REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2008 and 2007

Prepared by:

Office of the Chancellor
Minnesota State Colleges and Universities
Wells Fargo Place
30 East 7th Street, Suite 350
St. Paul, Minnesota 55101-7804

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REVENUE FUND

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 7, 2008

Members of the Board of Trustees
Chancellor James H. McCormick

I am pleased to submit the audited annual financial statements for the Minnesota State Colleges and Universities Revenue Fund for the fiscal years ended June 30, 2008 and 2007. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board. The Office of the Chancellor is responsible for preparation of the statements.

The Revenue Fund is administered under the direction of the Board of Trustees of the Minnesota State Colleges and Universities. The Fund was established as a self-supporting, independent enterprise fund by the 1955 legislature for management of the residence halls, student unions, dining services, and parking ramps at the state universities and currently operates only on those seven campuses.

Net assets increased $9.4 million, an increase of 6.6 percent over fiscal year 2007 due both to rate and occupancy increases and aggressive cost controls. In June 2008, the Fund issued $41.0 million of revenue bonds increasing noncurrent bonds payable by $38.1 million.

Within the financial statements, which were audited by Kern, DeWenter, Viere, Ltd., and received an unqualified opinion, you will find statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. The Revenue Fund ended fiscal year 2008 with total net assets of $151.8 million. Reserve balances, including requirements mandated by bond covenants are invested with the State Board of Investment or a Trustee. Investment earnings are used to keep student costs in the residence halls and student unions among the lowest in the region.

Residence hall and student union directors are responsible for designing programs and services that meet the needs of students at their individual universities. All revenues and expenses are managed at each of the universities. The Revenue Fund provides about 11,000 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

Laura M. King
Vice Chancellor-Chief Financial Officer

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

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The financial activity of the Revenue Fund is included in this report and the Minnesota State Colleges and Universities' Annual Financial Report.

All financial activity of Minnesota State Colleges and Universities is included in the state of Minnesota comprehensive annual financial report.

FINANCIAL SECTION

KDV

Expert advice. When you need it.[SM]

INDEPENDENT AUDITOR'S REPORT

November 7, 2008

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

We have audited the accompanying financial statements of the Minnesota State Colleges and Universities Revenue Fund (Revenue Fund), as of and for the years ended June 30, 2008 and 2007, as listed in the Table of Contents. These financial statements are the responsibility of the MnSCU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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.

As described in Note 1, the financial statements present only the Revenue Fund and do not purport to, and do not, present fairly the financial position of the Minnesota State Colleges and Universities, as a whole, as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Revenue Fund as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008 on our consideration of the Revenue Fund'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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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 supplementary 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Revenue Fund. The accompanying introductory section is presented for purposes of additional analysis and is 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, accordingly, we express no opinion on the introductory information.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

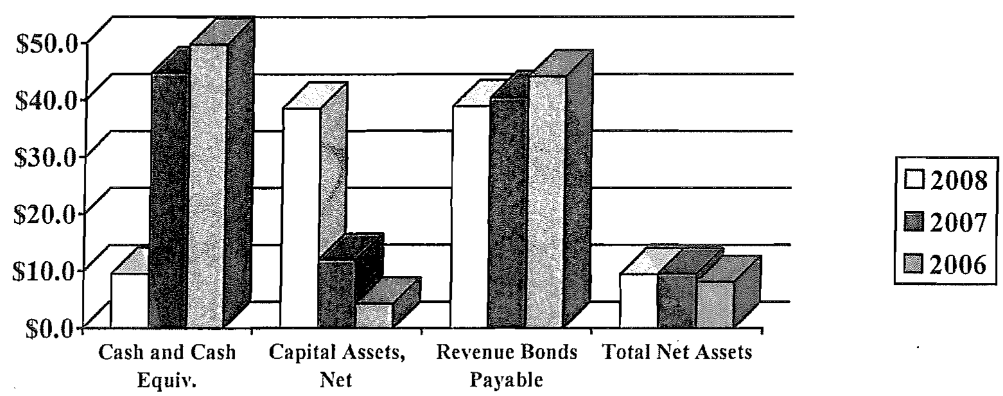
The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities, for the fiscal years ended June 30, 2008, 2007, and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

Minnesota State Colleges and Universities, a state supported system, is the largest single provider of higher education in the state of Minnesota and is comprised of 32 state-supported technical, community, and consolidated colleges, and universities. Historically, the Revenue Fund operated on only the seven state universities. Effective July 2008, the Fund will be available to all colleges in the system. It was created for purposes of financing residence halls, dining halls, student union buildings, parking facilities, wellness/athletic facilities and other revenue-producing buildings as deemed necessary for the good and benefit of the students.

