www.clcmn.edu

### CENTURY COLLEGE

White Bear Lake  
Larry Litecky, President  
1-800-228-1978  
www.century.edu

### DAKOTA COUNTY TECHNICAL COLLEGE

Rosemount  
Ronald E. Thomas, President  
1-877-937-3282  
www.dctc.edu

### FOND DU LAC TRIBAL & COMMUNITY COLLEGE

Cloquet  
Donald Day, President  
1-800-657-3712  
www.fdlitcc.edu

### HENNEPIN TECHNICAL COLLEGE

Brooklyn Park, Eden Prairie  
Kathryn Jeffery, President  
1-800-345-4655  
www.hennepintech.edu

### HIBBING COMMUNITY COLLEGE\*

Hibbing  
Joe Sertich, President  
1-800-224-4422  
www.hibbing.edu

### INVER HILLS COMMUNITY COLLEGE

Inver Grove Heights  
Cheryl Frank, President  
(651) 450-8500  
www.inverhills.edu

### ITASCA COMMUNITY COLLEGE\*

Grand Rapids  
Joe Sertich, President  
1-800-996-6422  
www.itscacc.edu

### LAKE SUPERIOR COLLEGE

Duluth  
Kathleen Nelson, President  
1-800-432-2884  
www.lsc.edu

### MESABI RANGE COMMUNITY & TECHNICAL COLLEGE\*

Eveleth, Virginia  
Joe Sertich, President  
1-800-657-3860  
www.mr.mnscu.edu

### METROPOLITAN STATE UNIVERSITY

St. Paul, Minneapolis  
Wilson Bradshaw, President  
(651) 793-1300  
www.metrostate.edu

### MINNEAPOLIS COMMUNITY & TECHNICAL COLLEGE

Minneapolis  
Phil Davis, President  
1-800-247-0911  
www.minneapolis.edu

### MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL

Red Wing, Winona  
James Johnson, President  
1-877-853-8324  
www.southeastmn.edu

### MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE

Detroit Lakes, Fergus Falls,  
Moorhead, Wadena  
Ann Valentine, President  
1-888-696-7282  
www.minnesota.edu

### MINNESOTA STATE UNIVERSITY, MANKATO

Mankato  
Richard Davenport, President  
1-800-722-0544  
www.mnsu.edu

### MINNESOTA STATE UNIVERSITY MOORHEAD

Moorhead  
Roland Barden, President  
1-800-593-7246  
www.mnstate.edu

### MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE

Canby, Granite Falls, Jackson,  
Pipestone, Worthington  
Ronald Wood, President  
1-800-658-2330  
www.mnwest.edu

### NORMANDALE COMMUNITY COLLEGE

Bloomington  
Joseph Opatz, President  
1-866-880-8740  
www.normandale.edu

### NORTH HENNEPIN COMMUNITY COLLEGE

Brooklyn Park  
Ann Wynia, President  
1-800-818-0395  
www.nhcc.edu

### NORTHLAND COMMUNITY & TECHNICAL COLLEGE

East Grand Forks, Thief River Falls  
Anne Temte, President  
Toll-free: 1-800-959-6282  
www.northlandcollege.edu

### NORTHWEST TECHNICAL COLLEGE\*\*

Bemidji  
Jon Quistgaard, President  
1-800-942-8324  
www.ntcmn.edu

### PINE TECHNICAL COLLEGE

Pine City  
Robert Musgrove, President  
1-800-521-7463  
www.pinetech.edu

### RAINY RIVER COMMUNITY COLLEGE\*

International Falls  
Joe Sertich, President  
1-800-456-3996  
www.rrcc.mnscu.edu

### RIDGEWATER COLLEGE

Hutchinson, Willmar  
Douglas Allen, President  
1-800-722-1151  
www.ridgewater.edu

### RIVERLAND COMMUNITY COLLEGE

Albert Lea, Austin  
Terrence Leas, President  
Toll-free: 1-800-247-5039  
www.riverland.edu

### ROCHESTER COMMUNITY AND TECHNICAL COLLEGE

Rochester  
Don Supalla, President  
1-800-247-1296  
www.rctc.edu

### ST. CLOUD STATE UNIVERSITY

St. Cloud  
Earl Potter, President  
1-877-654-7278  
www.stcloudstate.edu

### ST. CLOUD TECHNICAL COLLEGE

St. Cloud  
Joyce Helens, President  
1-800-222-1009  
www.sctc.edu

### SAINT PAUL COLLEGE

St. Paul  
Donovan Schwichtenberg,  
President  
1-800-227-6029  
www.saintpaul.edu

### SOUTH CENTRAL COLLEGE

Faribault, Mankato  
Keith Stover, President  
1-800-722-9359  
www.southcentral.edu

### SOUTHWEST MINNESOTA STATE UNIVERSITY

Marshall  
David Danahar, President  
1-800-642-0684  
www.southwestmsu.edu

### VERMILION COMMUNITY COLLEGE\*

Ely  
Joe Sertich, President  
1-800-657-3608  
www.vcc.edu

### WINONA STATE UNIVERSITY

Winona  
Judith Ramaley, President  
1-800-342-5978  
www.winona.edu

**2006-2007 Minnesota State Colleges and Universities Board of Trustees**

Caleb Anderson  
Duane Benson  
Michael Boulton  
Cheryl Dickson  
Ruth Grendahl, Vice Chair  
Clarence Hightower  
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David Olson, Chair  
David Paskach  
Thomas Renier  
Christine Rice  
Ann Curme Shaw  
C. Scott Thiss, Treasurer  
James Van Houten  
Carol Wenner

**2006-2007 Minnesota State Colleges and Universities System Officers**

James H. McCormick, Chancellor  
  
Linda Baer, Senior Vice Chancellor  
Academic and Student Affairs  
  
Laura M. King, Vice Chancellor  
Chief Financial Officer  
  
William Tschida, Vice Chancellor  
Human Resources  
  
Kenneth Niemi, Vice Chancellor  
Chief Information Officer  
  
Gail Olson, General Counsel

The financial activity of Minnesota State Colleges and Universities is included in this report. It is comprised of 32 colleges and universities. The Revenue Fund activity is included in both this report and the separately issued Revenue Fund Annual Financial Report.

All financial activity of Minnesota State Colleges and Universities is included in the Minnesota Comprehensive Annual Financial Report. A separately issued schedule of expenditures of federal awards will be available at a later date.

## **FINANCIAL SECTION**



KERN · DEWENTER · VIERE

## INDEPENDENT AUDITORS' REPORT

November 12, 2007

Board of Trustees  
Minnesota State Colleges and Universities  
St. Paul, Minnesota

We have audited the accompanying consolidated financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Minnesota State Colleges and Universities (MnSCU) as of and for the year ended June 30, 2007 and 2006, which collectively comprise MnSCU's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of MnSCU. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of St. Cloud State University; Winona State University; Minnesota State University, Mankato; Minnesota State University, Moorhead; Century College; Metropolitan State University; Hennepin Technical College; and Minneapolis Community and Technical College (collectively, the "Individual Colleges and Universities"); which represent 48% of the consolidated assets and 46% of the consolidated revenues of MnSCU for fiscal year 2007 (49% and 46%, respectively, for fiscal year 2006). These financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Individual Colleges and Universities, is based solely on the report of the other auditors. We also did not audit the financial statement of Southwest Minnesota State University Foundation; Winona State University Foundation; Metropolitan State University Foundation; Minnesota State University, Mankato Foundation, Inc; Bemidji State University Foundation; Minnesota State University Moorhead Alumni Foundation, Inc.; Century College Foundation; Fergus Area College Foundation; and St. Cloud State University Foundation, which cumulatively represent 100 percent of the total assets and 100 percent of the revenues of the total discretely presented component units. Those statements were also audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is also based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



KERN · DEWENTER · VIERE

Board of Trustees  
Minnesota State Colleges and Universities  
St. Paul, Minnesota

Page 2

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of MnSCU as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include summarized prior-year comparative information for the discretely presented component units of MnSCU, which were audited entirely by other auditors and referenced in our report dated November 3, 2006. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MnSCU's financial statements for the year ended June 30, 2006, from which such summarized information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007 on our consideration of MnSCU's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming opinions on the respective financial statements that collectively comprise MnSCU's basic financial statements. The accompanying introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying introductory section has not been subjected to the auditing procedures applied by us and the other auditors in the audits of the financial statements and, accordingly, we express no opinion on them.

The accompanying Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of management inquiries regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and, accordingly, we express no opinion on it.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### INTRODUCTION

The following discussion and analysis provides an overview of the consolidated financial position and activities of the Minnesota State Colleges and Universities system (the System) for the fiscal years ended June 30, 2007, 2006, and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

The Minnesota State Colleges and Universities system, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 32 state universities, technical, community and consolidated colleges. The System serves approximately 240,000 students annually in credit based courses, as measured by unduplicated headcount enrollment. An additional 130,000 students enroll in non-credit courses each year through the System's customized training services. The System employs about 18,000 full time and part time faculty and staff.

### FINANCIAL HIGHLIGHTS

The System's financial position improved during fiscal year 2007 with net assets increasing by \$126.3 million, or 10.6 percent, on total revenues of \$1.68 billion. This follows a \$78.6 million, or 7.1 percent increase during fiscal year 2006 on total revenues of \$1.56 billion. The System's unrestricted net assets increased by \$19 million, or 9.1 percent and \$32.6 million, or 18.6 percent, in 2007 and 2006, respectively.

- Income (loss) before other revenues, expenses, gains or losses, described further below as the System's operating margin, was \$7.1 million in 2007. This compares to income of \$6.1 million and a loss of \$(11.5) million in 2006 and 2005, respectively.
- The state appropriation and tuition charged to students are the System's two largest sources of revenue. The state appropriation increased by \$1.5 million, or 0.2 percent in fiscal year 2007 after increasing 9.9 percent in fiscal year 2006 but decreasing in each of fiscal years 2005, 2004, and 2003. Gross tuition revenue increased \$50.7 million or 9.0 percent and \$30.7 million or 5.8 percent in fiscal years 2007 and 2006, respectively. Tuition rate increases averaged 7.2 percent, 6.1 percent and 13.8 percent in fiscal years 2007, 2006, and 2005, respectively.
- Total debt supporting the System's capital asset investment programs increased by approximately \$72.6 million to \$346.7 million, a 26.5 percent increase. Most of this increase was split evenly between general obligation and revenue bonds, with small increases in capital leases and notes payable.
- Salaries and benefits, the largest cost category in the System, increased by \$40.4 million, or 3.9 percent, and \$65 million, or 6.7 percent, in fiscal years 2007 and 2006, respectively. This cost constitutes 70.1 percent of the System's fiscal year 2007 total operating expenses, compared to 70.7 percent for fiscal year 2006.
- The number of students is the primary factor driving both tuition revenue and operating expenses. Full year equivalent students in fiscal years 2007, 2006, and 2005 totaled 135,839, 134,220, and 135,494, respectively. The decreases in full time equivalent enrollment of 0.9 percent and 0.2 percent in fiscal years 2006 and 2005, respectively, follow enrollment increases in each of fiscal years 2000 through 2004.

### USING THE FINANCIAL STATEMENTS

This annual financial report includes five financial statements: the consolidated statements of net assets, the consolidated statements of revenues, expenses and changes in net assets, the consolidated statements of cash flows, the statements of net assets held for pension benefits, and the statements of changes in net assets held for pension

benefits (the last two statements relate to the System's defined contribution retirement plan.) These five financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

## CONSOLIDATED STATEMENTS OF NET ASSETS

The consolidated statements of net assets present the financial position of the System at the end of the fiscal year, including all assets and liabilities. The difference of total assets minus total liabilities – net assets – is one indicator of the current financial condition of the System. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. Condensed statements of net assets for fiscal years 2007, 2006, and 2005, follow (in thousands):

<div style="border: 1px solid black; padding: 2px; display: inline-block;">Assets and Liabilities</div>			
	2007	2006	2005
Current assets	\$ 671,750	\$ 584,335	\$ 529,700
Current restricted assets	107,561	60,697	22,750
Noncurrent restricted assets	14,955	4,204	5,780
Noncurrent assets	25,384	26,970	27,756
Capital assets, net	1,259,484	1,147,099	1,068,458
Total assets	<u>2,079,134</u>	<u>1,823,305</u>	<u>1,654,444</u>
Current liabilities	291,644	237,918	210,382
Noncurrent liabilities	470,158	394,381	331,632
Total liabilities	<u>761,802</u>	<u>632,299</u>	<u>542,014</u>
Invested in capital assets, net of related debt	998,935	913,128	865,805
Restricted	91,190	69,606	70,984
Unrestricted	227,207	208,272	175,641
Total Net assets	<u>\$ 1,317,332</u>	<u>\$ 1,191,006</u>	<u>\$ 1,112,430</u>

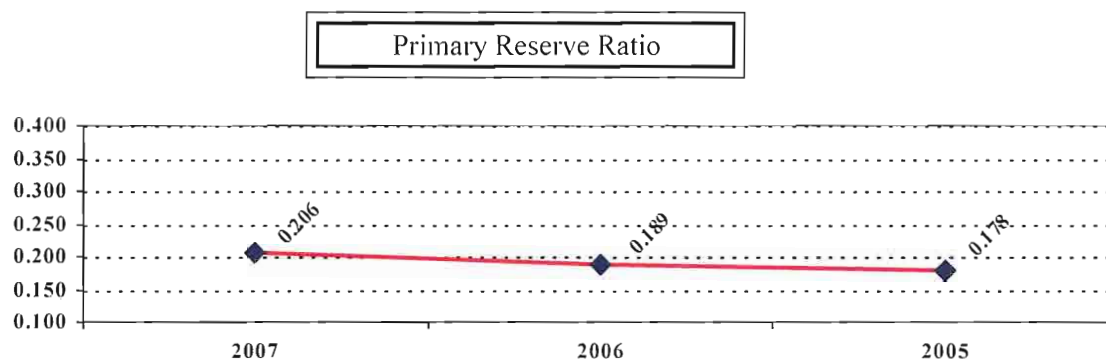
The primary component of current assets is cash and cash equivalents (unrestricted), which increased by \$54.8 million to a total of \$511.2 million at June 30, 2007. This amount plus investments of \$28.9 million represent approximately 4.45 months of fiscal year 2007 operating expenses (excluding depreciation), an increase from 4.2 months in fiscal year 2006. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the System's revenues.

