MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED June 30, 2009 and 2008

Prepared by:

Office of the Chancellor
Minnesota State Colleges and Universities
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FOR THE YEARS ENDED JUNE 30, 2009 and 2008

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INTRODUCTION

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 6. 2009

Members of the Board of Trustees
Chancellor James H. McCormick

I am pleased to submit to you the audited financial report for the Minnesota State Colleges and Universities system for the fiscal years ended June 30, 2009 and 2008. The consolidated financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the consolidated financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the consolidated financial statements, which were audited by the firm of Kern, DeWenter, Viere, Ltd., you will find the statements of net assets, the statements of revenue, expense, and changes in net assets and the statements of cash flows.

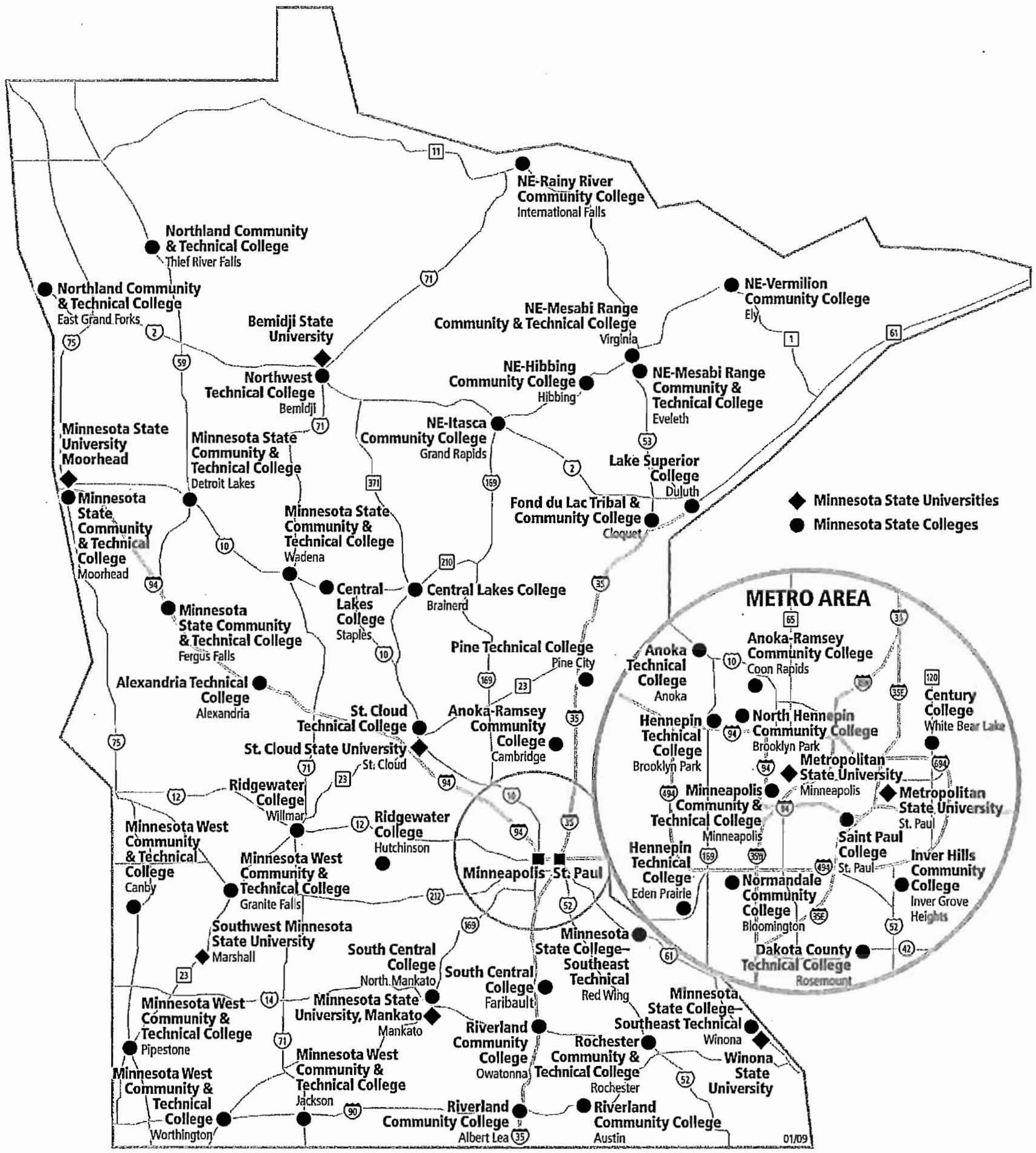
We are also providing separately audited financial statements for the Revenue Fund, all state universities and five of our two year colleges. The completion of separately audited financial statements for twelve of the thirty-two colleges and universities places 63 percent of the revenues of the Minnesota State Colleges and Universities system under separate stand alone audits. It is worth noting that the system wide audit opinion, the Revenue Fund opinion and the opinions for the twelve separate audits are each without qualification, a testimony to the efforts of each and every employee with responsibility for financial information at the fifty-three campuses and in the Office of the Chancellor.