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position improved during fiscal year 2008 with net assets increasing by $9.4 million totaling $151.8 million, a 6.6 percent increase over fiscal year 2007. This follows an increase of $9.5 million totaling $142.3 million, a 7.2 percent increase over fiscal year 2006. Cash and cash equivalents at year-end totaled $149.6 million, an increase of $9.5 million over fiscal year 2007 at year-end. Capital assets, net increased $38.5 million due to the continuation of construction projects started in prior fiscal years. In June 2008, the Revenue Fund issued bonds totaling $41 million, with maturity dates of 10 and 20 years.

Statements of Net Asset Changes (in Millions)



USING THE FINANCIAL STATEMENTS

This annual financial report includes three financial statements as follows: the statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements of cash flows. These three financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). A summary of significant accounting policies followed by the Revenue Fund is included in Note 1 to the financial statements.

STATEMENTS OF NET ASSETS

The statements of net assets present the financial position of the Revenue Fund at the end of the fiscal year and include all assets and liabilities of the Revenue Fund. The difference between total assets and total liabilities (e.g., the point-in-time difference in value of what is owned compared to the value of what is owed) is net assets, one indicator of the current financial condition of the Revenue Fund. The change in net assets is an indicator of whether the overall financial condition has improved or declined during the fiscal year (e.g., has the value of the difference between what is owned and owed increased or decreased over the past fiscal year). 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.

A summary of the Revenue Fund's assets, liabilities, and net assets at June 30, 2008, 2007, and 2006 follows:

(In Thousands)	2008	2007	2006
Current assets	$ 60,031	$ 63,652	$ 48,089
Current restricted assets	94,519	91,991	57,462
Noncurrent restricted assets	40,038	14,955	4,204
Capital assets, net	141,521	128,061	126,897
Total assets	336,109	298,659	236,652
Current liabilities	18,751	28,508	16,320
Noncurrent liabilities	165,607	127,813	87,505
Total liabilities	184,358	156,321	103,825
Net assets	$ 151,751	$ 142,338	$ 132,827

Current assets — consist primarily of cash and cash equivalents, and securities lending collateral. Unrestricted cash and cash equivalents increased by $7.0 million to total $55.1 million at June 30, 2008. Securities lending collateral decreased by $9.9 million to total $1.2 million at June 30, 2008.

Current restricted assets — consist of unspent bond proceeds, which increased $2.5 million over the fiscal year due primarily to proceeds from issuance of new revenue bonds.

Noncurrent restricted assets — consist primarily of construction in process, which increased $25.1 million, as construction on bond projects continues.

Capital assets, net — increased $13.4 million, representing the portion of bond projects completed and repairs and renovations of facilities within current operations. There were no other noncurrent assets in fiscal years 2008, 2007 or 2006.

Current liabilities — consist primarily of accounts payable, securities lending collateral, and unearned revenue. Total accounts payable, including restricted accounts payable, decreased by $1.4 million to total $8.4 million at June 30, 2008. Securities lending collateral decreased by $9.9 million to total $1.2 million at June 30, 2008. Unearned revenue increased by $.1 million to a total of $2.8 million at June 30, 2008.

Noncurrent liabilities — At June 30, 2008 noncurrent liabilities consisted primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable increased by $38.1 million to total $155.6

At June 30, 2008, the noncurrent portion of revenue bonds payable totaled $155.6 million, with $2.9 million current portion payable. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 5 of the financial statements. Note 4 to the financial statement shows that buildings and improvements increased by $24.3 million due to the completion of prior years' construction in progress.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statements of revenues, expenses, and changes in net assets presents the Revenue Fund's results of operations and the overall increase in net assets in the fiscal year. It is the difference between the fiscal year's revenue and expense activities that results in an overall increase or decrease to net assets (see the discussion of net assets in the prior section, statements of net assets).