Current liabilities consist primarily of salaries and accounts payable. Salaries payable at June 30, 2007 increased from the prior year by 5.2 percent or \$5.1 million to a total of \$101.6 million. Accounts payable increased \$26.7 million, including \$5.5 million payable from restricted assets, to \$71 million. Increased construction activity was the primary factor behind the increase in accounts payable while the increase in the salary accrual included normal annual compensation and benefits increases. Included within the salary payable accrual was about two months of earned salary for faculty who have elected to receive salaries over twelve months on a September 1 - August 31 year.

Net Assets represent the residual interest in the System's assets after deducting liabilities. Investment in capital assets, net of related debt, represents by far the largest portion of net assets. It is worth noting that capital assets are carried at historical cost, not replacement cost. Restricted net assets have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for capital projects of \$12.2 million, and debt service on bonds and restrictions imposed by bond covenants of \$65 million, an increase of \$16.3 million from fiscal year 2006 due primarily to bond covenants related to revenue bonds issued in fiscal years 2006 and 2007.



The graph below presents the primary reserve ratio, a measure of an organization's ability to operate without generating new assets. The ratio depicts the percentage of total annual operating expenses that could be financed using only the balance of restricted and unrestricted net assets in the net asset table above, a balance called expendable net assets. The 2007 ratio of 0.206 represents 2.5 months of coverage, a slight increase from fiscal year 2006. It is the assets behind this ratio that have to be relied upon during times of unforeseen events that cause an adverse financial impact, or that would allow the System's colleges and universities to invest in new initiatives that add programs, aid underserved students, increase the number of graduates with critical skills, and otherwise advance the strategic plan of the Board of Trustees.



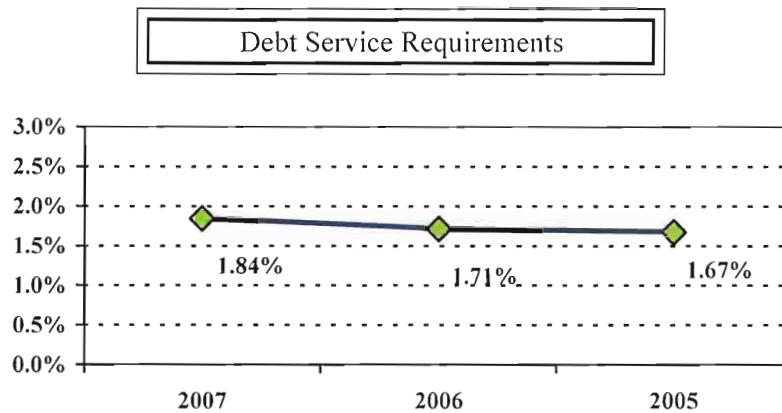
## CAPITAL AND DEBT ACTIVITIES

The quality of the System's academic and residential life programs is closely linked to the development and renewal of its capital assets. The System continues to update and implement a long range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Footnote 17 to the financial statements.

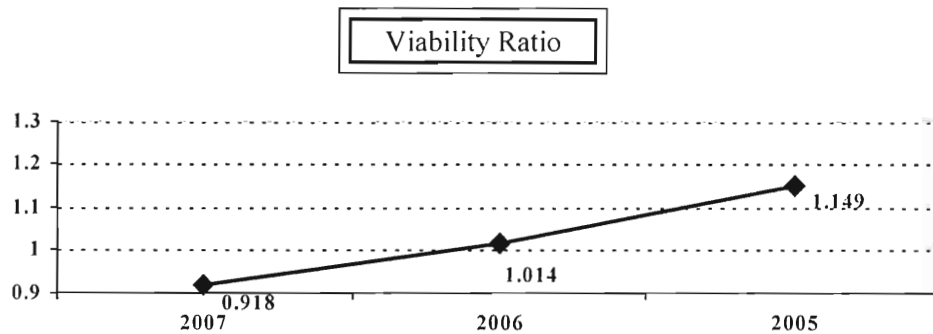
Fiscal year 2007, capital outlays approximated \$195.8 million, including \$165.9 million of new construction in progress. This compares to capital outlays of \$150.9 million, including \$124.7 million of new construction in progress, for fiscal year 2006. Capital outlays consist largely of replacement and renovation of academic facilities and significant investments in equipment.

Capital assets are primarily financed by long term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 7 to the financial statements, the System is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The System recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the System has no debt service responsibility. General obligation bonds payable totaled \$184.9 million at June 30, 2007, a net increase of \$31.4 million from the prior fiscal year. Revenue bonds payable at June 30, 2007 totaled \$122.4 million, a net increase of \$40.8 million from June 30, 2006 caused by the sale of \$43.1 million of revenue bonds in February 2007.

The following graph shows that the percentage of total revenue expended to cover debt service (principal and interest payments on bonds, capital leases and notes payable) has increased slowly for the three year period shown from \$23.8 million in fiscal year 2005 to \$30.8 million in fiscal year 2007. Although the increasing percentage indicates that debt service has grown faster than revenue, the System continues to be conservatively financed with a relatively low level of debt as measured by the level of debt service.



The viability ratio below demonstrates the System's ability to cover all outstanding debt (current and noncurrent portions of bond debt, capital lease debt and notes payable) through theoretical liquidation of expendable net assets (total net assets after excluding capital assets, net of related debt). This ratio provides current and potential creditors and other users with assurance that the System is able to cover its debt obligation even in the event of a substantial reduction in the value of its recorded assets, such as would happen in a partial or full liquidation. The decreases in the three years presented indicate that the System was not able to increase expendable net assets at a rate equal to or greater than the approximate 61 percent increase in debt for the same period.



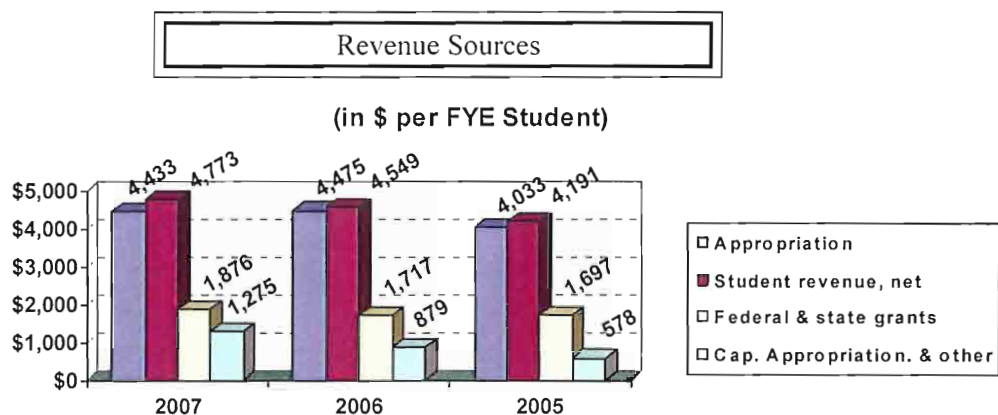
#### CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The consolidated statements of revenues, expenses and changes in net assets presents the System's results of operations and the overall increase in net assets for the fiscal year. It is the difference between the year's revenue and expense activities that results in an overall increase or decrease to net assets – see the discussion of net assets under the statement of net assets above. As in prior years, the state appropriation is required under GASB Statement No. 34 to be considered nonoperating revenue.

Summarized revenues, expenses and changes in net assets for fiscal years 2007, 2006, and 2005 follow (in thousands):

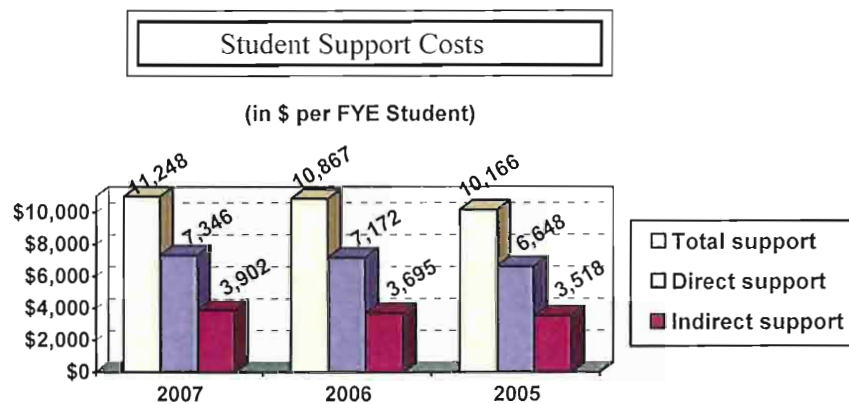
Revenues, Expenses and Net Assets			
	2007	2006	2005
Operating revenue:			
Tuition, auxiliary and sales, net	\$ 573,993	\$ 539,711	\$ 501,492
Restricted student payments, net	74,420	70,901	66,367
Grants and other	271,958	246,374	249,163
Total operating revenue	<u>920,371</u>	<u>856,986</u>	<u>817,022</u>
Nonoperating and other revenue:			
State appropriation	602,194	600,694	546,444
Capital appropriation	117,174	71,249	36,952
Miscellaneous nonoperating and other revenue	38,869	30,873	22,191
Total nonoperating and other revenue	<u>758,237</u>	<u>702,816</u>	<u>605,587</u>
Total revenues	<u>1,678,608</u>	<u>1,559,802</u>	<u>1,422,609</u>
Operating expense:			
Salaries and benefits	1,071,585	1,031,148	966,195
Other operating expenses	456,236	427,433	411,271
Total operating expense	<u>1,527,821</u>	<u>1,458,581</u>	<u>1,377,466</u>
Interest and other nonoperating expense	24,461	22,645	19,029
Total expenses	<u>1,552,282</u>	<u>1,481,226</u>	<u>1,396,495</u>
Increase in net assets	126,326	78,576	26,114
Net assets, beginning of year	1,191,006	1,112,430	1,086,316
Net assets, end of year	<u>\$ 1,317,332</u>	<u>\$ 1,191,006</u>	<u>\$ 1,112,430</u>

Fiscal year 2007 total revenue increased 7.6 percent to \$1.68 billion from fiscal year 2006 total revenue of \$1.56 billion. Increases in student based revenue, net of scholarship allowances, of 6.2 percent, and capital appropriation revenue of 64.5 percent are the main factors increasing total fiscal year 2007 revenue. State operating appropriation revenue was flat in fiscal year 2007, which coupled with the 1.2 percent increase in full year equivalent (FYE) student count resulted in a drop in per FYE operating appropriation revenue from \$4,475 to \$4,433. The following table looks per FYE student revenue from the various revenue sources.



The following graph shows the operating expenditure investment per FYE student, or how revenue is spent. Direct student support includes instruction, academic support and student services while indirect includes all other operating expenses such as auxiliary enterprise costs, administrative costs and facilities support costs. The System's

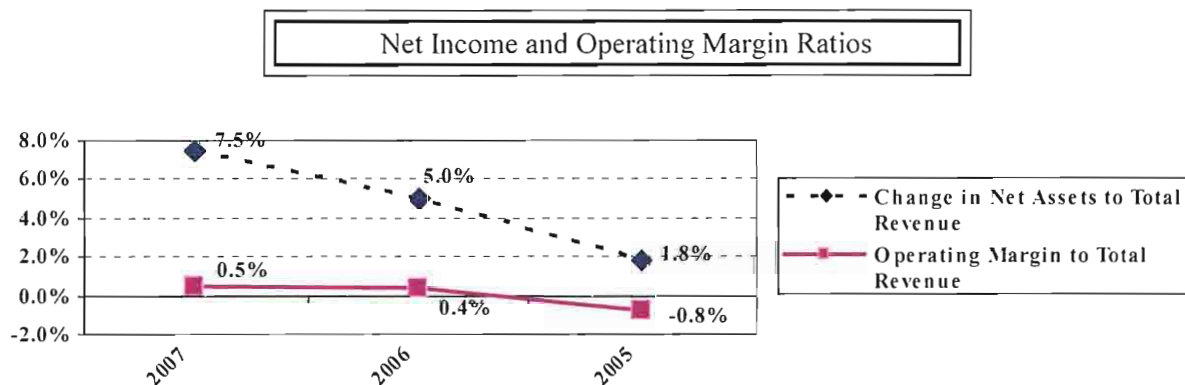
per FYE student investment in direct support activities increased 10.5 percent between fiscal years 2005 and 2007 and 10.9 percent for indirect support. Additional detail on System expenditures by functional classification can be found in footnote 11 to the financial statements.



Compensation expense is the System's single largest expense component. In absolute dollars, compensation expense increased \$40.4 million, or 3.9 percent, in fiscal year 2007 and represented 70.1 percent of total operating expense. The fiscal year 2006 increase of \$65 million, or 6.7 percent, represented 70.7 percent of total operating expense. The 3.9 percent increase in fiscal year 2007 reflects normal salary and benefit cost increases.

All other operating expenses for fiscal years 2007 and 2006 increased about 6.7 percent and 3.9 percent, respectively. Fiscal year 2007 and 2006 purchased services expenses, due primarily to increased construction activity and higher energy costs, were the most significant increases.

One standard measure of overall financial performance is the change in net assets or "net income." The net income ratio, the top trend line in the graph below, compares the change in net assets (total revenue less total expense) to total revenue. Net assets increased \$126.3 million, \$78.6 million and \$26.1 million in fiscal years 2007, 2006 and 2005, respectively. Fiscal year 2005 reflects the low capital appropriation caused by a one year delay in passage of the fiscal year 2004 capital bonding bill. The operating margin ratio, the bottom trend line in the graph below, compares operating margin — the gain or (loss) before other revenues, expenses, gains or losses — to total operating and nonoperating revenue. The System generated a small operating margin income in fiscal years 2007 and 2006 after experiencing losses in fiscal years 2005, 2004 and 2003.



The difference between the two ratios is almost entirely due to the impact of the fact that capital appropriation is a revenue component of net income but not a component of operating margin income or loss. The increase in both ratios is due to a combination of factors, but it is significant to note that state appropriation revenue increased by \$54.2 million in fiscal year 2006 and remained flat in fiscal year 2007 after three years of decline in fiscal years 2003 through 2005.

