REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2009 and 2008

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, 2009 and 2008

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 6, 2009

Chancellor James H. McCormick
Minnesota State Colleges and Universities
Wells Fargo Place
30 7th St. East, Ste. 350
St. Paul, Minnesota 55101-4812

Dear Chancellor 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, 2009 and 2008. 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. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report.

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 Minnesota legislature for management of the residence halls, student unions, dining services, and parking ramps at state colleges and universities and currently operates on ten campuses.

Net assets increased $9.4 million, an increase of 6.2 percent over fiscal year 2008 due both to rate and occupancy increases and aggressive cost controls. In June 2009, the Fund issued $35.8 million of revenue bonds increasing noncurrent bonds payable by $29.7 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 2009 with total net assets of $161.1 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 11,300 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

LMK

Laura M. King
Vice Chancellor-Chief Financial Officer

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 6, 2009

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, 2009 and 2008, 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 U.S. generally accepted auditing standards 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, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2009 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 U.S. generally accepted accounting principles. 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

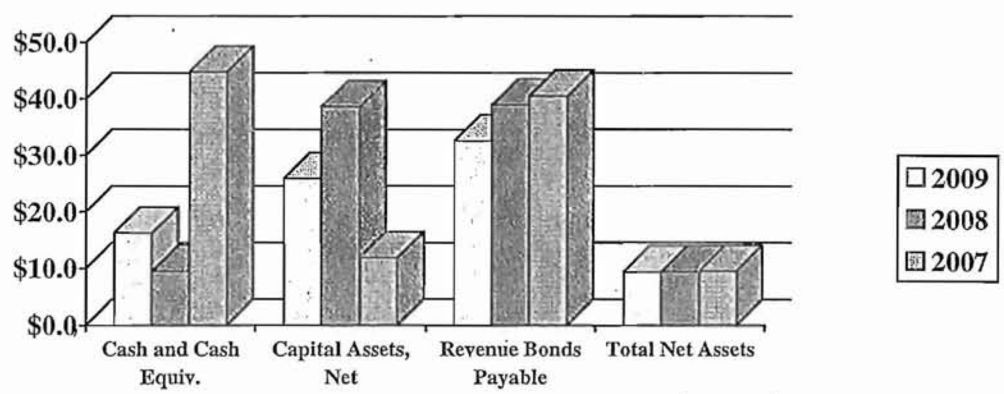
The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities, for the fiscal years ended June 30, 2009, 2008, and 2007. This discussion has been prepared by management and should be read in 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 was made 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 2009 with net assets increasing by $9.4 million totaling $161.1 million, a 6.2 percent increase over fiscal year 2008. This follows an increase of $9.4 million totaling $151.8 million, a 6.6 percent increase over fiscal year 2007. Cash and cash equivalents at year-end totaled $165.9 million, an increase of $16.3 million over fiscal year 2008 at year-end. Capital assets, net, excluding restricted construction in progress, increased $50.7 million due to the continuation of construction projects started in prior fiscal years. In June 2009, the Revenue Fund issued bonds totaling $35.8 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, 2009, 2008, and 2007 follows:

(In Thousands)	2009	2008	2007
Current assets	$ 62,038	$ 60,031	$ 63,652
Current restricted assets	107,741	94,519	91,991
Noncurrent restricted assets	15,256	40,038	14,955
Capital assets, net	192,177	141,521	128,061
Total assets	377,212	336,109	298,659
Current liabilities	20,912	18,751	28,508
Noncurrent liabilities	195,194	165,607	127,813
Total liabilities	216,106	184,358	156,321
Net assets	$ 161,106	$ 151,751	$ 142,338

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by $3.1 million to total $58.2 million at June 30, 2009.

Current restricted assets — consist of unspent bond proceeds, which increased $13.2 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 decreased $24.8 million, as construction on bond projects started in prior years were completed.

Capital assets, net — increased $50.7 million, representing the portion of bond projects completed and repairs and renovations of facilities within current operations.

Current liabilities — consist primarily of accounts payable, interest payable, and unearned revenue. Total accounts payable, including restricted accounts payable, decreased by $.2 million to total $8.2 million at June 30, 2009.

Noncurrent liabilities — At June 30, 2009 noncurrent liabilities consisted primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable increased by $29.7 million to total $185.3 million at June 30, 2009. Noncurrent capital leases totaled $7.0 million; $3.4 million related to the John Neumaier Hall Apartments at Minnesota State University Moorhead, and $3.6 million related to the Atwood Memorial Center renovation at St. Cloud State University.