A summarized statement for the fiscal years ended June 30, 2008, 2007, and 2006 follows:

(In Thousands)

	2008	2007	2006
Operating revenue:			
Room and board	$ 64,578	$ 59,817	$ 56,653
Fees	12,415	11,115	10,538
Sales and services	4,742	4,597	4,928
Other	1,884	1,327	709
Total operating revenue	83,619	76,856	72,828
Nonoperating revenue and other gains:			
Interest and other nonoperating revenue	5,265	6,217	4,073
Total nonoperating revenue and gains	5,265	6,217	4,073
Total revenues	88,884	83,073	76,901
Operating expense:			
Salaries and benefits	21,191	19,173	18,860
Supplies and services	37,030	34,033	32,275
Repairs and maintenance	3,350	4,510	1,997
Depreciation and amortization	8,857	8,043	7,835
Other	3,595	3,062	4,364
Total operating expenses	74,023	68,821	65,331
Nonoperating expense:			
Interest expense	5,374	4,663	3,496
Loss/(Gain) on disposal of capital assets	74	78	(3)
Total nonoperating expense	5,448	4,741	3,493
Total expenses	79,471	73,562	68,824
Increase in net assets	9,413	9,511	8,077
Net assets, beginning of year	142,338	132,827	124,750
Net assets, end of year	$ 151,751	$ 142,338	$ 132,827

The $4.8 million increase in room and board revenue resulted from additional rooms plus rate increases to cover operating expense increases and to fund the reinvestment program. Nonoperating revenue decreased due to a decrease in interest income in fiscal year 2008 of $900,000.

INVESTMENTS

The fiscal year 2008 bond proceeds, along with all debt service reserve accounts, and the debt service accounts were deposited with a Trustee (US Bank) who is managing the investments. The Trustee also manages the 2007 proceeds and the related debt service reserve and debt service accounts. The remaining proceeds of the fiscal year 2005 sale of $8.9 million, and the debt service accounts for the fiscal years 2002 and 2005 sales, along with all operating funds, are on deposit in the State Treasury where they earn Invested Treasury Cash (ITC) rates.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, the Revenue Fund ended the fiscal year in a strong financial position. The Revenue Fund expects to continue its commitment to provide students with comfortable living accommodations, dining options at a reasonable cost, parking and wellness facilities in close proximity to academic settings.

The Revenue Fund faces increased building costs, employee compensation increases, and significant increases in health care costs. All of these factors require that we continue to use our resources efficiently and effectively.

In order to plan for building maintenance and renewal costs more accurately, the Revenue Fund has adopted the same facilities program as is being implemented in the academic and other campus facilities. This program analyzes building component age and projects replacement needs into the future. Since all the colleges and universities will be using the same planning tool the expectation is that the program will result in a more efficient facilities reinvestment program across the campuses.

The Minnesota State Colleges & Universities will request additional bonding authority up to $250,000,000 from the state legislature in the coming session. The current authority is $200,000,000 with $158,515,000 in bonding debt outstanding.

The Revenue Fund is tentatively planning a bond sale in mid calendar 2009. In March 2009 the Board of Trustees may be asked to approve the following projects:

- Bemidji State University – Phase II of a renovation project
- Minnesota State University, Mankato – Athletic fields and facilities for recreational and club sport use
- Century College – Parking deck
- Metropolitan State University – Addition to, and remodeling of, Student Center
- Normandale Community College – Addition to, and remodeling of, Student Center

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2008 financial position and results for all those with an interest in the Revenue Fund'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 7th St. E., STE 350
St. Paul, MN 55101-7804

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MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 55,118	$ 48,104
Accounts receivable, net	3,700	4,402
Securities lending collateral	1,213	11,146
Total current assets	60,031	63,652
Current Restricted Assets		
Cash and cash equivalents	94,519	91,991
Total current restricted assets	94,519	91,991
Noncurrent Restricted Assets		
Other restricted assets	89	95
Construction in progress	39,949	14,860
Total noncurrent restricted assets	40,038	14,955
Total restricted assets	134,557	106,946
Noncurrent Assets		
Capital assets, net	141,521	128,061
Total noncurrent assets	141,521	128,061
Total Assets	336,109	298,659
Liabilities		
Current Liabilities		
Salaries payable	1,055	771
Accounts payable	3,873	4,320
Unearned revenue	2,849	2,732
Payable from restricted assets	4,565	5,499
Interest payable	1,732	1,614
Current portion of long-term debt	3,236	2,212
Compensated absences payable	228	214
Securities lending collateral	1,213	11,146
Total current liabilities	18,751	28,508
Noncurrent Liabilities		
Noncurrent portion of long-term debt	164,166	126,525
Compensated absences payable	1,441	1,288
Total noncurrent liabilities	165,607	127,813
Total Liabilities	184,358	156,321
Net Assets		
Invested in capital assets, net of related debt	87,066	85,557
Restricted expendable	16,682	12,159
Unrestricted	48,003	44,622
Total Net Assets	$ 151,751	$ 142,338