## FOUNDATIONS

The System's annual financial report for the years ended June 30, 2007 and 2006 includes financial statements for the foundations of nine colleges and universities, including the foundations for all seven state universities, based on an assessment of the foundations' significance to the System's financial statements. This is a positive development as it indicates foundation growth. The accompanying financial report includes the Foundations' statements of financial position, analogous to the System's statements of net assets, and the Foundations' statements of activities, analogous to the Systems' statements of revenues, expenses, and changes in net assets. It should be noted that the Foundations' financial statements are not consolidated with the System's financial statements, nor are they included in any of the summary financial information presented above. The relationships between the Foundations and the related colleges and universities are more fully described in Notes 18 and 19.

## INVESTMENTS

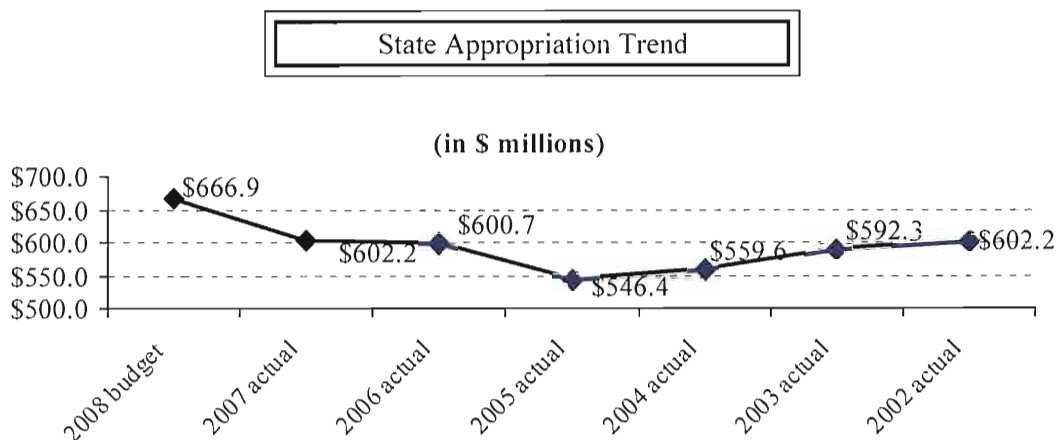
All balances related to tuition revenues and most fees are held in the state treasury. These funds are invested as part of the state's investment pool by the State Board of Investment. Revenue Fund balances are invested separately under a contract with the State Board of Investment. Under state statute, the System's share of earnings on the state's investment pool is retained by the Office of the Chancellor and allocated to schools as part of the appropriation allocation process. Note 2 of the financial statements provides additional information on cash and investments, including steps taken to control interest and credit related risks.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Minnesota State Colleges and Universities System maintained a strong financial position in fiscal year 2007 helped by a steady level of state operating appropriation, increased tuition revenue and a strong capital asset investment pattern financed by the state's capital bonding program. The System benefits from strong leadership by the Board of Trustees, the Chancellor and all of the Presidents. They are committed to maintaining the level and quality of services to students and the citizens of Minnesota. However, the System's ability to implement new programs to meet the needs of the state's workforce, to meet its ongoing operational needs, and to successfully meet future challenges presented by changes in the economy and higher education in general still depends greatly on the level of state operating appropriation support.

The graph that follows uses actual data for fiscal years 2002—2007 and budgeted 2008 state approved appropriation data to illustrate the recent trend in state appropriations. There is no predictable pattern of state appropriation funding whereby increases in student enrollment are supported with increases in state appropriation funding. This lack of predictability places increased reliance on tuition as a revenue source while requiring increased financial strength to both counter dips in state funding and provide funds for emergencies and innovation opportunities.





Student full year equivalent enrollment increased 1.2 percent in fiscal year 2007 to 135,839. This follows slight decreases in fiscal years 2006 and 2005. Enrollment management is a continuing challenge across the System as demographic, economic and labor market forces shift over the next several years and beyond. Tuition planning is increasingly vital as the sharp increases have adversely impacted students.

Another financial challenge may be funding postretirement medical insurance benefits. Under current government accounting standards, the System is not required to record this liability. New Governmental Accounting Standards Board Statement 45, effective for fiscal year 2008, will require disclosure of an unfunded actuarial accrued liability of about \$106 million. Of this, approximately \$6 million will be recorded in fiscal year 2008 (as an expense and accrued liability) as the net other postretirement benefits obligation with the balance of the unfunded liability disclosed in a footnote to the financial statements. The System has not decided at this point the degree to which this liability will be funded.

The above liability represents the actuarially determined present value of the retiree implicit rate subsidy inherent in the existing Minnesota postretirement medical plans. This subsidy is the quantification of the amount by which retirees under age 65 (not Medicare eligible) benefit during the period of years between normal retirement age and the age of Medicare eligibility. This benefit arises through lower insurance premium rates resulting from participation in the large, active employee pool. Retirees pay the full cost of health insurance but at the same premium level that applies to the employee pool as a whole. GASB 45 considers this subsidy to be a benefit earned by employees during their active employment years and requires accruing the appropriate expense and liability each year.

In addition to inflationary pressure and specific, known cost increases, tax revenue dollars are increasingly stretched to cover competing needs such as higher education and the health and long term care needs of an aging population. The impact of reauthorization of the Higher Education Act (HEA) is another concern. Congress has yet to vote on final legislation to extend the Higher Education Act, putting HEA further behind in its five year cycle of reauthorization. The Senate passed its version of the Higher Education Act reauthorization legislation in July 2007, but House Democrats have yet to introduce their reauthorization bill. It is anticipated that they will do so by the end of the year. Congress has, however, passed the Budget Reconciliation bill, or the College Cost Reduction and Access Act and President Bush signed the bill into law. This legislation amends certain titles of HEA, making major changes in federal expenditures for the Pell Grant program, as well as making significant changes in other parts of the HEA that impact federal costs, student benefits, and institutional aid. Funding for provisions in the bill would come from the savings in lender subsidies. The bill provides new funding for the Pell Grant program to fund increases in the maximum Pell Grant award by \$490 for award years 2008 through 2009. The System works closely with and through several national associations in an on going dialogue with Congress advocating the needs of both students and higher education.

Revenue Bond debt as of June 30, 2007 stands at \$122.4 million out of a currently authorized limit of \$150 million. The System plans to seek legislative approval in the coming session to increase the authorized limit to \$250 million in support of a tentative plan to sell approximately \$55 million of additional revenue bonds in mid-calendar 2008 for additional residence hall and wellness center construction.

The continuing success of the System depends in part on our partnership with the state of Minnesota and its citizens. Preservation of the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The System will likewise continue aggressive management of costs and services to ensure efficient, effective operations on behalf of current and future students.

#### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Minnesota State Colleges and Universities' finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Financial Reporting Director  
Minnesota State Colleges and Universities  
Wells Fargo Place  
30 7<sup>th</sup> St. E., Suite 350  
St Paul, MN 55101-7804

MINNESOTA STATE COLLEGES AND UNIVERSITIES  
CONSOLIDATED STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 511,199	\$ 456,371
Investments	28,891	26,025
Grants receivable	11,692	11,769
Accounts receivable, net	47,708	34,887
Prepaid expense	20,263	15,847
Inventory	10,370	9,662
Student loans and other assets, net	8,482	7,820
Securities lending collateral	33,145	21,954
Total current assets	<u>671,750</u>	<u>584,335</u>
Current Restricted Assets		
Cash and cash equivalents	107,561	60,697
Total current restricted assets	<u>107,561</u>	<u>60,697</u>
Noncurrent Restricted Assets		
Other assets	95	102
Construction in progress	14,860	4,102
Total noncurrent restricted assets	<u>14,955</u>	<u>4,204</u>
Total restricted assets	<u>122,516</u>	<u>64,901</u>
Noncurrent Assets		
Student loans and other assets, net	25,384	26,970
Capital assets, net	1,259,484	1,147,099
Total noncurrent assets	<u>1,284,868</u>	<u>1,174,069</u>
Total Assets	<u>2,079,134</u>	<u>1,823,305</u>
Liabilities		
Current Liabilities		
Salaries payable	101,617	96,512
Accounts payable	65,504	44,339
Unearned revenue	35,578	31,699
Payable from restricted assets	5,499	-
Interest payable	1,614	1,032
Funds held for others	9,048	7,798
Current portion of long-term debt	18,866	16,908
Compensated absences payable/Early termination/Workers' compensation	20,483	17,339
Other liabilities	290	337
Securities lending collateral	33,145	21,954
Total current liabilities	<u>291,644</u>	<u>237,918</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	327,817	257,154
Compensated absences payable/Early termination/Workers' compensation	111,520	104,935
Capital contributions payable	30,821	32,292
Total noncurrent liabilities	<u>470,158</u>	<u>394,381</u>
Total Liabilities	<u>761,802</u>	<u>632,299</u>
Net Assets		
Invested in capital assets, net of related debt	998,935	913,128
Restricted expendable, bond covenants	45,042	32,902
Restricted expendable, other	46,148	36,704
Unrestricted	227,207	208,272
Total Net Assets	<u>\$ 1,317,332</u>	<u>\$ 1,191,006</u>

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



COMBINING MINNESOTA STATE COLLEGES' AND UNIVERSITIES' FOUNDATIONS  
STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Assets				
Current Assets				
Cash and cash equivalents	\$ 47	\$ 162	\$ 40	\$ 1,327
Investments	12,312	1,794	2,390	311
Restricted cash and cash equivalents	-	-	-	-
Pledges and contributions receivable, net	329	90	-	218
Other receivables and Other assets	3	1	8	3
Annuities/Remainder interests/Trusts	-	-	-	-
Finance lease receivable	-	-	-	-
Total current assets	<u>12,691</u>	<u>2,047</u>	<u>2,438</u>	<u>1,859</u>
Noncurrent Assets				
Annuities/Remainder interests/Trusts	77	-	-	-
Long-term pledges receivable	126	-	-	-
Finance lease receivable, net	-	-	-	-
Artwork collection and Investment property	-	-	-	-
Restricted investments	-	-	-	-
Assets held for endowment	-	-	-	2,288
Property and equipment, net	425	-	-	-
Other assets	38	-	-	-
Total noncurrent assets	<u>666</u>	<u>-</u>	<u>-</u>	<u>2,288</u>
Total Assets	<u>\$ 13,357</u>	<u>\$ 2,047</u>	<u>\$ 2,438</u>	<u>\$ 4,147</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 27	\$ 4	\$ 51	\$ 106
Interest payable	-	-	-	-
Annuities payable	41	-	-	-
Notes payable	6	-	-	-
Bonds payable	-	-	-	-
Scholarships payable and Other liabilities	-	12	-	75
Total current liabilities	<u>74</u>	<u>16</u>	<u>51</u>	<u>181</u>
Noncurrent Liabilities				
Annuities payable and Unitrust liabilities	175	-	-	-
Notes payable	13	-	-	-
Bonds payable	-	-	-	-
Total noncurrent liabilities	<u>188</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>262</u>	<u>16</u>	<u>51</u>	<u>181</u>
Net Assets				
Unrestricted	608	127	103	364
Temporarily restricted	2,673	890	423	1,746
Permanently restricted	9,814	1,014	1,861	1,856
Total Net Assets	<u>13,095</u>	<u>2,031</u>	<u>2,387</u>	<u>3,966</u>
Total Liabilities and Net Assets	<u>\$ 13,357</u>	<u>\$ 2,047</u>	<u>\$ 2,438</u>	<u>\$ 4,147</u>

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

Minnesota State University, Mankato Foundation, Inc.	Minnesota State University Moorhead Alumni Foundation, Inc.	St. Cloud State University Foundation	Southwest Minnesota State University Foundation	Winona State University Foundation	2007 Total	2006 Total
\$ 101	\$ 926	\$ 74	\$ 27	\$ 636	\$ 3,340	\$ 3,034
24,358	7,184	25,174	4,169	16,097	93,789	80,287
-	-	1,378	-	-	1,378	1,434
9,335	297	1,276	254	1,187	12,986	5,354
67	2	5	79	201	369	183
-	1,502	-	-	143	1,645	1,401
-	-	600	-	-	600	580
<u>33,861</u>	<u>9,911</u>	<u>28,507</u>	<u>4,529</u>	<u>18,264</u>	<u>\$ 114,107</u>	<u>92,273</u>
-	-	411	-	-	488	428
-	636	898	352	-	2,012	2,162
-	-	12,643	-	-	12,643	13,243
-	881	-	297	-	1,178	1,178
-	-	-	2,452	-	2,452	2,830
-	-	-	-	-	2,288	1,770
86	3,947	214	8,073	10,447	23,192	23,940
-	-	331	220	217	806	748
<u>86</u>	<u>5,464</u>	<u>14,497</u>	<u>11,394</u>	<u>10,664</u>	<u>45,059</u>	<u>46,299</u>
<u>\$ 33,947</u>	<u>\$ 15,375</u>	<u>\$ 43,004</u>	<u>\$ 15,923</u>	<u>\$ 28,928</u>	<u>\$ 159,166</u>	<u>\$138,572</u>
\$ 122	\$ 48	\$ 114	\$ 36	\$ 102	\$ 610	\$ 1,229
-	17	118	10	36	181	177
-	18	9	-	-	68	57
-	131	-	25	266	428	652
442	-	600	142	-	1,184	1,022
-	-	67	-	-	154	144
<u>564</u>	<u>214</u>	<u>908</u>	<u>213</u>	<u>404</u>	<u>2,625</u>	<u>3,281</u>
1,603	380	282	-	-	2,440	2,307
-	3,830	-	5,414	8,660	17,917	18,537
<u>1,590</u>	<u>-</u>	<u>14,180</u>	<u>-</u>	<u>-</u>	<u>15,770</u>	<u>16,812</u>
<u>3,193</u>	<u>4,210</u>	<u>14,462</u>	<u>5,414</u>	<u>8,660</u>	<u>36,127</u>	<u>37,656</u>
<u>3,757</u>	<u>4,424</u>	<u>15,370</u>	<u>5,627</u>	<u>9,064</u>	<u>38,752</u>	<u>40,937</u>
9,625	255	1,043	1,192	951	14,268	10,829
1,436	4,172	12,100	6,370	8,178	37,988	30,993
19,129	6,524	14,491	2,734	10,735	68,158	55,813
<u>30,190</u>	<u>10,951</u>	<u>27,634</u>	<u>10,296</u>	<u>19,864</u>	<u>120,414</u>	<u>97,635</u>
<u>\$ 33,947</u>	<u>\$ 15,375</u>	<u>\$ 43,004</u>	<u>\$ 15,923</u>	<u>\$ 28,928</u>	<u>\$ 159,166</u>	<u>\$138,572</u>