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

Sincerely,

Laura M. King
Vice Chancellor – Chief Financial Officer

Minnesota State Colleges & Universities



TWO-YEAR COLLEGES

Alexandria Technical College
Anoka-Ramsey Community College
Anoka Technical College
Central Lakes College
Century College
Dakota County Technical College
Fond du Lac Tribal & Community College
Hennepin Technical College
Hibbing Community College*
Inver Hills Community College
Itasca Community College*
Lake Superior College
Mesabi Range Community & Technical College*
Minneapolis Community & Technical College
Minnesota State College – Southeast Technical
Minnesota State Community & Technical College
Minnesota West Community & Technical College
Normandale Community College
North Hennepin Community College
Northland Community & Technical College
Northwest Technical College**
Pine Technical College
Rainy River Community College*
Ridgewater College
Riverland Community College
Rochester Community and Technical College
St. Cloud Technical College
Saint Paul College
South Central College
Vermilion Community College*

STATE UNIVERSITIES

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

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

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

Minnesota State Colleges and Universities

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

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

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

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

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

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

DAKOTA COUNTY TECHNICAL COLLEGE
Rosemount
Ronald E. Thomas, President
1-877-937-3282
www.dctc.edu

FOND DU LAC TRIBAL & COMMUNITY COLLEGE
Cloquet
Larry Anderson, President
1-800-657-3712
www.fdltcc.edu

HENNEPIN TECHNICAL COLLEGE
Brooklyn Park, Eden Prairie
Cecilia Cervantes, President
1-800-345-4655
www.hennepintech.edu

HIBBING COMMUNITY COLLEGE*
Hibbing
Sue Collins, President
1-800-224-4422
ww.hibbing.edu

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

ITASCA COMMUNITY COLLEGE*
Grand Rapids
Sue Collins, President
1-800-996-6422
www.itascacc.edu

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

MESABI RANGE COMMUNITY & TECHNICAL COLLEGE*
Eveleth, Virginia
Sue Collins, President
1-800-657-3860
www.mesabirange.edu

METROPOLITAN STATE UNIVERSITY
St. Paul, Minneapolis
Sue Hammersmith, President
(651) 793-1300
www.metrostate.edu

MINNEAPOLIS COMMUNITY & TECHNICAL COLLEGE
Minneapolis
Phil Davis, President
1-800-247-0911
www.minneapolis.edu

MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL
Red Wing, Winona
James Johnson, President
1-877-853-8324
www.southeastmn.edu

MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
Detroit Lakes, Fergus Falls, Moorhead, Wadena
Ann Valentine, President
1-888-696-7282
www.minnesota.edu