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Revenues		
Room and board	$ 64,578	$ 59,817
Fees	12,415	11,115
Sales and services	4,742	4,597
Other income	1,884	1,327
Total operating revenues	83,619	76,856
Operating Expenses		
Salaries	21,191	19,173
Food service	20,244	18,301
Other purchased services	12,983	11,301
Supplies	3,803	4,431
Repairs and maintenance	3,350	4,510
Depreciation	8,857	8,043
Other expense	3,595	3,062
Total operating expenses	74,023	68,821
Operating income	9,596	8,035
Nonoperating Revenues (Expenses)		
Interest income	5,265	6,217
Interest expense	(5,374)	(4,663)
Total nonoperating revenue (expenses)	(109)	1,554
Income Before Other Revenues, Expenses, Gains, or Losses	9,487	9,589
Loss on disposal of capital assets	(74)	(78)
Change in net assets	9,413	9,511
Total Net Assets, Beginning of Year	142,338	132,827
Total Net Assets, End of Year	$ 151,751	$ 142,338

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 86,693	$ 76,484
Cash paid to suppliers for goods or services	(44,122)	(41,843)
Cash payments to employees	(20,738)	(19,218)
Net cash flows from operating activities	21,833	15,423
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(50,147)	(12,731)
Proceeds from sale of capital assets	(49)	17
Proceeds from borrowing	41,020	43,070
Bond discount paid	(91)	(399)
Interest paid	(5,256)	(4,081)
Repayment of lease principal	(267)	(257)
Repayment of bond principal	(1,945)	(1,875)
Net cash flows (used in) from capital and related financing activities	(16,735)	23,744
Cash Flows from Investing Activities		
Investment earnings	4,444	5,567
Net cash flows from investing activities	4,444	5,567
Net Increase in Cash and Cash Equivalents	9,542	44,734
Cash and Cash Equivalents, Beginning of Year	140,095	95,361
Cash and Cash Equivalents, End of Year	$ 149,637	$ 140,095

Operating Income	$ 9,596	$ 8,035
Adjustment to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation	8,857	8,043
Change in assets and liabilities		
Accounts receivable	2,869	(865)
Accounts payable	(21)	(244)
Salaries payable	286	43
Compensated absences payable	167	(88)
Unearned revenues	117	494
Other	(38)	5
Net reconciling items to be added to operating income	12,237	7,388
Net cash flows from operating activities	$ 21,833	$ 15,423

Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 4,838	$ 7,598
Gain (Loss) on retirement of capital assets	(25)	97
Investment earnings on account	1,360	592
Amortization of bond discount	(26)	(19)
Amortization of bond premium	78	79

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES, REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

1. LEGISLATIVE AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Authorizing Legislation — The 1955 Minnesota State Legislature established the Revenue Fund for the purpose of operating self-supporting residence halls, food services, and student union programs. In the enabling legislation, the Board of Trustees was authorized to acquire, construct, remodel, equip, operate, control, and manage residence halls, dining halls, student union buildings, and any other similar revenue-producing buildings as deemed necessary for the good and benefit of the universities. The Board is authorized to issue bonds and other obligations, upon approval by the state legislature, to fulfill its corporate purposes. During the 2000 legislative session, the state legislature authorized the Board to issue revenue bonds whose aggregate amount at any time may not exceed $100,000,000. During the 2006 legislative session, the state legislature increased the Board's authority to issue revenue bonds to $150,000,000. On February 19, 2002, revenue bonds were issued totaling $36,275,000. On October 20, 2005, revenue bonds were issued totaling $45,320,000. On February 1, 2007, additional revenue bonds were issued totaling $43,070,000. During the 2008 legislative session, the state legislature increased the Board's authority to issue revenue bonds to $200,000,000. On June 1, 2008, additional revenue bonds were issued totaling $41,020,000. See Note 5 for additional information.