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MINNESOTA STATE COLLEGES AND UNIVERSITIES  
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	2007	2006
Operating Revenues		
Tuition, auxiliary and sales, net	\$ 573,993	\$ 539,711
Restricted student payments, net	74,420	70,901
Federal grants	169,629	162,933
State grants	85,166	67,587
Other income	17,163	15,854
Total operating revenues	<u>920,371</u>	<u>856,986</u>
Operating Expenses		
Salaries	1,071,585	1,031,148
Purchased services	195,894	179,801
Supplies	83,377	81,027
Repairs and maintenance	39,185	35,898
Depreciation	72,131	71,008
Financial aid, net	27,577	22,341
Other expense	38,072	37,358
Total operating expenses	<u>1,527,821</u>	<u>1,458,581</u>
Operating loss	<u>(607,450)</u>	<u>(601,595)</u>
Nonoperating Revenues (Expenses)		
Appropriations	602,194	600,694
Private grants	13,512	13,090
Securities lending income	1,361	1,018
Interest income	21,968	14,802
Interest expense	(14,078)	(12,347)
Grants to other organizations	(9,037)	(8,591)
Securities lending rebates/fees	(1,346)	(1,005)
Total nonoperating revenue (expenses)	<u>614,574</u>	<u>607,661</u>
Income Before Other Revenues, Expenses, Gains, or Losses	7,124	6,066
Capital appropriations	117,174	71,249
Donated assets and supplies	1,839	1,963
Gain (loss) on disposal of capital assets	189	(702)
Change in net assets	<u>126,326</u>	<u>78,576</u>
Total Net Assets, Beginning of Year	1,191,006	1,112,430
Total Net Assets, End of Year	<u>\$ 1,317,332</u>	<u>\$ 1,191,006</u>

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

COMBINING MINNESOTA STATE COLLEGES' AND UNIVERSITIES' FOUNDATIONS  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Support and Revenue				
Contributions	\$ 1,428	\$ 601	\$ -	\$ 1,229
Endowment gifts	564	-	110	-
In-kind contributions	-	46	-	-
Investment income	1,731	30	238	287
Realized gains and losses	-	(2)	-	-
Unrealized gains and losses	(12)	108	-	-
Program income	39	-	42	-
Special events	-	-	-	34
Fundraising income	-	-	59	-
Other income	11	-	-	-
Total support and revenue	<u>3,761</u>	<u>783</u>	<u>449</u>	<u>1,550</u>
Expenses				
Program services				
Program services	-	-	-	480
Scholarships	737	138	123	-
University activities	-	217	-	-
Special projects	864	27	-	-
Total program services	<u>1,601</u>	<u>382</u>	<u>123</u>	<u>480</u>
Supporting services				
Interest expense	-	-	-	-
Management and general	126	161	62	57
Fundraising expenses	280	-	1	157
Other expense	-	-	-	-
Total supporting services	<u>406</u>	<u>161</u>	<u>63</u>	<u>214</u>
Total expenses	<u>2,007</u>	<u>543</u>	<u>186</u>	<u>694</u>
Change in Net Assets	1,754	240	263	856
Net Assets, Beginning of Year	11,341	1,791	2,124	3,110
Net Assets, End of Year	<u>\$ 13,095</u>	<u>\$ 2,031</u>	<u>\$ 2,387</u>	<u>\$ 3,966</u>

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

Minnesota State University, Mankato Foundation, Inc.	Minnesota State University Moorhead Alumni Foundation, Inc.	St. Cloud State University Foundation	Southwest Minnesota State University Foundation	Winona State University Foundation	2007 Total	2006 Total
\$ 10,433	\$ 2,044	\$ 3,089	\$ 1,823	\$ 2,325	\$ 22,972	\$ 13,455
-	-	-	-	-	674	569
1,798	-	1,801	305	-	3,950	2,633
623	1,065	645	168	2,326	7,113	3,693
2,311	-	2,943	218	-	5,470	2,767
114	144	-	365	11	730	90
-	413	-	211	1,174	1,879	987
-	18	-	-	-	52	126
-	-	-	116	171	346	379
217	5	-	657	-	890	1,195
<u>15,496</u>	<u>3,689</u>	<u>8,478</u>	<u>3,863</u>	<u>6,007</u>	<u>44,076</u>	<u>25,894</u>
-	31	2,359	567	763	4,200	3,368
2,936	580	1,164	647	599	6,924	5,507
-	276	-	1,035	1,077	2,605	2,609
-	9	-	-	39	939	1,041
<u>2,936</u>	<u>896</u>	<u>3,523</u>	<u>2,249</u>	<u>2,478</u>	<u>14,668</u>	<u>12,525</u>
114	219	720	-	-	1,053	1,108
423	346	845	196	32	2,248	2,152
1,661	94	650	209	59	3,111	2,555
30	187	-	-	-	217	219
<u>2,228</u>	<u>846</u>	<u>2,215</u>	<u>405</u>	<u>91</u>	<u>6,629</u>	<u>6,034</u>
<u>5,164</u>	<u>1,742</u>	<u>5,738</u>	<u>2,654</u>	<u>2,569</u>	<u>21,297</u>	<u>18,559</u>
10,332	1,947	2,740	1,209	3,438	22,779	7,335
19,858	9,004	24,894	9,087	16,426	97,635	90,300
<u>\$ 30,190</u>	<u>\$ 10,951</u>	<u>\$ 27,634</u>	<u>\$ 10,296</u>	<u>\$ 19,864</u>	<u>\$ 120,414</u>	<u>\$ 97,635</u>

MINNESOTA STATE COLLEGES AND UNIVERSITIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	\$ 720,160	\$ 680,998
Cash repayment of program loans	6,468	7,175
State grants	85,166	67,587
Federal grants	169,341	162,144
Cash paid to suppliers for goods or services	(402,211)	(388,498)
Cash payments to employees	(1,056,157)	(1,013,963)
Financial aid disbursements	(28,906)	(21,874)
Cash payments of program loans	(6,112)	(7,096)
Net cash flows used in operating activities	<u>(512,251)</u>	<u>(513,527)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	602,194	600,694
Agency activity	2,981	(2,183)
Private grants	13,512	13,090
Grants to other organizations	(9,037)	(8,591)
Net cash flows from noncapital financing activities	<u>609,650</u>	<u>603,010</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(175,289)	(137,312)
Capital appropriation	106,852	71,249
Proceeds from sale of capital assets	1,389	1,656
Proceeds from borrowing	86,270	67,373
Proceeds from bond premiums and discounts	2,541	3,887
Interest paid	(15,194)	(11,947)
Repayment of lease principal	(2,440)	(2,457)
Repayment of note principal	(1,101)	(1,107)
Repayment of bond principal	(16,442)	(12,090)
Net cash flows used capital and related financing activities	<u>(13,414)</u>	<u>(20,748)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,783	1,182
Purchase of investments	(3,654)	(3,767)
Investment earnings	19,578	15,520
Net cash flows from investing activities	<u>17,707</u>	<u>12,935</u>
Net Increase in Cash and Cash Equivalents	101,692	81,670
Cash and Cash Equivalents, Beginning of Year	517,068	435,398
Cash and Cash Equivalents, End of Year	<u>\$ 618,760</u>	<u>\$ 517,068</u>

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	2007	2006
Operating Loss	<u>\$ (607,450)</u>	<u>\$ (601,595)</u>
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	72,131	71,008
Provision for loan defaults	155	5
Loan principal repayments	6,468	7,175
Loans issued	(6,112)	(7,096)
Loans forgiven	652	1,026
Donated and lease equipment not capitalized	2,367	1,963
Change in assets and liabilities		
Inventory	(708)	(1,046)
Accounts receivable	(3,060)	174
Grants receivable	77	(1,360)
Accounts payable	6,562	(4,059)
Salaries payable	5,105	6,210
Compensated absences payable and Early termination	9,286	9,978
Workers' compensation payable	444	263
Capital contributions payable	(1,472)	(298)
Unearned revenues	3,879	3,435
Other	(575)	690
Net reconciling items to be added to operating income	<u>95,199</u>	<u>88,068</u>
Net cash flows used in operating activities	<u>\$ (512,251)</u>	<u>\$ (513,527)</u>
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	\$ 32,869	\$ 14,785
Equipment on account	847	-
Donated equipment	1,034	-
Capital assets acquired through a capital lease	-	2,646
Capital assets capitalized under notes payable	592	973
Loss on retirement of capital assets	-	(702)
Change in fair marker value of investment	995	117
Investment earnings on account	686	95
Amortization of bond premium/discount	804	572



MINNESOTA STATE COLLEGES AND UNIVERSITIES  
 STATEMENTS OF FIDUCIARY NET ASSETS HELD FOR PENSION BENEFITS  
 MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION  
 RETIREMENT FUND  
 AS OF JUNE 30, 2007 AND 2006  
 (IN THOUSANDS)

	2007	2006
Assets		
Cash and cash equivalents	\$ 316	\$ 1,461
Investment pools, at fair value		
Cash equivalent investments	-	58,822
Commercial paper	-	59
Fixed income obligations	-	56,528
Mutual Funds	881,023	404,629
Corporate stocks	-	218,435
Accrued interest and dividends	-	958
Security trades net receivables (payables)	-	(607)
Securities lending collateral	-	28,432
Total Assets	<u>881,339</u>	<u>768,717</u>
Liabilities		
Securities lending collateral	-	28,432
Total Liabilities	<u>-</u>	<u>28,432</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 881,339</u>	<u>\$ 740,285</u>

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS HELD FOR PENSION BENEFITS  
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION  
RETIREMENT FUND  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
(IN THOUSANDS)

	2007	2006
Additions:		
Contributions		
Employer	\$ 32,186	\$ 31,070
Member	27,295	28,438
Contributions from other sources	16,951	112
Total Contributions	<u>76,432</u>	<u>59,620</u>
Net Investment Gain	98,222	53,656
Securities Lending Revenues (Expenses)		
Securities lending income	-	1,606
Borrower rebates	-	(1,444)
Management fees	-	(36)
Net Securities Lending Revenue	<u>-</u>	<u>126</u>
Total Net Investment Gain	<u>98,222</u>	<u>53,782</u>
Total Additions	<u>174,654</u>	<u>113,402</u>
Deductions:		
Benefits and refunds paid to plan members	33,233	34,072
Administrative fees	367	997
Other deductions	-	3,772
Total Deductions	<u>33,600</u>	<u>38,841</u>
Net Increase	141,054	74,561
Net Assets Held in Trust for Pension Benefits, Beginning of Year	<u>740,285</u>	<u>665,724</u>
Net Assets Held in Trust for Pension Benefits, End of Year	<u>\$ 881,339</u>	<u>\$ 740,285</u>

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

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 and 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

*Basis of Presentation* — The reporting policies of Minnesota State Colleges and Universities conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets; statements of revenues, expenses, and changes in net assets; and statements of cash flows represent the financial activities of each institution and the system activity in total.

*Financial Reporting Entity* — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Minnesota State Colleges and Universities' financial statements include 32 member colleges and universities, the Office of the Chancellor, and system wide activity. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units*. Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 19. For GASB consolidated financial statement purposes, most college foundations are not considered significant to the Minnesota State Colleges and Universities system and, therefore, are not included as discretely presented component units.

Complete financial statements of the foundations may be obtained from their respective administrative offices as follows:

Bemidji State University Foundation 1500 Birchmont Dr. NE Bemidji, MN 56601-2699	MN State University, Mankato Foundation, Inc. Alumni Foundation Center 1536 Warren Street Mankato, MN 56001
Century College Foundation 3300 Century Avenue North White Bear Lake, MN 55110-1842	MN State University Moorhead Alumni Foundation, Inc. 1104 Seventh Ave. S. Moorhead, MN 56563
Fergus Area College Foundation 1414 College Way Fergus Falls, MN 56537	St. Cloud State University Foundation 720 Fourth Ave. South St. Cloud, MN 56301-4498
Metropolitan State University Foundation 700 E. Seventh St. St. Paul, MN 55106-5000	Southwest Minnesota State University Foundation 1501 State Street Marshall, MN 56258
Winona State University Foundation Eighth & Johnson Streets P.O. Box 5838 Winona, MN 55987	

Fiduciary funds are omitted from inclusion in the net assets of Minnesota State Colleges and Universities. Separate statements are included for the Minnesota State Colleges and Universities Defined Contribution Retirement Fund.

*Joint Ventures and Jointly Governed Organizations* — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility.

Minnesota State Colleges and Universities is the fiscal agent for the Project for Automated Library Services (PALS). PALS is a consortium of over 125 libraries and branches. Services are provided on a contractual basis to private college, state agency, public school and special libraries as well as the University of Minnesota and all Minnesota State Colleges and Universities' libraries. During fiscal years 2007 and 2006, PALS received revenues of \$1,825,627 and \$2,539,095, respectively, and incurred expenses of \$1,807,271 and \$2,228,614, respectively.

Minnesota State Colleges and Universities is a member of the Internet System for Education and Employment Knowledge (ISEEK), which includes the University of Minnesota and five state agencies. ISEEK is comprised of one appointee from each of the ISEEK parties. Minnesota State Colleges and Universities acts as the fiscal agent, but does not have an equity interest in ISEEK. During fiscal years 2007 and 2006, Minnesota State Colleges and Universities appropriated \$330,000 each fiscal year to ISEEK, which were recorded as expenses within the system wide activity.