MINNESOTA STATE UNIVERSITY, MANKATO
Mankato
Richard Davenport, President
1-800-722-0544
www.mnsu.edu

MINNESOTA STATE UNIVERSITY MOORHEAD
Moorhead
Edna Szymanski, President
1-800-593-7246
www.go.mnstate.edu

MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
Richard Shrubb, President
1-800-658-2330
www.mnwest.edu

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

NORTH HENNEPIN COMMUNITY COLLEGE
Brooklyn Park
Ann Wynia, President
1-800-818-0395
www.nhcc.edu

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

NORTHWEST TECHNICAL COLLEGE**
Bemidji
Jon Quistgaard, President
1-800-942-8324
www.ntcmn.edu

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

RAINY RIVER COMMUNITY COLLEGE*
International Falls
Sue Collins, President
1-800-456-3996
www.rrcc.mnscu.edu

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

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

ROCHESTER COMMUNITY AND TECHNICAL COLLEGE
Rochester
Don Supalla, President
1-800-247-1296
www.rctc.edu

ST. CLOUD STATE UNIVERSITY
St. Cloud
Earl Potter, President
1-877-654-7278
www.stcloudstate.edu

ST. CLOUD TECHNICAL COLLEGE
St. Cloud
Joyce Helens, President
1-800-222-1009
www.sctc.edu

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

SOUTH CENTRAL COLLEGE
Faribault, Mankato
Keith Stover, President
1-800-722-9359
www.explore.southcentral.edu

SOUTHWEST MINNESOTA STATE UNIVERSITY
Marshall
David Danahar, President
1-800-642-0684
www.smsu.edu

VERMILION COMMUNITY COLLEGE*
Ely
Sue Collins, President
1-800-657-3608
www.vcc.edu

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

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

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

FINANCIAL SECTION

KDV

Expert advice. When you need it.℠

INDEPENDENT AUDITOR'S REPORT

November 6, 2009

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

We have audited the accompanying consolidated financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Minnesota State Colleges and Universities (MnSCU) as of and for the year ended June 30, 2009 and 2008, which collectively comprise MnSCU's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of MnSCU. Our responsibility is to express opinions on these financial statements based on our audits.

We did not audit the financial statements of St. Cloud State University, Minnesota State Community and Technical College, Bemidji State University, Century College, Metropolitan State University, Southwest Minnesota State University, Rochester Community and Technical College and Minneapolis Community and Technical College (collectively, the "Individual Colleges and Universities"), which represent 34% of the consolidated assets and 35% of the consolidated revenues of MnSCU for fiscal year 2009. For fiscal year 2008, we did not audit the financial statements of St. Cloud State University, Minnesota State Community and Technical College, Bemidji State University, Century College, Metropolitan State University, Hennepin Technical College and Minneapolis Community and Technical College, which represent 28% of the consolidated assets and 32% of the consolidated revenues of MnSCU. These financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Individual Colleges and Universities, is based solely on the report of the other auditors. We also did not audit the financial statements of Southwest Minnesota State University Foundation, Winona State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Bemidji State University Foundation, Minnesota State University Moorhead Alumni Foundation, Inc., Century College Foundation, Fergus Area College Foundation and St. Cloud State University Foundation, which cumulatively represent 100% of the total assets and 100% of the revenues of the total discretely presented component units. Those statements were also audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is also based solely on the report of the other auditors.

We conducted our audits in accordance with 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. The financial statements of the aforementioned Foundations were not audited in accordance with *Government Auditing Standards*. 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 opinions.