Basis of Presentation — The reporting policies of the Revenue Fund, a fund of the 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 include financial activities of the Revenue Fund.

The financial statements of the Revenue Fund are combined into a single enterprise fund and are intended to present only the financial activity of the Revenue Fund. The statements do not include other various activities of the Minnesota State Colleges and Universities.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized in the accounts 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.

The Revenue Fund applies all applicable Financial Accounting Standards Board statements issued prior to November 30, 1989, and GASB statements issued since that date.

Cash and Cash Equivalents — At June 30, 2008 and 2007, the cash balance represents cash and cash equivalents in the state treasury and US Bank (trustee). 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. Amounts held for capital projects and debt service are recorded as restricted cash.

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

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 Improvements	20 years
Equipment	5-20 years

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

Long-Term Liabilities — Include bonds payable, due in varying amounts through fiscal year 2033.

		Bond Payable (In Thousands)			
		2008	2007	2006	Maturity Date
Series 2002A	4.8398 %	$ 19,535	$ 20,410	$ 21,245	October 1, 2022
Series 2002B	6.4557 %	10,865	11,285	11,680	October 1, 2022
Series 2005A	4.9233 %	41,210	41,570	41,930	October 1, 2032
Series 2005B	5.0000 %	2,815	3,105	3,390	October 1, 2015
Series 2007A	4.1566 %	33,770	33,770	—	October 1, 2026
Series 2007B	4.2670 %	5,980	5,980	—	October 1, 2019
Series 2007C	5.6409 %	3,320	3,320	—	October 1, 2026
Series 2008A	4.5338 %	39,885	—	—	October 1, 2028
Series 2008B	5.1057 %	1,135	—	—	October 1, 2018
Total		$ 158,515	$ 119,440	$ 78,245	

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2033. Annual principal and interest payments on the bonds are expected to require less than 15.77% of net revenues. The total principal and interest remaining to be paid on the bonds is $243,921,849. Principal and interest paid for the current year and total customer net revenues were $7,318,621 and $83,619,000 respectively.

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 Revenue Fund's revenues and expenses are from exchange transactions. Interest income, which is relied upon for operations, is recorded as nonoperating revenue.

Unearned Revenue — Unearned revenue consists primarily of room deposits for fall semester and room and board fees received, but not earned, for summer session.

Fees, Room and Board, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of $1,918,662 and $1,946,249 for fiscal years ended June 30, 2008 and 2007, respectively, are reported on the Minnesota State Colleges and Universities' system financial statements, but are not reflected in these statements. Sales and services are net of cost of goods sold of $88,686 and $102,010 for fiscal years ended June 30, 2008 and 2007, respectively.

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, 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 and compensated absences.

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

- *Invested in capital assets, net of related debt*: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: net assets subject to externally imposed stipulations. Net asset restrictions for the Revenue Fund are as follows:
  Restricted for capital projects/debt service — restricted for completion of capital projects or repayment of bond debt.
- *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 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.

In November 2007, the GASB issued Statement No. 52 *Land & Other Real Estate Held as Investments by Endowments.* This statement requires that land & real estate held in endowments be recorded at fair market value. GASB Statement No. 52 is effective for Minnesota Colleges and Universities for fiscal year 2009. The effect this statement will have on fiscal year 2009 basic financial statements has not been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to room and board fees are in the state treasury. 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. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2008	2007
Cash, treasury account	$ 73,994	$ 93,392
Cash, trustee account (US Bank)	75,643	46,703
Total	$ 149,637	$ 140,095

The Revenue Fund's treasury account balance was $73,994,147 and $93,392,385 at June 30, 2008 and 2007, respectively. This balance was adjusted by items in transit to arrive at the Revenue Fund's cash – treasury account balance.

Restricted cash of $94,518,027 and $91,990,852 as of June 30, 2008 and 2007, respectively, represents unexpended bond proceeds. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

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 the United States 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. All money in the Revenue Fund is further restricted to investments permitted by Minnesota Statutes, Chapter 118A.

Within statutory parameters, SBI 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.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Revenue Fund will not be able to recover the value of the investments that are in the possession of an outside party. The Fund follows Board Procedure 7.5.1 for custodial credit risk.