Net assets — represent the residual interest in the Revenue Fund's assets after deducting liabilities. The Revenue Fund's net assets at June 30, 2009, 2008, and 2007 are summarized as follows:

(In Thousands)	2009	2008	2007
Invested in capital assets, net of related debt	$ 87,118	$ 87,066	$ 85,557
Restricted	22,435	16,682	12,159
Unrestricted	51,553	48,003	44,622
Total net assets	$ 161,106	$ 151,751	$ 142,338

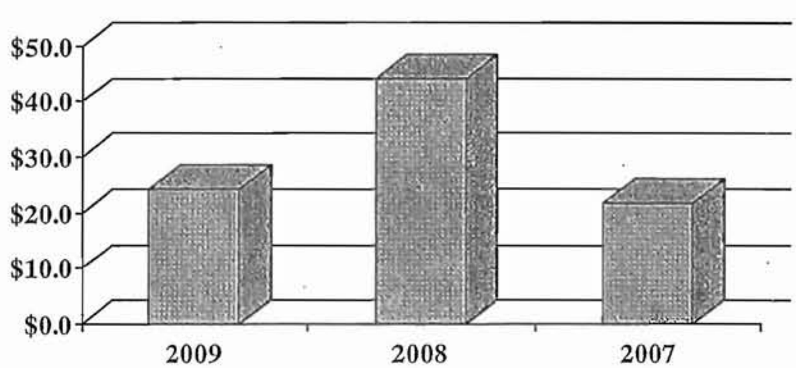
Invested in capital assets, net of related debt — represents the Revenue Fund's capital assets, net of both accumulated depreciation and the Revenue Fund's outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted — represents assets that have constraints placed on their use by external creditors, grantors, contributors, laws, or regulations. Restricted net assets consist primarily of net assets restricted for capital projects, debt service on bonds, and restrictions imposed by bond covenants.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of residential life at the seven state universities is the development and renewal of their physical assets used to provide housing, dining, and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress (CIP) decreased in fiscal year 2009 as a result of construction projects that were started in previous fiscal years were completed. These completed construction projects were for major repair and replacement projects financed through fiscal year 2005 and 2007 bond proceeds and operating revenues. See comments in the section titled "Economic Factors That Will Affect the Future."

Construction in Progress (In Millions)



Capital outlays, including $35.8 million in expenditures for construction in progress, totaled $35.9 million in fiscal year 2009, compared to $47.4 million in fiscal year 2008. Capital expenses are primarily composed of replacement and renovation of dormitories, student unions, dining facilities, wellness centers, and parking facilities At June 30, 2009, the noncurrent portion of revenue bonds payable totaled $185.3 million, with $6.1 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 $55.7 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, 2009, 2008, and 2007 follows:

(In Thousands)

	2009	2008	2007
Operating revenue:			
Room and board	$ 69,837	$ 64,578	$ 59,817
Fees	15,921	12,415	11,115
Sales and services	5,591	4,742	4,597
Other	2,432	1,884	1,327
Total operating revenue	93,781	83,619	76,856
Nonoperating revenue and other gains:			
Interest and other nonoperating revenue	2,575	5,265	6,217
Total revenues	96,356	88,884	83,073
Operating expense:			
Salaries and benefits	23,819	21,191	19,173
Supplies and services	39,014	37,030	34,033
Repairs and maintenance	2,512	3,350	4,510
Depreciation and amortization	10,043	8,857	8,043
Other	4,522	3,595	3,062
Total operating expenses	79,910	74,023	68,821
Nonoperating expense:			
Interest and other nonoperating expense	7,091	5,448	4,741
Total expenses	87,001	79,471	73,562
Increase in net assets	9,355	9,413	9,511
Net assets, beginning of year	151,751	142,338	132,827
Net assets, end of year	$ 161,106	$ 151,751	$ 142,338

The $5.3 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 $2.7 million due to a decrease in interest income in fiscal year 2009 compared to fiscal year 2008.

INVESTMENTS

The fiscal year 2009 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 fiscal year 2009 sale, 2008 sale and 2007 sale proceeds along with the related debt service reserve and debt service accounts. The remaining proceeds of the fiscal year 2005 sale of $2.7 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 interest.