KDV

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Minnesota State Colleges and Universities, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The financial statements include summarized prior year comparative information for the discretely presented component units of MnSCU, which were audited entirely by other auditors and referenced in our report dated November 7, 2008. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with MnSCU's financial statements for the year ended June 30, 2008, from which such summarized information was derived.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 6, 2009 on our consideration of MnSCU's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

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

The accompanying Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplemental information required by 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 supplemental information. However, we did not audit the information and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

INTRODUCTION

The following discussion and analysis provide an overview of the consolidated financial position and activities of the Minnesota State Colleges and Universities system (the System) for the fiscal years ended June 30, 2009, 2008, and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

The Minnesota State Colleges and Universities system, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 32 state universities, technical, community and consolidated colleges. Offering more than 3,800 educational programs, the System serves approximately 250,000 students annually in credit based courses, as measured by unduplicated headcount enrollment. An additional 140,000 students enroll in non-credit courses each year through the System's continuing education and customized training services. The System employs about 19,700 full time and part time faculty and staff.

FINANCIAL HIGHLIGHTS

The System's financial position improved during fiscal year 2009 with net assets increasing by $106.8 million, or 7.4 percent, on total revenues of $1.85 billion. This follows a $119.9 million, or 9.1 percent increase during fiscal year 2008 on total revenues of $1.8 billion. The System's unrestricted net assets increased by $3.1 million, or 1.2 percent and $21.6 million, or 9.5 percent, in fiscal years 2009 and 2008, respectively.

- Income (Loss) before other revenues, expenses, gains or losses, described further below as the System's net operating revenue, was a loss of ($9.3) million in fiscal year 2009. This compares to income of $8.4 million and $7.1 million in fiscal years 2008 and 2007, respectively.

- The state appropriation and tuition charged to students are the System's two largest revenue sources. The state appropriation decreased by ($3.5) million, or (0.5) percent in fiscal year 2009 after increasing 10.6 percent in fiscal year 2008 and 0.2 percent in fiscal year 2007. The fiscal year 2009 appropriation includes a $20 million unallotment resulting from lower than expected state revenue. Gross tuition revenue increased $39.3 million or 6.0 percent, $45.6 million or 7.4 percent and $50.7 million or 9.0 percent in fiscal years 2009, 2008 and 2007, respectively. Tuition rate increases averaged 2.2 percent, 3.6 percent and 7.2 percent in fiscal years 2009, 2008, and 2007, respectively.

- Total debt supporting the System's capital asset investment programs increased in fiscal year 2009 by approximately $48.2 million to a total of $459.7 million, an 11.7 percent increase. This increase was split evenly between general obligation bonds and revenue bonds.

- Salaries and benefits, the largest cost category in the System, increased by $65.3 million, or 5.6 percent, and $88.0 million, or 8.2 percent, in fiscal years 2009 and 2008, respectively. This cost constitutes 71.3 percent of the System's fiscal year 2009 total operating expenses, compared to 70.3 percent for fiscal year 2008.

- The number of students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2009, 2008 and 2007 totaled 143,924, 139,885 and 135,839, respectively.

USING THE FINANCIAL STATEMENTS

This annual financial report includes five financial statements: the consolidated statements of net assets, the consolidated statements of revenues, expenses and changes in net assets, the consolidated statements of cash flows, the statements of net assets held for pension benefits, and the statements of changes in net assets held for pension benefits (the last two statements relate to the System's defined contribution retirement plan.) These five financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

FINANCIAL PERFORMANCE

The letter-based credit rating designations in the table below are defined and used by Moody's Investors Services. All ratings denote creditworthiness relative to other US municipal or tax-exempt issuers or issues. The relative credit worthiness is: Aaa = strongest, Aa = very strong, A = above average and Baa = average. The FY 2008 values in the Financial Performance Measure Values table below are taken from *Moody's Fiscal Year 2008 Public College and University Medians* report and as such represent median values for 191 public colleges and universities rated (in whole or in part) within Moody's public college and university portfolio. Fiscal year 2009 financial data is not available as yet. Rated components range from large state higher education systems to small public colleges and universities. Ratings may also be for a segment of a system or institution such as the Revenue Fund of the Minnesota State Colleges and University system, which is included within the "Aa3" rating below.