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Revenue Fund's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Chapter 118A. This statute limits investments to the top quality rating categories of a nationally recognized rating agency.

At June 30, 2008 and June 30, 2007, the Revenue Fund had no debt securities.

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 Revenue Fund's policy for reducing this risk of loss is to comply with Board Procedure 7.5.1 which requires compliance with Minnesota Statutes, Section 118A.03 and further excludes the use of FDIC insurance when meeting collateral requirements.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Revenue Fund's policy for reducing this risk is to comply 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, 2008 and June 30, 2007 the Revenue Fund had no investments.

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 the fiscal years ended June 30, 2008 and 2007, 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 U.S. and foreign currency) and securities issued or guaranteed by the U.S. 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 ended June 30, 2008 and 2007 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 the fiscal years ended June 30, 2008 and 2007.

In addition, there were no losses during the fiscal years ended June 30, 2008 and 2007 resulting from default of the borrowers.

The following tables provide information related to the securities invested by Wells Fargo and State Street.

Securities Lending Analysis, June 30, 2008
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$101,584	$6,551,076
Collateral held	$102,968	$6,775,914
Average duration	114 days	N/A
Average weighted maturity	114 days	393 days

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

During the fiscal years ended June 30, 2008 and 2007, 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, 2008 and 2007, 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.

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the universities. The Revenue Fund's portion of the allocation is $1,213,000 and $11,146,000 as of June 30, 2008 and 2007, respectively.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance is made up primarily of receivables from individual students and room deposits held by other funds.

Summary of Accounts Receivable at June 30
(In Thousands)

	2008	2007
Room and board	$ 4,109	$ 4,159
Interest	244	592
Fees	536	527
Sales and service	263	261
Other income	70	260
Total accounts receivable	5,222	5,799
Allowance for uncollectible	(1,522)	(1,397)
Total	$ 3,700	$ 4,402

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

Over 2 years	100%
1-2 years	50%
Less than 1 year	2%

4. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2008 and 2007 follow.

Year Ended June 30, 2008 (In Thousands)	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 1,469	$ 658	$ —	$ —	$ 2,127
Construction in progress	21,861	46,549	—	(24,288)	44,122
Total capital assets, not depreciated	23,330	47,207	—	(24,288)	46,249
Capital assets, depreciated:					
Buildings	139,034	—	607	2,158	140,585
Buildings and improvements	117,338	—	—	22,130	139,468
Equipment	3,264	179	438	—	3,005
Total capital assets, depreciated	259,636	179	1,045	24,288	283,058
Less accumulated depreciation:					
Buildings	87,947	2,297	607	—	89,637
Buildings and improvements	49,693	6,349	48	—	55,994
Equipment	2,405	211	410	—	2,206
Total accumulated depreciation	140,045	8,857	1,065	—	147,837
Total capital assets depreciated, net	119,591	(8,678)	(20)	24,288	135,221
Total capital assets, net	$ 142,921	$ 38,529	$ (20)	$ —	$ 181,470

Year Ended June 30, 2007 (In Thousands)	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 1,469	$ —	$ —	$ —	$ 1,469
Construction in progress	11,000	19,908	—	(9,047)	21,861
Total capital assets, not depreciated	12,469	19,908	—	(9,047)	23,330
Capital assets, depreciated:					
Buildings	139,034	—	—	—	139,034
Buildings and improvements	108,291	—	—	9,047	117,338
Equipment	3,523	146	405	—	3,264
Total capital assets, depreciated	250,848	146	405	9,047	259,636
Less accumulated depreciation:					
Buildings	85,506	2,441	—	—	87,947
Buildings and improvements	44,319	5,374	—	—	49,693
Equipment	2,493	228	316	—	2,405
Total accumulated depreciation	132,318	8,043	316	—	140,045
Total capital assets depreciated, net	118,530	(7,897)	88	9,047	119,591
Total capital assets, net	$ 130,999	$ 12,011	$ 89	$ —	$ 142,921

5. 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 2008 and 2007 follow.