There are six higher education telecommunication networks that comprise the Learning Network of Minnesota. These networks are separated by geographical region. Each region receives their core funding from the Minnesota Office of Higher Education. The funding is spent on network infrastructure and on supporting instructional technology services in each region. Of the six regions, two are managed by agencies other than Minnesota State Colleges and Universities. The fiscal agent for the Metropolitan Educational Telecommunications Network (METNET) is the University of Minnesota. The Central Minnesota Educational Research and Development Council is the fiscal agent for Central Minnesota Distance Learning Network (CMDLN)

Minnesota State Colleges and Universities is the fiscal agent for the Northwest Telecommunications Region (NETS). NETS is a higher education consortium established to deliver interactive television in northwest Minnesota. During fiscal years 2007 and 2006, the NETS consortium received revenues of \$749,721 and \$765,360, respectively, with the primary sources being a Higher Education Services Office grant and membership dues. During fiscal years 2007 and 2006, Minnesota State Colleges and Universities incurred expenses for NETS of \$778,835 and \$558,778, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Northeast Alliance for Telecommunications (NEAT). NEAT is an alliance established to deliver telecommunications among the following schools: Hibbing Community College, Lake Superior College, Mesabi Range Community and Technical College, Vermilion Community College, Fond du Lac Tribal and Community College, Itasca Community College, and Rainy River Community College. During fiscal years 2007 and 2006, NEAT received revenues of \$232,167 and \$286,896, respectively. During fiscal years 2007 and 2006, NEAT incurred expenses of \$232,958 and \$227,620, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Consortium of Minnesota Educational Tele-communities (COMET). COMET is the Learning Network shared by Minnesota State University - Mankato, Winona State University, Minnesota State College - Southeast Technical - Winona, Riverland Community College, Rochester Community & Technical College, and the University of Minnesota. During fiscal years 2007 and 2006, COMET received revenues of \$1,042,473 and \$1,359,828, respectively. During fiscal years 2007 and 2006, COMET incurred expenses of \$1,042,473 and \$685,111, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Southwest/West Central Higher Education Organization (SHOT). Similar to COMET, SHOT is a consortium of higher education schools established to provide telecommunications to the region. Member schools include Southwest Minnesota State University, Minnesota West Community & Technical College, Ridgewater College, the University of Minnesota Southwest Research and Outreach Center, and the University of Minnesota Morris. During fiscal years 2007 and 2006.

SHOT received revenues of \$891,809 and \$764,682, respectively. During fiscal years 2007 and 2006, SHOT incurred expenses of \$893,850 and \$824,444, respectively.

Minnesota State Colleges and Universities jointly governs the Fond du Lac Tribal & Community College. The governing boards are the Minnesota State Colleges and Universities Board of Trustees and the Tribal College Board of Directors. The Tribal College reimburses the Community College for certain expenses. The financial position and results of operations of the Tribal College are reported in the financial statements of the Fond du Lac Reservation. Revenues and expenses related to operations of the Community College are included in the Minnesota State Colleges and Universities financial statements.

Rochester Community and Technical College participates in a jointly constructed facility with the city of Rochester, Minnesota for the University Center Rochester Regional Sports Complex. The complex includes an 114,000 square foot sports facility, soccer and football fields, and baseball and softball diamonds. The College retains full ownership of the complex and shares the use of the complex with the city based on a joint use agreement. Under the joint use agreement, the city maintains the playfields and schedules their use. One softball diamond, one baseball diamond, three football practice fields, and a football game field are maintained by the college. The college maintains and schedules the UCR Regional Sports Center building. The city shares in the revenues generated by the sports facility and shares in the operating costs of the facility. Rochester Community and Technical College incurred total operating expenses of \$341,568 and \$349,805 for fiscal years 2007 and 2006, respectively. In fiscal years 2007 and 2006, the total revenue offsetting these expenses was \$178,324 and \$200,812, respectively. In fiscal years 2007 and 2006, the revenue generated during the city portion of the time in the facility was \$129,624 and \$120,430, respectively.

*Basis of Accounting* — The basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. The accompanying financial statements have been prepared as a special purpose government entity engaged in business type activities. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Eliminations have been made to minimize the “double-counting” of internal activities. Interfund receivables and payables have been eliminated in the statements of net assets.

Minnesota State Colleges and Universities applies all applicable Financial Accounting Standards Board statements issued prior to November 30, 1989, and GASB statements issued since that date.

*Budgetary Accounting* — Minnesota State Colleges and Universities’ budgetary accounting, which is the basis for annual budgets and allocation of the state appropriation, differs from GAAP. Budgetary accounting includes all receipts and expenses up to the close of the books in August for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenses is the actual disbursement, and not when the goods or services are received.

The state of Minnesota operates on a two year (biennial) budget cycle ending on June 30 of odd numbered years. Minnesota State Colleges and Universities is governed by a 15 member board of trustees appointed by the Governor with the advice and consent of the state senate. The Board approves the individual colleges and universities biennial budget requests and allocations as part of the Minnesota State Colleges and Universities’ total budget.

Budgetary control is maintained at the college and university level. Presidents have the authority and responsibility to administer the budget and can transfer money between programs within each college and university without Board approval. The budget of a college or university can be legally amended by the authority of the Vice Chancellor/Chief Financial Officer.

State appropriations do not lapse at fiscal year end. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums.

*Capital Appropriation Revenue* — Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. The portion of general obligation bond debt service that is payable by the state of Minnesota is recognized by Minnesota State Colleges and Universities as capital appropriation revenue when the related expenses are incurred. Individual colleges and universities are allocated cash, capital appropriation revenue, and debt based on capital project expenses.

*Cash and Cash Equivalents* — The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds.

Restricted cash is cash held for capital projects and cash in the Revenue Fund for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net assets of revenue producing facilities, which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. Each campus has at least one account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

*Investments* — The Minnesota State Board of Investment invests Minnesota State Colleges and Universities' balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The Revenue Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services. Investments are reported at fair value using quoted market prices. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

*Receivables* — Receivables are shown net of an allowance for uncollectible accounts.

*Inventories* — Inventories are valued at cost using the actual cost, first-in first-out, retail cost, and weighted average cost methods.

*Prepaid Expense* — Prepaid expense consists primarily of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

*Capital Assets* — Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. Estimated historical cost has been used when actual cost is not available. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets. Estimated useful lives are as follows:

Buildings	30-40 years
Building improvement	15-20 years
Equipment	3-20 years
Library collections	7 years

Equipment includes all items with an original cost of over \$5,000 for items purchased since July 1, 2003 and \$2,000 for items purchased prior to July 1, 2003. Buildings and building improvements over \$100,000, as well as all land and library collection purchases are capitalized.

*Funds Held for Others* — Funds held for others are assets held for student organizations.

*Unearned Revenue* — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for dorm room deposits and from grants which have not yet been earned under the terms of the agreement.

*Long Term Liabilities* — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. Minnesota State Colleges and Universities is responsible for a portion of the debt service on the bonds sold for some college and university projects. Minnesota State Colleges and Universities may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, early retirement benefits, workers' compensation claims, notes payable, and capital contributions associated with Perkins Loan agreements with the United States Department of Education.

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund, included herein. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund Financial Report. Copies are available from the financial reporting director at the address listed at the end of the Management's Discussion and Analysis section.

*Operating Activities* — Operating activities as reported in the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private grants, and investment income.

*Tuition, Auxiliary, and Sales, Net* — Tuition, auxiliary, and sales are reported net of scholarship allowances. Sales are also net of cost of goods sold of \$53,396,859 and \$51,482,049 for fiscal years 2007 and 2006, respectively.

*Restricted Student Payments* — Restricted student payments consists of room, board, fee, and sales and services, net of cost of goods sold.

*Federal Grants* — The System participates in several federal grant programs sponsored by the United States Department of Education. The largest programs include Pell, Carl D. Perkins, Federal Work Study, and Supplemental Educational Opportunity Grant. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the System will record such disallowance at the time the determination is made.

*Reclassifications* — Certain prior year amounts have been reclassified to conform to current year's presentation. These reclassifications had no effect on net assets previously reported. In the net assets section for fiscal year 2006, "Restricted expendable, other" decreased by \$5,760,942 and "Restricted expendable, bond covenants" increased by \$5,760,942.

*Use of Estimates* — To prepare the basic financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to allowances for uncollectible accounts, scholarship allowances, workers' compensation claims, and compensated absences.

*Net Assets* — The difference between assets and liabilities is net assets. Net assets are further classified for accounting and reporting purposes into the following categories:

- *Invested in capital assets, net of related debt*: capital assets, net of accumulated depreciation and outstanding principal balances of debt and other borrowings attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: net assets subject to externally imposed stipulations. Net asset restrictions for Minnesota State Colleges and Universities are as follows:
  - Restricted for bond covenants* — revenue bond restrictions
  - Restricted for other* — includes restrictions for the following:

*Capital projects* — restricted for completion of capital projects.

*Debt service* — legally restricted debt repayment.

*Donations* — restricted per donor requests.

*Faculty contract obligations* — for faculty development and travel as required.

*Loans* — college and university capital contribution for Perkins Loans.

Net Assets Restricted for Other (In Thousands)		
	2007	2006
Capital projects	\$ 12,175	\$ 7,531
Debt service	19,989	15,847
Donations	4,997	4,432
Faculty contract obligations	4,996	4,716
Loans	3,991	4,178
Total	<u>\$46,148</u>	<u>\$36,704</u>

- *Unrestricted*: net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, Office of the Chancellor, or the Board of Trustees.

*New Accounting Pronouncements* — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). This statement requires employers to accrue the cost of postretirement medical plans while employees who will receive the benefits are providing services to the employer. GASB Statement No. 45 is effective for Minnesota State Colleges and Universities for the fiscal year ending June 30, 2008. The net OPEB obligation reported on the fiscal year 2008 financial statements will be \$6,008,000.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement is effective for Minnesota State Colleges and Universities for the fiscal year ending June 30, 2009. The effect GASB Statement No. 49 will have on the fiscal year 2009 basic financial statements has not yet been determined.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement is effective for Minnesota State Colleges and Universities for the fiscal year ending June 30, 2010. The effect GASB Statement No. 51 will have on the fiscal year 2010 basic financial statements has not yet been determined.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

*Cash and Cash Equivalents* — All balances related to the state appropriation, tuition revenues, and most fees are held in the state treasury. In addition, each campus has at least one local bank account. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. The statutes further require that such insurance and collateral shall be at least ten percent greater than the amount on deposit.

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State Colleges and Universities' name. All cash and cash equivalents are included in Category 1.

At June 30, 2007 and 2006, the local bank balances were \$53,708,160 and \$52,464,704, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.



The following tables summarize cash and cash equivalents, including amounts reported as restricted cash.

	As of June 30 (In Thousands)	
Carrying Amount	2007	2006
Cash - in bank	\$ 29,948	\$ 29,771
Money markets	8,657	8,291
Repurchase agreements	13,817	9,413
Restricted local cash	492	373
Total local cash and cash equivalents	52,914	47,848
Cash - treasury accounts	565,846	469,220
Total	\$ 618,760	\$ 517,068

The balance in the state treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent. The Revenue Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services of Revenue Fund cash.

*Foreign Currency Risk* — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has a foreign checking account, denominated in both the British Pound and European Euro. The fair value of this account is \$332,553 in U.S. dollars, of which \$227,900 is represented in Euros and \$104,653 is represented in British Pounds.

*Investments* — The Minnesota State Board of Investment (SBI) manages the majority of the state's investments. All investments managed by SBI are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments to obligations and stocks of U.S. and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate or resource equity investments, and the restricted participation in registered mutual funds. Generally, when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

Within statutory parameters, the State Board of Investment has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

The cash accounts are invested in short term, liquid, high quality debt securities.

Investments are categorized to give an indication of the level of custodial credit risk. Category 1 includes securities insured, registered, or held by Minnesota State Colleges and Universities or its agent in Minnesota State Colleges and Universities' name. All investments are in Category 1.

*Custodial Credit Risk* — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the System will not be able to recover the value of the investments that are in the possession of an outside party. Board procedure 7.5.1 requires compliance with Minnesota Statutes, Section 118A.03, and further excludes the use of FDIC insurance when meeting collateral requirements.

*Credit Risk* — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit investments to the top quality rating categories of a nationally recognized rating agency.

The following table summarizes investments.

As of June 30 (In Thousands)		
Investment Type	2007	2006
Certificates of deposit	\$ 8,689	\$ 6,602
Money market mutual fund	129	1,529
U.S. treasuries	1,352	1,270
U.S. agencies	9,332	7,804
Corporate/municipal bonds	1,077	1,366
Stocks	3,299	3,002
State investment pool cash equivalents	831	613
Mutual stock fund	1,340	1,045
Mutual bond fund	—	55
Repurchase agreements	1,022	1,022
Real estate	35	28
Asset backed security	1	—
Commercial paper	1,784	1,689
Total	<u>\$ 28,891</u>	<u>\$ 26,025</u>

*Concentration of Credit Risk* — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The System's policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

*Interest Rate Risk* — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments. As of June 30, the System had the following investments and maturities:

Year Ended June 30 (In Thousands)				
Investment Type	2007 Fair Value	Weighted Maturity (Years)	2006 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	\$ 1,077	4.65	\$ 1,366	4.45
Commercial paper	1,784	0.16	1,689	0.12
U.S. agencies	9,332	10.10	7,804	9.26
Asset backed security	1	26.25	—	—
State investment pool cash equivalents	831	0.20	613	0.18
U.S. treasuries	1,352	3.83	1,270	4.54
Total	<u>14,377</u>		<u>12,742</u>	
Portfolio weighted average maturity		7.30		6.63
Certificates of deposit	8,689		6,602	
Money market mutual funds	129		1,529	
Mutual bond funds	—		55	
Mutual stock funds	1,340		1,045	
Stock	3,299		3,002	
Repurchase agreements	1,022		1,022	
Real estate	35		28	
Total	<u>\$ 28,891</u>		<u>\$ 26,025</u>	

*Securities Lending Transactions* — State statutes do not prohibit the state of Minnesota from participating in securities lending transactions. The Minnesota State Board of Investment has, by way of Custodial Trust Agreements, authorized State Street Bank and Trust Company (State Street) and Wells Fargo Bank, Minnesota, N.A., (Wells Fargo) to act as agents in lending the state of Minnesota's securities to broker/dealers and banks pursuant to a form of loan agreement.