Calculations in the table below have been made by the System using four specific Moody's median financial ratio values for each rating category and the population as a whole. These four financial ratios were then used in computing weighted strength factors and a composite index value consistent with the Composite Financial Index (CFI) methodology described below. The primary reserve and viability ratios are measures of financial condition based on expendable net assets found on the Statement of Net Assets with each weighted 35 percent in the composite calculation. The net operating revenues and return on net assets ratios are measures of financial performance based on results contained within the statements of revenues, expenses, and changes in net assets and are weighted 10 percent and 20 percent, respectively.

Unlike Moody's extensive analysis of many financial and non-financial factors to determine a credit rating, the CFI calculation uses only the four financial ratios and assigns a specific weighting to each factor in computing a measure of relative financial health. The Composite Financial Index (CFI) methodology used to compute the weighted values in the table below is taken from the *Strategic Financial Analysis for Higher Education* (Sixth Addition), jointly developed and sponsored by the firms of Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc. This CFI calculation methodology is also used by the Higher Learning Commission and has been used internally by the System for a number of years. Without detailing the actual calculation methodology, financial ratio values are converted into strength factors which in turn are weighted to allow summing of the four components into a single, composite value.

The table below displays financial ratios as converted into weighted strength factor values, and sums these weighted values into a single composite score. Institutions may have differing values across the four factors but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the composite scores, *Strategic Financial Analysis for Higher Education* suggests a composite value of 1.0 is equivalent to very little financial health, in the for-profit world it could perhaps be viewed as a "going-concern" threshold value, while a composite value of 3.0 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3.0 represent increasingly stronger financial health.

The comparisons below between the System's and Revenue Fund's weighted values and composite value, and those of the various rating categories extracted from the Moody's median report, should only be used as an approximate indicator of the System's financial health relative to the financial health of other public colleges and universities.

The System's individual colleges and universities would show a similar range of composite values.

Financial Performance Measure Values										
Financial Performance Measure	FY09 System* & Revenue Fund		Moody's 2008 Public College/University Medians - Converted to Weighted Values and Composite Statutory Income (CFI)							
	System *	Revenue Fund	All	Aaa/ Aa1	Aa2	Aa3	A1	A2	A3	Baa
Primary Reserve	0.55	2.24	1.18	2.61	1.42	1.26	1.39	1.08	0.82	0.53
Viability	0.62	0.31	0.84	1.85	1.43	1.01	0.76	0.50	0.34	0.25
Net Operating Revenue	(0.10)	1.00	0.26	0.60	0.43	0.41	0.20	0.10	0.23	(0.10)
Return on Net Assets	0.55	0.62	0.40	0.32	0.32	0.41	0.40	0.42	0.54	(0.20)
CFI	1.62	4.17	2.68	5.37	3.60	3.09	2.75	2.10	1.92	0.48
	- The shaded cells link System values to the closest value(s) within a credit rating category									
* Consistent with Moody's underlying ratios the System's individual and composite (CFI) values include component units as reported in this report; component units reduced CFI from 1.87 to 1.62 due primarily to the foundations' collective realized and unrealized losses on investments. See the Combining Minnesota State Colleges' and Universities' Foundations Statements of Activities.										

The comparisons in the table above using the four underlying financial ratio values and CFI calculation methodology place the System's composite value just below the median composite value for "A3" rated institutions while placing the System's Revenue Fund composite value between the median values for "Aa1" and "Aa2" rated institutions.

Additional discussion of the individual performance measures with comparative data is presented further below in the form of the actual financial ratio value. The primary reserve and viability ratios measure relative financial condition based on expendable net assets reported within the statements of net assets. The net operating revenue and return on net assets ratios measure the strength of financial operations based on results within the statements of revenues, expenses, and changes in net assets.