Long-Term Obligations 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds payable	$ 119,440	$ 41,020	$ 1,945	$ 158,515	$ 2,945
Revenue bond premium/discount	1,419	(91)	52	1,276	—
Capital lease payable	7,878	—	267	7,611	291
Compensated absences	1,502	201	34	1,669	228
Totals	$ 130,239	$ 41,130	$ 2,298	$ 169,071	$ 3,464

Long-Term Obligations 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds payable	$ 78,245	$ 43,070	$ 1,875	$ 119,440	$ 1,945
Revenue bond premium/discount	1,877	(398)	60	1,419	—
Capital lease payable	8,135	—	257	7,878	267
Compensated absences	1,590	1,132	1,220	1,502	214
Totals	$ 89,847	$ 43,804	$ 3,412	$ 130,239	$ 2,426

Revenue Bonds Payable — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $200,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 3.25 to 6.5 percent.

Bond Discount and Premium — In fiscal year 2008 and 2007, bonds were issued resulting in discounts of $90,637 and $398,783, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds. Bond discounts and premiums are combined on the Statements of Net Assets.

Capital Leases — In November 2001, the Revenue Fund guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation. The Foundation used the proceeds to construct John Neumaier Hall Apartments. The Revenue Fund entered into an operating agreement with the Foundation.

In March of 2002, the Revenue Fund guaranteed the repayment of the Series 2002 revenue bonds issued by the Housing and Redevelopment Authority of the city of St. Cloud to the St. Cloud State University Foundation in the amount of $16,515,000. The bond proceeds were used to construct and equip a stadium, a fitness center and an addition to the Atwood Memorial Center. The Atwood Memorial Center was completed in the spring of 2004, at which time the Revenue Fund began repayment of $4,796,524 in bond debt attributed to the Atwood Memorial Center, as specified in the operating agreement.

Both agreements contain lease terms meeting the criteria of a capital lease, as defined by the Financial Accounting Standards Board Statement No. 13, *Accounting for Leases,* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The gross amount of the leased assets and related depreciation as of June 30, 2008 and 2007, was $8,842,267 and $8,848,814, and $1,733,201 and $1,358,519, respectively, and is included within buildings and improvements.

Compensated Absences — Revenue Fund employees accrue vacation leave, sick leave, 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 in cash only at the time of termination from state employment. There are no payment schedules for compensated absences.

Bond covenants require the Board to set fees and rates sufficient to cover debt service and debt service reserve requirements. Principal and interest payment schedules are provided in the following table for revenue bonds payable and capital leases.

Long-Term Debt Repayment Schedule
(In Thousands)

	Revenue Bonds Payable		Capital Leases	
Fiscal Years	Principal	Interest	Principal	Interest
2009	$ 2,945	$ 6,962	$ 291	$ 384
2010	6,125	7,064	308	372
2011	6,355	6,806	320	359
2012	6,620	6,535	333	346
2013	6,900	6,249	351	332
2014-2018	37,745	26,290	2,049	1,395
2019-2023	44,145	16,844	2,160	827
2024-2028	34,345	7,233	971	353
2029-2033	13,335	1,424	828	78
Total	$ 158,515	$ 85,407	$ 7,611	$ 4,446

6. ACCOUNTS PAYABLE AND PAYABLE FROM RESTRICTED ASSETS

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

Summary of Accounts Payable and
Payable From Restricted Assets at June 30
(In Thousands)

	2008	2007
Purchased services and other payables	$ 1,095	$ 1,065
Restricted purchased services payable	4,565	5,499
Supplies	527	536
Repairs and maintenance	2,251	2,719
Total	$ 8,438	$ 9,819

7. EMPLOYEE PENSION PLANS

The Revenue Fund participates in two retirement plans. The State Employees Retirement Fund, administered by the Minnesota State Retirement System and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan, administrative agent is Teachers Insurance and Annuity Association College Retirement Equities Fund.

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 Minnesota State Retirement System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103.

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 rate 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. The Revenue Fund, 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. For the period prior to July 1, 2007, the funding requirement for both employer and employee was 4 percent. For the period July 1, 2007 to June 30, 2008, the funding requirement is 4.25 percent for both employer and employee. The funding requirement for both employer and employee increase .25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. Actual contributions were 100 percent of required contributions.

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

<u>General Information</u> — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes two plans: an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). 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. 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)

<u>Participation</u> — 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. Contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Supplemental Retirement Plan (SRP)

Participation — Every 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 the eligible compensation up to a defined maximum annual contribution as specified in the following table.