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 Revenue Fund continue to use 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 $300,000,000 from the state legislature in the coming 2010 session. The current authority is $200,000,000 with $191,380,000 in bonding debt outstanding. The Revenue Fund is tentatively planning a bond sale in January 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2009 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

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	$ 58,191	$ 55,118
Accounts receivable, net	3,847	3,700
Securities lending collateral	-	1,213
Total current assets	62,038	60,031
Current Restricted Assets		
Cash and cash equivalents	107,741	94,519
Total current restricted assets	107,741	94,519
Noncurrent Restricted Assets		
Other restricted assets	82	89
Construction in progress	15,174	39,949
Total noncurrent restricted assets	15,256	40,038
Total restricted assets	122,997	134,557
Noncurrent Assets		
Capital assets, net	192,177	141,521
Total noncurrent assets	192,177	141,521
Total Assets	377,212	336,109
Liabilities		
Current Liabilities		
Salaries payable	1,048	1,055
Accounts payable	3,910	3,873
Unearned revenue	2,905	2,849
Payable from restricted assets	4,325	4,565
Interest payable	2,044	1,732
Current portion of long-term debt	6,433	3,236
Compensated absences payable	247	228
Securities lending collateral	-	1,213
Total current liabilities	20,912	18,751
Noncurrent Liabilities		
Noncurrent portion of long-term debt	193,521	164,166
Compensated absences payable	1,673	1,441
Total noncurrent liabilities	195,194	165,607
Total Liabilities	216,106	184,358
Net Assets		
Invested in capital assets, net of related debt	87,118	87,066
Restricted expendable	22,435	16,682
Unrestricted	51,553	48,003
Total Net Assets	$ 161,106	$ 151,751

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, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Operating Revenues		
Room and board	$ 69,837	$ 64,578
Fees	15,921	12,415
Sales and services	5,591	4,742
Other income	2,432	1,884
Total operating revenues	93,781	83,619
Operating Expenses		
Salaries	23,819	21,191
Food service	22,113	20,244
Other purchased services	12,430	12,983
Supplies	4,471	3,803
Repairs and maintenance	2,512	3,350
Depreciation	10,043	8,857
Other expense	4,522	3,595
Total operating expenses	79,910	74,023
Operating income	13,871	9,596
Nonoperating Revenues (Expenses)		
Interest income	2,467	5,265
Interest expense	(7,091)	(5,374)
Total nonoperating revenue (expenses)	(4,624)	(109)
Income Before Other Revenues, Expenses, Gains, or Losses	9,247	9,487
Capital grants	100	-
Gain (Loss) on disposal of capital assets	8	(74)
Change in net assets	9,355	9,413
Total Net Assets, Beginning of Year	151,751	142,338
Total Net Assets, End of Year	$ 161,106	$ 151,751

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, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	$ 93,584	$ 86,693
Cash paid to suppliers for goods or services	(47,405)	(44,122)
Cash payments to employees	(23,574)	(20,738)
Net cash flows from operating activities	22,605	21,833
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(35,354)	(50,147)
Capital grants	100	-
Proceeds from sale of capital assets	-	(49)
Insurance proceeds	36	-
Proceeds from borrowing	35,810	41,020
Proceeds from bond premium	34	-
Bond discount paid	-	(91)
Interest paid	(6,779)	(5,256)
Repayment of lease principal	(291)	(267)
Repayment of bond principal	(2,945)	(1,945)
Net cash flows (used in) from capital and related financing activities	(9,389)	(16,735)
Cash Flows from Investing Activities		
Investment earnings	3,079	4,444
Net cash flows from investing activities	3,079	4,444
Net Increase in Cash and Cash Equivalents	16,295	9,542
Cash and Cash Equivalents, Beginning of Year	149,637	140,095
Cash and Cash Equivalents, End of Year	$ 165,932	$ 149,637

	2009	2008
Operating Income	$ 13,871	$ 9,596
Adjustment to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation	10,043	8,857
Change in assets and liabilities		
Accounts receivable	(344)	2,869
Accounts payable	(1,263)	(21)
Salaries payable	(7)	286
Compensated absences payable	251	167
Unearned revenue	56	117
Other	(2)	(38)
Net reconciling items to be added to operating income	8,734	12,237
Net cash flows from operating activities	$ 22,605	$ 21,833

	2009	2008
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 5,427	$ 4,838
Loss on retirement of capital assets	(28)	(25)
Investment earnings on account	690	1,360
Amortization of bond premium	89	78
Amortization of bond discount	(33)	(26)

The notes are an integral part of the financial statements.