During fiscal years 2007 and 2006, State Street and Wells Fargo lent on behalf of the state of Minnesota, certain securities held by State Street or Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal years 2007 or 2006. In addition, there were no losses during fiscal years 2007 or 2006 resulting from default of the borrowers, State Street or Wells Fargo.

During fiscal years 2007 and 2006, the state of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2007 and 2006, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

The following tables provide information related to the securities invested by Wells Fargo and State Street as of June 30, 2007 and 2006, respectively.

Securities Lending Analysis, June 30, 2007  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$534,886	\$9,225,511
Collateral held	\$545,458	\$9,567,384
Average duration	80 days	N/A
Average weighted maturity	80 days	430 days

Securities Lending Analysis, June 30, 2006  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$335,128	\$5,785,269
Collateral held	\$341,892	\$5,905,061
Average duration	87 days	N/A
Average weighted maturity	87 days	463 days

### 3. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities' loans collection unit and the colleges and universities are responsible for loans collection.

As of June 30, 2007 and 2006, the loans receivable for this program totaled \$34,199,964 and \$35,208,849, respectively, less an allowance for uncollectible loans of \$2,662,212 and \$2,507,443, respectively.

### 4. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and for capital project expense reimbursements from the state not paid as of June 30, 2007. At June 30, 2007 and 2006, the total accounts receivable balances were \$70,820,100 and \$55,080,744, respectively, less an allowance for uncollectible receivables of \$23,111,377 and \$20,193,949, respectively.

Summary of Accounts Receivable at June 30  
(In Thousands)

	2007	2006
Tuition	\$ 30,013	\$ 28,687
Fees	6,336	6,264
Sales and service	6,378	5,586
Room and board	2,543	2,487
Third party obligations	2,943	2,169
Grants	1,587	1,222
Other income	10,698	8,666
Capital projects	10,322	—
Total accounts receivable	70,820	55,081
Allowance for doubtful accounts	(23,112)	(20,194)
Total	\$ 47,708	\$ 34,887

The allowance for uncollectible accounts has been computed based on the following aging schedule:

Over 2 years	80-100%
1-2 years	30-50%
Less than 1 year	2-25%

### 5. PREPAID EXPENSE

Prepaid expense consists primarily of deposits in the state's Debt Service Fund for future general obligations bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. For fiscal years 2007 and 2006, Minnesota State Colleges and Universities' deposits were \$19,989,116 and \$15,847,402, respectively.

In addition, as of June 30, 2007, Minnesota State Colleges and Universities had prepaid expense of \$274,000 for software license fees.

## 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2007 and 2006 follow:

Year Ended June 30, 2007 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 74,686	\$ 3,123	\$ —	\$ —	\$ 77,809
Construction-in-progress	104,354	165,916	—	(138,079)	132,191
Total capital assets, not depreciated	179,040	169,039	—	(138,079)	210,000
Capital assets, depreciated:					
Buildings and improvements	1,738,895	—	—	138,079	1,876,974
Equipment	245,313	19,785	13,585	—	251,513
Library collections	48,505	7,023	7,264	—	48,264
Total capital assets, depreciated	2,032,713	26,808	20,849	138,079	2,176,751
Less accumulated depreciation:					
Buildings and improvements	859,717	47,730	92	—	907,355
Equipment	173,063	17,490	12,920	—	177,633
Library collections	27,772	6,911	7,264	—	27,419
Total accumulated depreciation	1,060,552	72,131	20,276	—	1,112,407
Total capital assets depreciated, net	972,161	(45,323)	573	138,079	1,064,344
Total capital assets, net	\$ 1,151,201	\$ 123,716	\$ 573	\$ —	\$ 1,274,344

Year Ended June 30, 2006 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 73,149	\$ 1,537	\$ —	\$ —	\$ 74,686
Construction-in-progress	54,153	124,660	—	(74,459)	104,354
Total capital assets, not depreciated	127,302	126,197	—	(74,459)	179,040
Capital assets, depreciated:					
Buildings and improvements	1,664,441	143	148	74,459	1,738,895
Equipment	250,726	17,493	22,906	—	245,313
Library collections	48,059	7,022	6,576	—	48,505
Total capital assets, depreciated	1,963,226	24,658	29,630	74,459	2,032,713
Less accumulated depreciation:					
Buildings and improvements	814,126	45,636	45	—	859,717
Equipment	174,895	18,401	20,233	—	173,063
Library collections	27,377	6,971	6,576	—	27,772
Total accumulated depreciation	1,016,398	71,008	26,854	—	1,060,552
Total capital assets depreciated, net	946,828	(46,350)	2,776	74,459	972,161
Total capital assets, net	\$ 1,074,130	\$ 79,847	\$ 2,776	\$ —	\$ 1,151,201

## 7. LONG-TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long term obligations for fiscal years 2007 and 2006 follow:

Year Ended June 30, 2007 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	\$ 7,735	\$ 2,541	\$ 804	\$ 9,472	\$ —
Capital leases	25,471	1,465	2,440	24,496	2,677
General obligation bonds	153,499	43,200	11,754	184,945	13,114
Notes payable	5,832	688	1,101	5,419	995
Revenue bonds	81,525	43,070	2,244	122,351	2,080
Compensated absences	110,931	50,003	43,314	117,620	14,436
Early termination	5,932	5,785	3,189	8,528	4,291
Workers' compensation	5,411	3,007	2,563	5,855	1,756
Capital contributions payable	32,292	—	1,471	30,821	—
Total	<u>\$ 428,628</u>	<u>\$ 149,759</u>	<u>\$ 68,880</u>	<u>\$ 509,507</u>	<u>\$ 39,349</u>

Year Ended June 30, 2006 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 4,420	\$ 3,887	\$ 572	\$ 7,735	\$ —
Capital leases	25,282	2,646	2,457	25,471	2,341
General obligation bonds	141,406	22,053	9,960	153,499	11,221
Notes payable	5,966	973	1,107	5,832	1,101
Revenue bonds	37,605	45,320	1,400	81,525	2,245
Compensated absences	106,885	38,472	34,426	110,931	12,644
Early termination	—	5,932	—	5,932	3,062
Workers' compensation	5,148	2,326	2,063	5,411	1,633
Capital contributions payable	32,590	—	298	32,292	—
Total	<u>\$ 359,302</u>	<u>\$ 121,609</u>	<u>\$ 52,283</u>	<u>\$ 428,628</u>	<u>\$ 34,247</u>

*General Obligation Bonds Liability* — The state of Minnesota sells general obligation bonds to finance most of Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 1.5 to 6 percent. Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded.

*Bond Premium/Discount* — Bonds were issued in fiscal years 2007 and 2006, resulting in net premiums of \$2,540,605 and \$3,886,732, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

*Revenue Bonds* — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$150,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 4.156 to 6.5 percent. In addition, the Vermilion Community College and Itasca Community

College issued revenue bonds through the state of Minnesota Higher Education Facility Authority and the Itasca County Housing Redevelopment Authority.

*Compensated Absences* — Minnesota State Colleges and Universities employees accrue vacation, sick, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated only at the time of termination from state employment.

*Workers' Compensation* — The state of Minnesota Department of Employee Relations manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of \$5,854,736 and \$5,410,934 at June 30, 2007 and 2006, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end and is an undiscounted estimate of future payments.

*Capital Leases* — Liabilities for capital leases include those leases that meet the criteria in FASB Statement No. 13 *Accounting for Leases*. See Note 9 for additional information.

*Capital Contributions* — The liabilities of \$30,820,662 and \$32,292,244 at June 30, 2007 and 2006, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program.

*Early Termination* — Early termination benefits are benefits received for discontinuing service earlier than planned. See Note 13 for details.

*Notes Payable* — Notes payable consist of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings and financing agreements on computers and equipment that is under the equipment capitalization threshold of \$5,000. All projects completed under Minnesota Statutes, Section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate for the energy loans is tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 4 to 9.9 percent.

Principal and interest payment schedules are provided in the following table for notes payable, general obligation bonds, revenue bonds and capital leases. There are no payment schedules for compensated absences, capital contributions, workers' compensation, early termination benefit, or bond premium.

Long-Term Debt Repayment Schedule  
(In Thousands)

Fiscal Years	Notes Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 995	\$ 328	\$ 13,114	\$ 9,032
2009	670	274	13,124	8,375
2010	704	238	13,133	7,714
2011	729	200	12,624	7,066
2012	719	161	12,635	6,435
2013-2017	1,386	255	55,807	23,353
2018-2022	216	11	44,449	10,519
2023-2027	—	—	20,059	2,040
Total	\$ 5,419	\$ 1,467	\$ 184,945	\$ 74,534

Long-Term Debt Repayment Schedule  
(In Thousands)

Fiscal Years	Capital Leases		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 2,677	\$ 1,160	\$ 2,080	\$ 6,063
2009	2,182	1,048	3,325	5,644
2010	2,110	955	4,800	5,471
2011	1,566	868	5,010	5,257
2012	1,519	530	5,625	5,453
2013-2017	5,792	3,073	28,980	21,191
2018-2022	6,687	1,744	33,430	13,770
2023-2027	922	403	26,895	6,033
2028-2032	1,041	128	9,920	1,859
2033-2037	—	—	2,286	57
Total	<u>\$ 24,496</u>	<u>\$ 9,909</u>	<u>\$ 122,351</u>	<u>\$ 70,798</u>

## 8. ACCOUNTS PAYABLE

Accounts payable represent amounts due for goods and services received prior to the end of the fiscal year.

Summary of Accounts Payable at June 30  
(In Thousands)

	2007	2006
Capital projects	\$ 27,370	\$ 14,785
Purchased services	13,638	8,862
Supplies	6,657	6,185
Repairs and maintenance	4,548	3,594
Grants to other	1,472	1,704
Financial aid	1,408	1,265
Employee benefits	1,544	952
Equipment	847	—
Inventory	999	529
Other payables	7,021	6,463
Total	<u>\$ 65,504</u>	<u>\$ 44,339</u>

In addition, as of June 30, 2007, Minnesota State Colleges and Universities had payable from restricted assets in the amount of \$5,499,276, which was related to capital projects in the Revenue Fund.

## 9. LEASE AGREEMENTS

*Operating Leases* — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2007 and 2006, totaled \$17,724,055 and \$15,042,475, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net assets.

In March 2005, an operating lease agreement between Zeller-World Trade, L.L.C. and the state of Minnesota on behalf of the Office of the Chancellor was executed for existing and additional expansion leased space in the amount of \$11,025,612. The lease was effective beginning August 1, 2005. Future minimum payments under the operating lease include the Office of the Chancellor's current share of real estate taxes, other operating expenses, and leasehold improvements.



Future minimum operating lease payments for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2008	\$ 14,879
2009	8,472
2010	6,197
2011	3,092
2012	2,666
2013-2017	9,627
2018-2022	4,899
2023-2027	3,571
2028-2032	173
Total	<u>\$ 53,576</u>

*Capital Leases* — Minnesota State Colleges and Universities has entered into several capital lease agreements. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Current and noncurrent portions of the capital leases are reported separately.

- In fiscal year 2002, Winona State University leased a generator in the amount of \$2,240,835, with a final payment occurring in fiscal year 2012.
- In fiscal year 2003, Minnesota State University Moorhead entered into two capital lease agreements with their foundation: A 30 year lease agreement for the John Neumaier Hall Apartments in the amount of \$3,940,000 and a ten year lease for the Hendrix Health Center in the amount of \$525,000.
- In fiscal year 2004, St. Cloud State University entered into a lease agreement with the St. Cloud State University Foundation for Atwood Memorial Center in the amount of \$3,924,434 for construction costs. In fiscal years 2007 and 2006, an additional \$872,090 was added to the lease agreement. A second lease agreement was signed for a newly completed stadium and recreation center in the amount of \$10,182,067.
- In fiscal year 2005, Minnesota State University, Mankato entered into a 15 year capital lease for an emergency generator for \$2,343,714.

*Income Leases* — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2007 and 2006 totaled \$ 862,035 and \$4,707,613, respectively, and are included in other income in the statements of revenues, expenses, and changes in net assets.

Future expected income receipts for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2008	\$ 1,075
2009	868
2010	689
2011	604
2012	361
2013-2017	316
Total	<u>\$ 3,913</u>

# 10. TUITION, AUXILIARY, AND SALES, NET

The following table provides information related to tuition, auxiliary, and sales, net and restricted student payments.

For the Year Ended June 30 (In Thousands)		
	2007	2006
Tuition	\$ 614,264	\$ 563,532
Fees	78,404	73,906
Sales, net	54,702	53,147
Room and board	1,306	2,240
Restricted student payments	76,427	72,119
Subtotal	825,103	764,944
Less scholarship allowance	(176,690)	(154,332)
Total	\$ 648,413	\$ 610,612

# 11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The following table provides information related to operating expenses by functional classification:

For the Year Ended June 30, 2007 (In Thousands)			
Description	Salaries	Other	Total
Instruction	\$ 562,789	\$ 54,622	\$ 617,411
Research	6,599	3,479	10,078
Public service	8,872	4,108	12,980
Academic support	136,021	54,195	190,216
Student services	145,432	44,695	190,127
Institutional support	115,790	43,730	162,520
Operation & maintenance of plant	55,274	87,361	142,635
Depreciation	—	72,131	72,131
Scholarships & fellowships	—	27,577	27,577
Auxiliary enterprises	40,808	61,338	102,146
Total operating expenses	\$ 1,071,585	\$ 456,236	\$ 1,527,821

For the Year Ended June 30, 2006 (In Thousands)			
Description	Salaries	Other	Total
Instruction	\$ 550,812	\$ 52,439	\$ 603,251
Research	4,358	2,039	6,397
Public service	9,150	3,690	12,840
Academic support	122,910	50,354	173,264
Student services	143,926	43,366	187,292
Institutional support	113,535	44,953	158,488
Operation & maintenance of plant	53,673	84,752	134,425
Depreciation	—	71,008	71,008
Scholarships & fellowships	—	22,341	22,341
Auxiliary enterprises	32,784	56,491	86,275
Total operating expenses	\$ 1,031,148	\$ 427,433	\$ 1,458,581

## 12. EMPLOYEE PENSION PLANS

Minnesota State Colleges and Universities participates in four retirement plans: the State Employees' Retirement Fund, administered by the Minnesota State Retirement System; the Teachers' Retirement Fund, administered by the Teachers' Retirement Association; the Public Employees' Retirement Fund, administered by the Public Employees' Retirement Association; and the Minnesota State Colleges and Universities' Defined Contribution Retirement Plan.