Member Group	Eligible Compensation	Maximum Annual Contributions
Minnesota State University Association of Administrative and Service Faculty	$6,000 to 50,000	$ 2,200
Administrators	$6,000 to 52,000	$ 2,300
Middle Management Association Unclassified	$6,000 to 38,000	$ 1,600
Minnesota Association of Professional Employees Unclassified	$6,000 to 38,000	$ 1,600
Other Unclassified Members	$6,000 to 38,000	$ 1,600

The Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2008, 2007, and 2006 were equal to the required contributions for each year, which were $817,116, $741,745, and $574,845, respectively.

8. 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 manage 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 Risk Management Fund. Some campuses 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, campuses may select optional coverage such as internship liability, international accident, international liability, professional liability for employed physicians, and student health services professional liability. The Risk Management Fund also purchases these coverage's.

Risk Insurance Coverage available is:

Institution deductible	$2,500 to $250,000
Fund responsibility	deductible to $1,500,000
Primary reinsurer coverage	$1,500,001 to $12,000,000
Multiple reinsurer coverage	$12,000,001 to $1,000,000,000
Bodily injury and property damage per person	$400,000
Bodily injury and property damage per occurrence	$1,000,000
Annual maximum paid by fund, excess by reinsurer	$4,000,000
Maintenance deductible for additional claims	$25,000

The Revenue Fund retains the risk of loss and did not have any settlements in excess of coverage in the last three years.

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.

9. UNRESTRICTED NET ASSETS

Unrestricted assets are those assets having no constraints placed on their use by external creditors, grantors, contributors, laws, or regulations. Unrestricted net assets are either designated or undesignated. Designated net assets are not available for general operations. The Revenue Fund has placed constraints on the use of the resources. The Revenue Fund has designated net assets for the following:

Net Assets (In Thousands)	2008	2007
Maintenance and operations	$ 40,431	$ 37,221
Repairs and replacements	7,572	7,401
Total	$ 48,003	$ 44,622

10. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State Colleges and Universities. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were $5,102,917 and $5,040,851 for the years ended June 30, 2008 and 2007, respectively.

Within the accounts receivable balance, $2,581,578 and $2,513,931 is due from other funds as of June 30, 2008 and 2007, respectively, which is cash held in a local account outside of the Revenue Fund.

During 2002, the Revenue Fund leased a parcel of land to the Minnesota State University Moorhead Alumni Foundation to construct a student housing apartment building. The duration of the lease is for 30 years. In consideration of the lease agreement, the Foundation is to pay total lease payments of one dollar. The Revenue Fund has guaranteed the $3,940,000 Clay County note payable amount issued to the Foundation. See Note 5 for details.

In 2002, the Revenue Fund entered into an agreement with the St. Cloud State University Foundation to guarantee the repayment of revenue bonds in the amount of $4,796,524 issued to construct an addition to the Atwood Memorial Center, which would be maintained and operated by the University. See Note 5 for details.

11. COMMITMENTS

During fiscal year 2008, the Revenue Fund activities included commitments for the following projects:

- Minnesota State University, Mankato expended $28,862,000 to date for a new residence hall (Sears Hall). Total project cost is estimated at $31,800,000 with completion expected in September 2008.
- Minnesota State University, Moorhead expended $4,766,000 to date for a new Wellness Center. Total project cost is estimated at $9,500,000 with completion expected in April 2009.
- Southwest Minnesota State University expended $1,544,000 to date for a new residence hall. Total project cost is estimated at $14,357,000 with an expected completion date of July 2009.
- St. Cloud University expended $4,193,000 to date for construction of a new parking ramp. Total project cost is estimated at $5,283,000 with an expected completion date of December 2008.

SUPPLEMENTAL SECTION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON ANAUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCEWITH *GOVERNMENT AUDITING STANDARDS*

November 7, 2008

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

We have audited the financial statements of Minnesota State Colleges and Universities Revenue Fund (Revenue Fund) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 7, 2008. 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 the Revenue Fund'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 the Revenue Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Revenue Fund's internal control over financial reporting.

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 the Revenue Fund'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 the Revenue Fund's financial statements that is more than inconsequential will not be prevented or detected by the Revenue Fund's internal control.

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 the Revenue Fund's internal control.

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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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Revenue Fund'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of MnSCU's Revenue Fund in a separate letter dated November 7, 2008.

This report is intended for the information of the audit committee, 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, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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