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 and June 18, 2009, additional revenue bonds were issued totaling $41,020,000 and $35,810,000, respectively. 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, 2009 and 2008, the cash balance represents cash and cash equivalents in the state treasury and at US Bank, N.A. (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	3-20 years

Equipment includes all items with an original cost of $10,000 and over for items purchased since July 1, 2008, $5,000 and over for items purchased between July 1, 2003 and June 30, 2008, and $2,000 and over for items purchased prior to July 1, 2003. Buildings and building improvements include all projects with a cost of $250,000 and over for projects started since July 1, 2008, and $100,000 and over for projects started prior to July 1, 2008. All land purchases are capitalized regardless of amount spent.

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

Bonds Payable (In Thousands)

		2009	2008	2007	Maturity Date
Series 2002A	4.8398 %	$ 18,620	$ 19,535	$ 20,410	October 1, 2022
Series 2002B	6.4557 %	10,415	10,865	11,285	October 1, 2022
Series 2005A	4.9233 %	40,035	41,210	41,570	October 1, 2032
Series 2005B	5.0000 %	2,515	2,815	3,105	October 1, 2015
Series 2007A	4.1566 %	33,770	33,770	33,770	October 1, 2026
Series 2007B	4.2670 %	5,980	5,980	5,980	October 1, 2019
Series 2007C	5.6409 %	3,215	3,320	3,320	October 1, 2026
Series 2008A	4.5338 %	39,885	39,885	—	October 1, 2028
Series 2008B	5.1057 %	1,135	1,135	—	October 1, 2018
Series 2009A	4.2106%	31,770	—	—	October 1, 2029
Series 2009B	4.3682%	4,040	—	—	October 1, 2019
	Total	$ 191,380	$ 158,515	$ 119,440	

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 17.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $287,330,847. Revenue bond principal and interest paid for the current fiscal year was $9,907,130 and total customer net revenues were $93,781,000.

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 $2,299,438 and $1,918,662 for fiscal years ended June 30, 2009 and 2008, 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 $91,088 and $88,686 for fiscal years ended June 30, 2009 and 2008, 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 purposes 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.

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 June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires, when governments invest in derivative instruments, that they be reported at fair market value. This statement is effective for Minnesota Colleges and Universities for the year ending June 30, 2010. The effect GASB Statement No. 53 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 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	2009	2008
Cash, treasury account	$ 82,681	$ 73,994
Cash, trustee account (US Bank)	83,251	75,643
Total	$ 165,932	$ 149,637

The Revenue Fund's treasury account balance was $82,680,393 and $73,994,147 at June 30, 2009 and 2008, respectively. Restricted cash of $107,740,570 and $94,518,027 as of June 30, 2009 and 2008, 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, 2009 and June 30, 2008, 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.

At June 30, 2009 and June 30, 2008 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 fiscal years 2009 and 2008, 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 2009 or 2008. In addition, there were no losses during fiscal years 2009 or 2008 resulting from default of the borrowers, State Street or Wells Fargo.

During fiscal years 2009 and 2008, 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, 2009 and 2008, 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 securities lending activity for Wells Fargo ceased in May 2009. Therefore, at June 30, 2009 there were no collateral balances or unsettled trades.

The following tables provide information related to the securities invested by Wells Fargo and State Street as of June 30, 2009 and 2008, respectively.

Securities Lending Analysis, June 30, 2009
(In Thousands)

	State Street
Fair value of securities on loan	$6,587,602
Collateral held	$6,829,949
Average duration	37 days
Average weighted maturity	201 days

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

	State Street	Wells Fargo
Fair value of securities on loan	$6,551,076	$101,584
Collateral held	$6,775,914	$102,968
Average duration	37 days	113 days
Average weighted maturity	393 days	114 days

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)

	2009	2008
Room and board	$ 4,535	$ 4,109
Fees	623	536
Sales and service	272	263
Interest	—	244
Other income	57	70
Total accounts receivable	5,487	5,222
Allowance for uncollectible	(1,640)	(1,522)
Total	$ 3,847	$ 3,700

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

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

4. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2009 and 2008 follow.