### *State Employees Retirement Fund (SERF)*

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Minnesota State Retirement System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State Colleges and Universities are as follows:

(In Thousands)	
Fiscal Year	Amount
2007	\$ 7,443
2006	6,639
2005	6,728

### *Teachers Retirement Fund (TRF)*

Pension fund information is provided by the Minnesota Teachers Retirement Association, which prepares and publishes its own stand alone comprehensive annual financial report including financial statements and required supplementary information. Copies of the report may be obtained directly from the Teachers Retirement Association at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-3000.

The Teachers Retirement Fund is a cost sharing, multiple employer, defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members range from 1.2 and 1.7 percent. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

Effective July 1, 2006, the Minneapolis Teachers Retirement Fund Association combined with the Minnesota Teachers Retirement Association. The Minneapolis Teachers Retirement Fund Association consists of eligible employees of the Minneapolis Special School District No. 1, employees formerly employed by the District and the employees of the Association. The funding requirements were 8.14 percent for the employer and 5.5 percent for the employee for the coordinated plan prior to July 1, 2006.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. The funding requirements were 5 percent for both employer and employee coordinated members. Effective July 1, 2006, the funding requirements for employees increased to 5.5 percent. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State Colleges and Universities are as follows:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	\$ 9,579	\$ 10,423
2006	8,751	8,716
2005	9,782	9,737

#### *Public Employees Retirement Fund (PERF)*

Pension fund information is provided by the Public Employees Retirement Association of Minnesota, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Public Employees Retirement Fund at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103.

PERF is a cost sharing, multiple employer, defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts, and related organizations participate in the plan. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for members are 1.2 percent and 1.7 percent. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for PERF is Minnesota Statutes, Chapter 353. Prior to January 1, 2006, the funding requirements were 5.1 percent for employees and 5.53 percent for employers. Effective January 1, 2006, the funding requirements increased to 5.5 percent for employees and 6 percent for employers. Effective January 1, 2007, the funding requirements increased to 5.75 percent for employees and to 6.25 percent for employers. Actual contributions were 100 percent of required contributions. Required contributions for the System were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	\$ 1,278	\$ 1,128
2006	1,181	1,102
2005	1,257	1,108

#### *Minnesota State Colleges and Universities Defined Contribution Retirement Fund*

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes two plans: an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer, defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately.

The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

#### *Individual Retirement Account Plan (IRAP)*

Participation — Each employee who is in unclassified service is required to participate in TRF or IRAP upon achieving eligibility. An unclassified employee is one who serves in a position deemed unclassified according to Minnesota Statutes. This includes presidents, vice presidents, deans, administrative or service faculty, teachers and other managers, and professionals in academic and academic support programs. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 percent of a full academic year, excluding summer session. An employee remains a participant of the plan even if employed for less than 25 percent of a full academic year in subsequent years.

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrators group. For both faculty and administrators, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B. Required contributions for the System were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	\$ 21,346	\$ 15,913
2006	17,405	13,087
2005	17,349	12,867

#### *Supplemental Retirement Plan (SRP)*

Participation — Each unclassified employee who has completed two full time years of unclassified service with Minnesota State Colleges and Universities must participate upon achieving eligibility. The eligible employee is enrolled on the first day of the fiscal year following completion of two full time years. Vesting occurs immediately and normal retirement age is 55.

Contributions — Participants contribute 5 percent of eligible compensation up to a defined maximum annual contribution as specified in the following table.

Member Group	Eligible Compensation	Maximum Annual Contributions
Inter Faculty Organization	\$6,000 to \$51,000	\$ 2,250
Minnesota State College Faculty Association	6,000 to 52,000	2,300
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Administrators	6,000 to 52,000	2,300
Middle Management Association Unclassified	6,000 to 34,000	1,400
Minnesota Association of Professional Employees Unclassified	6,000 to 34,000	1,400
Other Unclassified Members	6,000 to 34,000	1,400

Minnesota State Colleges and Universities matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354B. Required contributions for Minnesota State Colleges and Universities were as follows:

(In Thousands)	
Fiscal Year	Amount
2007	\$ 12,870
2006	10,704
2005	11,049

### 13. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2007 and 2006.

#### *Minnesota State College Faculty (MSCF) contract*

The MSCF contract allows former Minnesota Community College Faculty Association (MCCFA) faculty members who meet certain eligibility and a combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary, and health insurance paid for one year after separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2007 and 2006 is as follows:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	75	\$ 2,851
2006	44	2,124

The MSCF contract allows former United Technical College Educators (UTCE) faculty members who meet certain eligibility and a combination of age and years of service requirements, to receive either an early retirement incentive cash payment, the right to continue, at the employer's expense, health insurance benefits up to age 65; or a combination of both. The cash incentive can be paid either in one or more payments. The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2007 and 2006 is as follows:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	112	\$ 2,676
2006	88	1,646

#### *Inter Faculty Organization (IFO) contract*

The IFO contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year of health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2007 and 2006 is as follows:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	74	\$ 2,660
2006	65	2,078

*Minnesota State University Association of Administrative Service Faculty (MSUAASF) contract*

The MSUAASF contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments.

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2007 and 2006 is as follows:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	11	\$ 341
2006	4	84

#### 14. CONTINGENT LIABILITIES — LITIGATION

Lawsuits furnish a basis for potential liability. The following cases or categories of cases, of which Minnesota State Colleges and Universities, its officers or employees are defendants, have been noted because an adverse decision in each case or category of cases could result in an expenditure of monies of over \$300,000.

*Eric Swanbeck v. Minnesota State University Moorhead*

Former employee asserts discrimination and defamation. The case was tried in state district court and the court is expected to issue its ruling in late 2007. The University will continue to vigorously defend this case.

*Roers Construction, Inc. v. Minnesota State University Moorhead*

Prime contractor asserts a claim for unpaid contract retainage, owner caused delay, differing site conditions and defective contract documents. The University asserted a counterclaim alleging delay and other damages. The University will attempt to settle this claim, but will vigorously defend this claim if settlement is not possible.

*Minneapolis Community and Technical College v. U.S. Department of Education*

A federal audit of financial aid granted by Minneapolis Community and Technical College in academic years 2000-2001 through 2004-2005 may result in exceptions and potential fines against the college. The college will try to settle any issues that are raised by the U.S. Department of Education, but if unsuccessful, will vigorously defend any claims by the federal agency.

#### 15. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. Some colleges and universities also purchase optional physical damage coverage for their newest or most expensive vehicles.

While property and casualty coverage is required by Minnesota State Colleges and Universities' policy, colleges and universities may select optional coverage such as international accident, international liability, and professional liability for employed physicians and student health services professional liability.

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2007 and 2006.

Institution deductible	\$2,500 to \$250,000
Fund responsibility	Deductible to \$1,500,000
Primary re-insurer coverage	\$1,500,001 to \$12,000,000
Multiple re-insurers' coverage	\$12,000,001 to \$500,000,000
Bodily injury and property damage per person	\$300,000
Bodily injury and property damage per occurrence	\$1,000,000
Annual maximum paid by fund, excess by reinsurer	\$5,000,000
Maintenance deductible for additional claims	\$25,000

Minnesota State Colleges and Universities retains the risk of loss. Minnesota State Colleges and Universities did not have any settlements in excess of coverage in the last three years.

The Minnesota Risk Management Fund purchases other insurance on the open market for some campuses. These generally include student intern professional liability, dental clinics professional liability, aviation insurance, and a variety of bonds.

Minnesota State Colleges and Universities participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self insurance for which Minnesota State Colleges and Universities pays the cost of claims through the state Workers' Compensation Fund. A Minnesota State Colleges and Universities workers' compensation payment pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars and claims history. From this pool, all workers' compensation claims are paid to the state Workers' Compensation Fund.

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2007 and 2006.

	Beginning Liability	Net Additions & Changes	Payments	Ending Liabilities
Fiscal Year Ended 6/30/07	\$ 5,411	\$ 3,007	\$ 2,563	\$ 5,855
Fiscal Year Ended 6/30/06	\$ 5,148	\$ 2,326	\$ 2,063	\$ 5,411

## 16. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains, losses, assets, and liabilities that are required by an external party to be accounted for separately.

Minnesota State Colleges and Universities issues revenue bonds to finance university dormitories and student unions. The Minnesota Higher Education Facilities Authority sold bonds to finance Vermilion Community College dormitories and modular housing. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory.



Summary Information for Revenue Fund  
(In Thousands)

	2007	2006
<b>CONDENSED STATEMENTS OF NET ASSETS</b>		
Assets		
Current assets	\$ 63,652	\$ 48,089
Restricted assets	106,946	61,666
Capital assets, net	128,061	126,897
Total assets	<u>298,659</u>	<u>236,652</u>
Liabilities		
Current liabilities	28,508	16,320
Noncurrent liabilities	127,813	87,505
Total liabilities	<u>156,321</u>	<u>103,825</u>
Net Assets		
Invested in capital assets, net of related debt	85,557	92,223
Restricted	56,781	40,604
Total net assets	<u>\$ 142,338</u>	<u>\$ 132,827</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$ 76,856	\$ 72,828
Depreciation expense	(8,043)	(7,835)
Other operating expenses	(60,778)	(57,496)
Net operating income	<u>8,035</u>	<u>7,497</u>
Nonoperating revenues (expenses)		
Interest income	6,217	4,073
Interest expense	(4,663)	(3,496)
Gain (loss) on disposal of capital assets	(78)	3
Total nonoperating revenues	<u>1,476</u>	<u>580</u>
Change in net assets	9,511	8,077
Net assets, beginning of year	132,827	124,750
Net assets, end of year	<u>\$ 142,338</u>	<u>\$ 132,827</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
Net cash provided by (used in)		
Operating activities	\$ 15,423	\$ 14,737
Capital and related financing activities	23,744	30,930
Investing activities	5,567	4,055
Net increase (decrease)	44,734	49,722
Cash, beginning of year	95,361	45,639
Cash, end of year	<u>\$ 140,095</u>	<u>\$ 95,361</u>

Summary financial information for Vermilion Community College (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2007 and 2006, respectively, follows.

Vermilion Community College (In Thousands)				
	2007		2006	
	Residence Halls	Modular Housing	Residence Halls	Modular Housing
<b>CONDENSED STATEMENTS OF NET ASSETS</b>				
<b>Assets</b>				
Current assets	\$ 355	\$ 27	\$ 65	\$ 48
Restricted assets	—	146	457	142
Capital assets, net	1,289	782	1,313	779
Total assets	1,644	955	1,835	969
<b>Liabilities</b>				
Current liabilities	8	89	361	106
Noncurrent liabilities	—	355	—	414
Total liabilities	8	444	361	520
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,289	427	1,313	364
Restricted	—	74	206	73
Unrestricted	347	10	(45)	12
Total net assets	\$ 1,636	\$ 511	\$ 1,474	\$ 449
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>				
Operating revenues	\$ 464	\$ 227	\$ 434	\$ 217
Depreciation expense	(66)	(31)	(64)	(28)
Other operating expenses	(252)	(114)	(330)	(136)
Net operating income	146	82	40	53
<b>Nonoperating revenues (expenses)</b>				
Interest income	12	7	12	4
Interest expense	(11)	(27)	(26)	(29)
Total nonoperating revenues (expenses)	1	(20)	(14)	(25)
Transfers in and out	15	—	—	—
Change in net assets	162	62	26	28
Net assets, beginning of year	1,474	449	1,438	421
Prior period adjustment	—	—	10	—
Net assets, end of year	1,636	511	1,474	449
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>				
<b>Net cash provided by (used in)</b>				
Operating activities	\$ 109	\$ 93	\$ 212	\$ 123
Capital and related financing activities	(303)	(117)	(136)	(87)
Investing activities	11	7	13	5
Net increase (decrease) in cash	(183)	(17)	89	41
Cash, beginning of year	518	182	419	141
Prior period adjustment	—	—	10	—
Cash, end of year	\$ 335	\$ 165	\$ 518	\$ 182

Summary financial information for Itasca Community College (which is reported within the Northeast Higher Education District) for the years ended June 30, 2007 and 2006, respectively, follows.