CONSOLIDATED STATEMENTS OF NET ASSETS

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

Condensed statements of net assets for fiscal years 2009, 2008, and 2007 follow (in thousands):

ASSETS, LIABILITIES AND NET ASSETS

	2009	2008	2007
Current assets	$ 692,514	$ 684,197	$ 671,750
Current restricted assets	138,846	115,387	107,561
Noncurrent restricted assets	15,256	40,038	14,955
Noncurrent assets	28,092	26,814	25,384
Capital assets, net	1,546,273	1,388,698	1,259,484
Total assets	2,420,981	2,255,134	2,079,134
Current liabilities	277,557	272,835	291,644
Noncurrent liabilities	599,299	545,020	470,158
Total liabilities	876,856	817,855	761,802
Invested in capital assets, net of related debt	1,181,908	1,089,660	998,935
Restricted	110,311	98,788	91,190
Unrestricted	251,906	248,831	227,207
Total Net assets	$ 1,544,125	$ 1,437,279	$ 1,317,332

The primary component of current assets is cash and cash equivalents (unrestricted), which decreased by $10.2 million to a total of $545 million at June 30, 2009. This decrease was due to an operating appropriation receivable of $20 million from the state as of June 30, 2009; there was no comparable receivable at June 30, 2008. This $545 million of cash and cash equivalents plus investments of $27.3 million represent approximately 4.2 months of fiscal year 2009 operating expenses (excluding depreciation), a decrease of 0.3 months from fiscal year 2008. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the System's revenues.

Current liabilities consist primarily of salaries, accounts payable and the current portion of long-term debt. Salaries payable at June 30, 2009 increased from the prior year by 4.5 percent or $5.2 million to a total of $121.1million. This increase is primarily due to an additional workday in the accrual. Accounts payable, including payables from restricted assets, decreased $2.4 million due to normal timing differences. Consistent with prior years, the salaries payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 - August 31 year. The current portion of long-term debt increased $5.8 million to $26.1 million at June 30, 2009 due to increases over the past few years in both general obligation and revenue bonds.

The increase in noncurrent liabilities was primarily due to a $42.4 million increase in the non-current portion of outstanding long-term debt to $433.6 million at June 30, 2009. The June 30, 2009 balance for other compensation benefits liability increased $11.6 million to $134.9 million. This noncurrent liability consists primarily of $118.8 million for compensated absences, vacation and sick leave balances earned by employees, as well as other benefits.

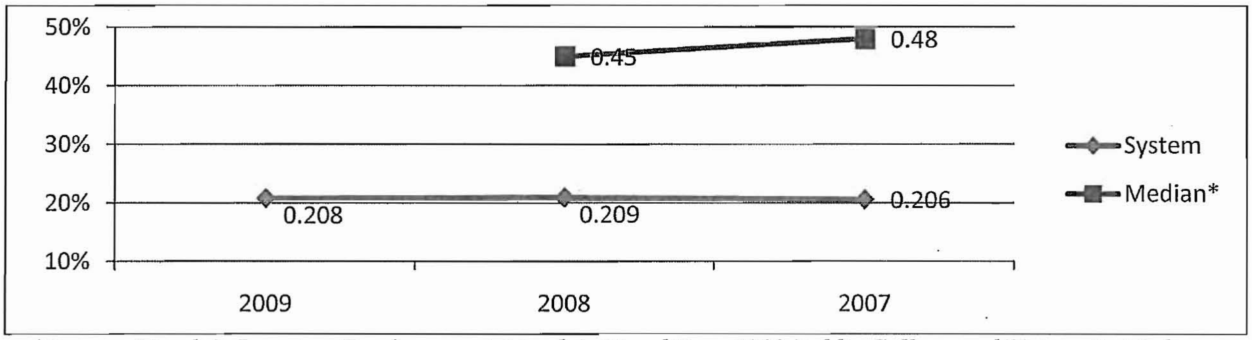
Net Assets represent the System's residual interest in total assets after deducting liabilities. Investment in capital assets, net of related debt, represents by far the largest portion of net assets. Capital assets are carried at historical cost, not replacement cost. Restricted net assets have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for capital projects of $22.4 million, and debt service on bonds and restrictions imposed by bond covenants of $73.9 million, a $5.8 million increase from fiscal year 2008 primarily due to additional revenue bonds issued in fiscal years 2009 and 2008.