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 2,127	$ —	$ —	$ —	$ 2,127
Construction in progress	44,122	35,821	—	(55,668)	24,275
Total capital assets, not depreciated	46,249	35,821	—	(55,668)	26,402
Capital assets, depreciated:					
Buildings	140,585	—	—	48,867	189,452
Building improvements	139,468	—	—	6,801	146,269
Equipment	3,005	120	406	—	2,719
Total capital assets, depreciated	283,058	120	406	55,668	338,440
Less accumulated depreciation:					
Buildings	89,637	3,226	9	—	92,854
Building improvements	55,994	6,613	—	—	62,607
Equipment	2,206	204	380	—	2,030
Total accumulated depreciation	147,837	10,043	389	—	157,491
Total capital assets depreciated, net	135,221	(9,923)	17	55,668	180,949
Total capital assets, net	$ 181,470	$ 25,898	$ 17	$ —	$ 207,351

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
Building 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
Building 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

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 2009 and 2008 follow.

Long-Term Obligations 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds payable	$ 158,515	$ 35,810	$ 2,945	$ 191,380	$ 6,125
Revenue bond premium/discount	1,276	34	56	1,254	—
Capital lease payable	7,611	—	291	7,320	308
Compensated absences	1,669	290	39	1,920	247
Totals	$ 169,071	$ 36,134	$ 3,331	$ 201,874	$ 6,680

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

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 2.0 to 6.5 percent.

Bond Discount and Premium — In fiscal year 2009 bonds were issued resulting in premiums of $34,288. In 2008, bonds were issued resulting in discounts of $90,637. 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 was $8,842,267 and related depreciation as of June 30, 2009 and 2008, was $2,106,125 and $1,733,201, 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
2010	$ 6,125	$ 8,161	$ 308	$ 372
2011	7,080	8,193	320	359
2012	7,795	7,903	333	346
2013	8,545	7,583	351	332
2014	8,875	7,236	369	317
2015-2019	48,105	30,087	2,157	1,295
2020-2024	51,835	18,471	1,858	700
2025-2029	42,195	7,386	1,024	301
2030-2034	10,825	931	600	40
Total	$ 191,380	$ 95,951	$ 7,320	$ 4,062

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)

	2009	2008
Repairs and maintenance	$ 2,313	$ 2,251
Supplies	611	527
Arbitrage	529	—
Purchased services and other payables	457	1,095
Subtotal	3,910	3,873
Restricted purchased services payables	4,325	4,565
Total	$ 8,235	$ 8,438

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. Beginning July 1, 2007 the funding requirement for both employer and employee increases 0.25 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

General Information — 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)

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. 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	$2,700
Middle Management Association Unclassified	$6,000 to $40,000	$1,700
Minnesota Association of Professional Employees Unclassified	$6,000 to $40,000	$1,700
Other Unclassified Members	$6,000 to $40,000	$1,700

The Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2009, 2008, and 2007 were equal to the required contributions for each year, which were $922,135, $817,116, and $741,745, 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 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 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.

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2009 and 2008.

Institution deductible	$2,500 to $250,000
Fund responsibility	Deductible to $1,000,000
Primary reinsurer coverage	$1,000,001 to $25,000,000
Multiple reinsurer coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$400,000
Bodily injury and property damage per occurrence	$1,200,000
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)	2009	2008
Maintenance and operations	$ 45,793	$ 40,431
Repairs and replacements	5,760	7,572
Total	$ 51,553	$ 48,003

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 $5,592,737 and $5,102,917 for the years ended June 30, 2009 and 2008, respectively.

Within the accounts receivable balance, $2,770,927 and $2,581,578 is due from other funds as of June 30, 2009 and 2008, respectively, which is primarily 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 2009, the Revenue Fund activities included commitments for the following projects:

- Minnesota State University, Mankato expended $238,000 to date for a new Outdoor Recreation Renovation Project. Total project cost is estimated at $6,700,000 with completion expected in August 2010.
- Minnesota State University Moorhead expended $8,534,000 to date for a new Wellness Center. Total project cost is estimated at $9,500,000 with completion expected in April 2010.
- Winona State University expended $4,524,000 to date for a new Residence Hall. Total project cost is estimated at $29,600,000 with completion expected in August 2010.
- Winona State University expended $748,000 to date for a new Wellness Center. Total project cost is estimated at $7,091,000 with completion expected in August 2010.
- Century College expended $1,017,000 to date for a parking lot renovation. Total project cost is estimated at $4,075,000 with completion expected in November 2009.
- Normandale Community College expended $3,000 to date for a new Student Union. Total project cost is estimated at $14,500,000 with completion expected in March 2011.

SUPPLEMENTAL SECTION

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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 6, 2009

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, 2009, and have issued our report thereon dated November 6, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 6, 2009.

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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