Itasca Community College (In Thousands)		
	2007	2006
	Residence Halls	Residence Halls
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	\$ 19	\$ (114)
Restricted assets	346	373
Capital assets, net	3,901	3,986
Total assets	4,266	4,245
Liabilities		
Current liabilities	128	158
Noncurrent liabilities	2,245	2,311
Total liabilities	2,373	2,469
Net Assets		
Invested in capital assets, net of related debt	1,581	1,601
Restricted	346	314
Unrestricted	(34)	(139)
Total net assets	1,893	1,776
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	347	318
Depreciation expense	(119)	(71)
Other operating expenses	(201)	(194)
Net operating income	27	53
Nonoperating revenues (expenses)		
Interest income	17	25
Interest expense	(132)	(134)
Total nonoperating revenues (expenses)	(115)	(109)
Transfers in and out	205	—
Change in net assets	117	(56)
Net assets, beginning of year	1,776	1,175
Prior period adjustment	—	657
Net assets, end of year	\$ 1,893	\$ 1,776
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	\$ 158	\$ 130
Investing activities	17	25
Capital and related financing activities	(60)	(1,651)
Net increase (decrease) in cash	115	(1,496)
Cash, beginning of year	233	1,848
Prior period adjustment	—	(119)
Cash, end of year	\$ 348	\$ 233

## 17. COMMITMENTS

### Minnesota State Colleges and Universities Involvement in On-Going Projects 2007 (In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Bemidji	Linden Hall	\$ 8,500	\$ ,068	\$ 6,432	2007 Jan
Central Lakes	Heavy Equipment & Music	5,953	1,948	4,005	2007 Dec
Century	Science & LRC	20,900	8,369	12,531	2008 July
Fond du Lac	Lester Jack Briggs Cultural Center	12,390	474	11,916	2008 Oct
Lake Superior	Academics & Student Services	11,243	8,842	2,401	2007 Dec
Minneapolis	Science & Allied Health Renovation	18,874	2,228	16,646	2008 Nov
MSCST	LRC and Student Services	4,855	626	4,229	2008 May
MSU, Mankato	Trafton Hall Addition	32,900	10,000	22,900	2008 Oct
MSU, Mankato	Sears Residence Hall	34,300	10,400	23,900	2008 June
MSU Moorhead	MacLean Hall Renovation	10,180	6,523	3,657	2007 Dec
Normandale	Fine Arts Building Addition	5,125	1,046	4,079	2008 June
Rochester	Health Center Renovation	12,759	11,727	1,032	2007 Dec
SCSU	Wick Science Bldg	14,000	1,246	12,754	2008 Dec
SCSU	Centennial Hall	14,700	13,500	1,200	2008 Jan
SCTC	Addition & Workforce Remodel	15,056	12,309	2,747	2007 Dec
St. Paul	Construction Trades	10,993	6,248	4,745	2007 Dec
Southwest State	Regional Event Center	16,000	2,419	13,581	2008 May
Winona State	Maxwell Hall Renovation	11,186	2,387	8,799	2008 Nov

\* Bemidji State University; Central Lakes College; Century College; Fond du Lac Tribal & Community College; Lake Superior College; Minneapolis Community & Technical College; Minnesota State College, Southeast Technical College; Minnesota State University, Mankato; Minnesota State University Moorhead; Normandale Community College; Rochester Community & Technical College; St. Cloud State University; St. Cloud Technical College; St. Paul College; Southwest Minnesota State University; and Winona State University.

## 18. RELATED PARTY TRANSACTIONS

Minnesota State Colleges and Universities' institutions have financial relationships with their foundations that are considered related party transactions. These transactions include funding for scholarship awards and educational programs, donations, capital lease agreements, and reimbursement of administrative expenses incurred by the university or college on behalf of the foundation. A summary of the financial support received by institutions follows:

	As of June 30 (In Thousands)	
	2007	2006
Bemidji State University	\$ 737	\$ 788
Metropolitan State University	217	459
Minnesota State University, Mankato	2,936	2,420
Minnesota State University Moorhead	500	394
St. Cloud State University	981	988
Southwest Minnesota State University	1,396	1,236
Winona State University	2,478	3,246
Century College	166	168

As of June 30, 2007, Minnesota State University Moorhead had two capital lease agreements with its Foundation. The John Neumaier Hall Apartments had an outstanding lease liability of \$3,636,408 and the Hendrix Health Center had an outstanding lease liability of \$324,380. Total principal and interest payments made during fiscal year 2007 were \$264,953 for the John Neumaier Hall Apartments and \$74,082 for the Hendrix Health Center.

Winona State University operates the East Lake Apartments, which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

Southwest Minnesota State University entered into a property management agreement with the SMSU Foundation, commencing August 1, 2006. Under the agreement, which ends June 30, 2016 unless extended or terminated as provided by the agreement, the University manages a student housing apartment building which is owned by the Foundation.

## 19. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundations affiliated with Minnesota State Colleges and Universities are legally separate, tax exempt entities.

The Bemidji State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., St. Cloud State University Foundation, Winona State University Foundation, Southwest Minnesota State University Foundation, Metropolitan State University Foundation, Century College Foundation, and Fergus Area College Foundation are separate legal entities formed for the purpose of obtaining and disbursing funds for the sole benefit of their college or university.

The seven state universities and two colleges do not appoint any members of their respective boards and the resources held by the foundations can only be used by, or for the benefit of, the associated university or college. Each foundation's relationship with their institution is such that exclusion of the foundation's financial statements would cause the Minnesota State Colleges and Universities financial statements to be misleading or incomplete. The foundations are considered a component unit of their university or college and their statements are discretely presented in the universities' and colleges' financial statements.

The foundations' financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions and reported as follows:

- *Unrestricted net assets*: those assets that are not subject to donor imposed stipulations.
- *Temporarily restricted net assets*: those assets subject to donor imposed restrictions as to the use of those donated assets.
- *Permanently restricted net assets*: those assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

Schedule of Investments, June 30, 2007  
(In Thousands)

Investments	BSU Foundation	Century College Foundation	Fergus Falls Area College Foundation	Metropolitan State Foundation	MSU, Mankato Foundation
Money markets	\$ 786	\$ 659	\$ 258	\$ —	\$ 968
Certificates of deposits	—	—	—	211	—
U.S. government securities	—	—	—	100	—
Mutual funds	6,936	—	1,548	—	21,014
Equity securities	—	1,028	—	—	160
Corporate stock & bonds	—	—	64	—	—
Fixed income securities/bonds	3,892	107	520	—	211
Other investments	698	—	—	—	2,005
Total	<u>\$ 12,312</u>	<u>\$ 1,794</u>	<u>\$ 2,390</u>	<u>\$ 311</u>	<u>\$ 24,358</u>

Investments	MSU Moorhead Foundation	SCSU Foundation	Southwest MN Foundation	WSU Foundation	Total
Money markets	\$ 531	\$ 801	\$ 295	\$ —	\$ 4,298
Certificates of deposits	50	—	—	10	271
U.S. Government securities	—	—	—	1,315	1,415
Mutual funds	1,794	13,285	—	12,937	57,514
Equity securities	—	—	3,176	1,471	5,835
Corporate stock & bonds	4,764	11,088	—	—	15,916
Fixed income securities/bonds	—	—	3,150	364	8,244
Other investments	45	—	—	—	2,748
Total	<u>\$ 7,184</u>	<u>\$ 25,174</u>	<u>\$ 6,621</u>	<u>\$ 16,097</u>	<u>\$ 96,241</u>

Schedule of Investments, June 30, 2006  
(In Thousands)

Investments	BSU Foundation	Century College Foundation	Fergus Falls Area College Foundation	Metropolitan State Foundation	MSU, Mankato Foundation
Money markets	\$ 186	\$ 589	\$ 208	\$ —	\$ 698
Certificates of deposits	—	—	40	352	—
U.S. government securities	—	—	—	249	—
Mutual funds	6,249	—	1,263	2	10,721
Equity securities	—	993	—	—	5,600
Corporate stock & bonds	—	—	56	—	—
Fixed income securities/bonds	3,616	132	523	—	3,800
Other investments	586	—	—	—	163
Total	<u>\$ 10,637</u>	<u>\$ 1,714</u>	<u>\$ 2,090</u>	<u>\$ 603</u>	<u>\$ 20,982</u>

Investments	MSU Moorhead Foundation	SCSU Foundation	Southwest MN Foundation	WSU Foundation	Total
Money markets	\$ 156	\$ 800	\$ 779	\$ —	3,416
Certificates of deposits	60	—	—	80	532
U.S. Government securities	—	—	—	1,031	1,280
Mutual funds	1,453	13,293	—	8,435	41,416
Equity securities	—	—	2,848	2,272	11,713
Corporate stock & bonds	4,480	8,418	—	—	12,954
Fixed income securities/bonds	—	—	2,634	311	11,016
Other investments	41	—	—	—	790
Total	<u>\$ 6,190</u>	<u>\$ 22,511</u>	<u>\$ 6,261</u>	<u>\$ 12,129</u>	<u>\$ 83,117</u>

Schedule of Assets Held for Endowment  
(In Thousands)

Assets	Metropolitan U Foundation	
	\$ 2007	2006
Investments	2,157	\$ 1,593
Contributions receivable	130	175
Accrued interest receivable	1	2
Total	<u>\$ 2,288</u>	<u>\$ 1,770</u>

Summaries of the foundations' long-term obligations:

- Minnesota State University, Mankato Foundation, Inc. — mortgage payable, Taylor Center Campaign \$2,032,000.
- Minnesota State University Moorhead Alumni Foundation, Inc. — dormitory bond loan payable \$3,636,409 and notes payable totaling \$324,380 with Bremer Bank.
- St. Cloud State University Foundation, Inc. — an agreement on March 1, 2002 with the Housing and Redevelopment Authority, the city of St. Cloud, MN and U.S. Bank National Association to issue \$16,515,000 in revenue bonds, \$14,780,000 of which are still outstanding at 6/30/2007.
- Winona State University Foundation, Inc. — mortgage payable to finance the construction and start up operations of the student housing project totaling \$8,926,054.
- Southwest Minnesota State University Foundation, Inc. — utilities assessments payable to the City of Marshall totaling \$66,442 and a student housing revenue note payable to Bremer Bank totaling \$5,489,969.
- Bemidji State University Foundation, Inc. — note payable to GMC Financing in the amount of \$19,000 for a vehicle.

Schedule of Long-Term Obligations  
(In Thousands)

Year	MSU, Mankato Foundation	MSU Moorhead Foundation	SCSU Foundation	WSU Foundation	SWU Foundation	BSU Foundation
2008	\$ 442	\$ 131	\$ 600	\$ 266	\$ 142	\$ 6
2009	442	139	660	279	149	6
2010	432	147	700	293	156	7
2011	245	155	725	307	164	—
2012	245	164	750	323	172	—
Thereafter	226	3,225	11,345	7,458	4,773	—
Total	<u>\$ 2,032</u>	<u>\$ 3,961</u>	<u>\$ 14,780</u>	<u>\$ 8,926</u>	<u>\$ 5,556</u>	<u>\$ 19</u>

## 20. SUBSEQUENT EVENTS

*General Obligation Bond Issuances* — In August 2007, \$100,000,000 in general obligation state bonds were issued at a true interest rate of 4.3 percent. Minnesota State Colleges and Universities pays one third of the debt service on \$67,875,000 of these bonds issued over the life of the bonds. The first debt service payment on these bonds will be November 2007.

## **SUPPLEMENTAL SECTION**





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**MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)**  
St. Paul, Minnesota

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

November 12, 2007

Board of Trustees  
Minnesota State Colleges and Universities  
St. Paul, Minnesota

We have audited the consolidated financial statements of Minnesota State Colleges and Universities (MnSCU) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. Our audit opinion also includes references to other auditor's reports, which are included in the audited financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered MnSCU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MnSCU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MnSCU's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects MnSCU's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of MnSCU's financial statements that is more than inconsequential will not be prevented or detected by MnSCU's internal control. We consider the deficiencies 07-1, 07-2 and 07-3, described in the following schedule of findings and recommendations, to be significant deficiencies in internal control over financial reporting.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by MnSCU's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described are not material weaknesses.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether MnSCU's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

MnSCU's written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended for the information of management, the Board of Trustees and state regulatory agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Kern, DeWenter, Viero, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota

**MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)**  
St. Paul, Minnesota

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**SIGNIFICANT DEFICIENCIES:**

**07-1 SCHOLARSHIP ALLOWANCE:**

**Criteria:** Management is responsible for establishing and maintaining internal controls for the proper review of all schedules used to calculate and support adjustments for year end financial statements.

**Condition:** As part of the audit, an error of approximately \$2,300,000 was noted in the calculation of the scholarship allowance at 2 institutions. The error was subsequently corrected in the respective financial statements. Had it not been corrected, this error would have an equal and offsetting effect on both revenues and expenses, and therefore would have had no effect on operating income or change in net assets. Further, there would have been no impact on assets, liabilities or net assets.

**Cause:** The data query used to compute the scholarship allowance incorrectly utilized prior year, rather than current year, data.

**Effect:** The design of internal controls over the recording and review of the allocation of the scholarship allowance could affect MnSCU's ability to record, process, summarize and report financial data consistently with the assertions of management in the financial statements.

**Recommendation:** We recommend MnSCU's management establish internal control procedures, including second party review or other processes, relating to scholarship allowance calculations to ensure the proper calculation and recording of the allowance.

**Management's Response:** Management will evaluate all results from standard system queries and monitor the processes used to calculate the scholarship allowance.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)**  
St. Paul, Minnesota

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**SIGNIFICANT DEFICIENCIES:**

**07-2 UNRECORDED ACCOUNTS PAYABLE:**

**Criteria:** Management is responsible for establishing and maintaining internal controls over the recording of all year end payables.

**Condition:** As part of the audit, it was noted that 2 institutions and the office of the chancellor had omitted approximately \$1,364,000 of accounts payable liabilities in its year end financial statements.

**Cause:** MnSCU has established an automated query process to capture all accounts payable for invoices paid through July 31. For payments made subsequent to that date, MnSCU office of chancellor and institutions are responsible to review invoices and determine whether each payment should be reflected in the year end accounts payable balance. Certain MnSCU institutions and the office of the chancellor did not properly review invoices supporting payments made after July 31 to determine whether any invoices pertained to the previous fiscal year.

**Effect:** The design of internal controls over the recording of accounts payable could affect the ability of MnSCU to record, process, summarize and report financial data consistently with the assertions of management in the financial statements.

**Recommendation:** We recommend management establish internal control procedures, including second party review or other control procedures, to ensure the review of payments subsequent to July 31<sup>st</sup> is being performed and the financial statements reflect proper recording of all year end accounts payable items.

**Management's Response:** MnSCU will review its procedures for unrecorded accounts payable and include a review of payments subsequent to June 30, 2007.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)**  
St. Paul, Minnesota

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**SIGNIFICANT DEFICIENCIES:**

**07-3 JOURNAL ENTRY APPROVAL PROCESS:**

**Criteria:** Management is responsible for establishing and maintaining internal controls over the recording of journal entries into the general ledger system.

**Condition:** As part of the audit, it was noted that 1 journal entry error totaling \$274,000 was incorrectly coded to an expense account, rather than construction in progress, in connection with the recording of retainage payable. Further there was not always documentation of review or approval of institution, revenue fund and systemwide journal entries tested as part of our audit.

**Cause:** There was not always a review process in place to detect this error.

**Effect:** The design of internal controls over the recording of journal entries could affect the ability of MnSCU to record, process, summarize and report financial data consistently with the assertions of management in the financial statements.

**Recommendation:** We recommend management establish internal control procedures, including a consistent review process, pertaining to all significant year end journal entries to ensure proper recording and approval.

**Management's Response:** Management will review its procedures for journal entries and develop a consistent review process in future years.