The primary reserve ratio below is a measure of resource sufficiency and flexibility. It represents the percentage of total annual operating expenses that could be financed using only the balance of restricted and unrestricted net assets in the net asset table above, a balance called expendable net assets. The System's 2009 ratio of 0.208 represents 2.5

months of operating expense coverage and is unchanged from fiscal year 2008; a Moody's median value of 0.45 for fiscal year 2008 represents 5.4 months of operating expense coverage.

The primary reserve represents the assets that would be used to sustain operations after unforeseen events having negative financial consequences, or that would allow the System's colleges and universities to invest in new initiatives that add programs, aid underserved students, increase the number of graduates with critical skills, and otherwise advance the strategic plan of the Board of Trustees. *Note: System data below is without component units; including component units results in primary reserve ratio values of 0.207, 0.219 and 0.221 in fiscal years 2009, 2008 and 2007, respectively.*

PRIMARY RESERVE RATIOS



*Source: Moody's Investors Service report *Moody's Fiscal Year 2008 Public College and University Medians.*

CAPITAL AND DEBT ACTIVITIES

With over 26 million managed square feet, the quality of the System's academic and residential life programs is closely linked to the development and renewal of its capital assets. The System continues to update and implement a long range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Note 15 to the financial statements.

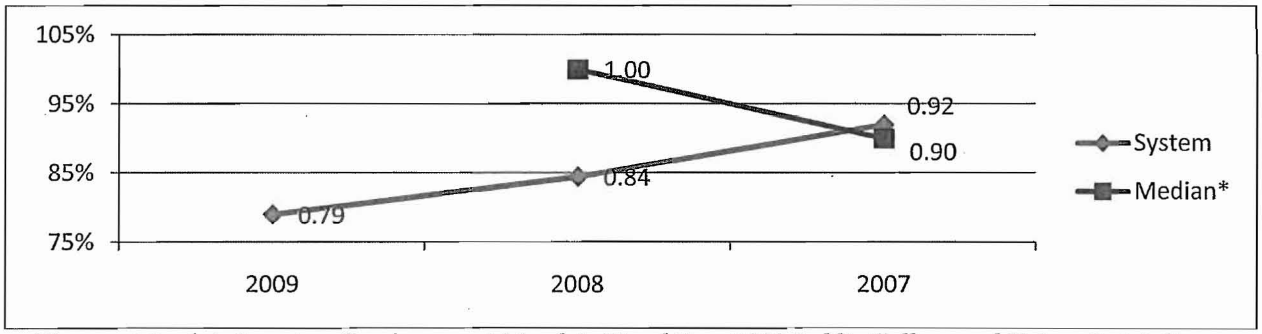
Fiscal year 2009, capital outlays totaled $215.9 million, including $192.4 million of new construction in progress, and fiscal year 2008 capital outlays totaled $230.9 million, including $201.8 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the System is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The System recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the System has no debt service responsibility. General obligation bonds payable totaled $229.4 million at June 30, 2009, a net increase of $17.3 million during the fiscal year. Revenue bonds payable at June 30, 2009 totaled $193.9 million, a net increase of $32.6 million from June 30, 2008, which reflects the sale of $35.8 million of revenue bonds in June 2009.

The percentage of total revenue expended to cover debt service (principal and interest payments on bonds, capital leases and notes payable) has increased from 1.88 percent, or $31.6 million in fiscal year 2007, to 2.10 percent, or $38.8 million in fiscal year 2009.

The viability ratio below is a debt management measure that demonstrates the extent to which the System could settle outstanding debt (current and noncurrent portions of bond debt, capital lease debt and notes payable) as of June 30, 2009 through use of expendable net assets, the same numerator as used to compute the primary reserve ratio above. A value of 1.0 or greater indicates the ability to settle all debt. The decreases in the ratio for the years presented below indicate that the System has not been able to increase expendable net assets at a rate equal to or greater than the approximate 33 percent increase in debt from June 30, 2007 to June 30, 2009. *Note: System data below is without component units; including component units results in viability ratio values of 0.74, 0.83 and 0.91 in fiscal years 2009, 2008 and 2007, respectively.*

VIABILITY RATIOS



*Source: Moody's Investors Service report *Moody's Fiscal Year 2008 Public College and University Medians.*

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Summarized revenues, expenses and changes in net assets for fiscal years 2009, 2008, and 2007 follow (in thousands):

REVENUES, EXPENSES AND NET ASSETS

	2009	2008	2007
Operating revenue:			
Tuition, auxiliary and sales, net	$ 640,419	$ 614,019	$ 573,993
Restricted student payments, net	89,629	80,763	74,420
Grants and other	314,431	288,511	271,958
Total operating revenue	1,044,479	983,293	920,371
Nonoperating and other revenue:			
State appropriation	662,417	665,883	602,194
Capital appropriation	106,733	102,094	117,174
Miscellaneous nonoperating and other revenue	36,826	44,953	38,869
Total nonoperating and other revenue	805,976	812,930	758,237
Total revenues	1,850,455	1,796,223	1,678,608
Operating expense:			
Salaries and benefits	1,224,801	1,159,542	1,071,585
Other operating expenses	492,547	489,411	456,236
Total operating expense	1,717,348	1,648,953	1,527,821
Interest and other nonoperating expense	26,261	27,323	24,461
Total expenses	1,743,609	1,676,276	1,552,282
Increase in net assets	106,846	119,947	126,326
Net assets, beginning of year	1,437,279	1,317,332	1,191,006
Net assets, end of year	$ 1,544,125	$ 1,437,279	$ 1,317,332

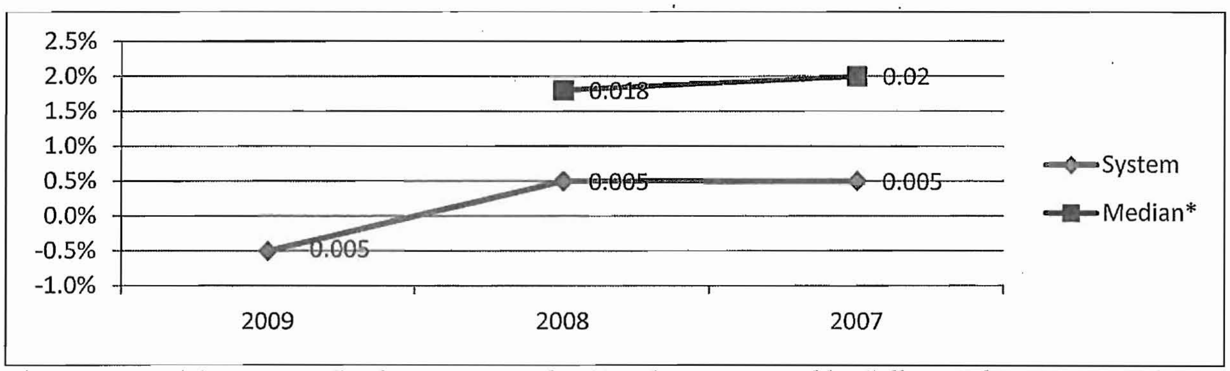
Fiscal year 2009 total revenue increased 3.0 percent to $1.85 billion from fiscal year 2008 total revenue of $1.8 billion. Student based revenue, net of scholarship allowances, increased 5.1 percent and federal grant revenue increased 14.4 percent; these were the main factors impacting fiscal year 2009 total revenue.

Compensation is the System's single largest expense component. In absolute dollars, compensation expense increased $65.3 million, or 5.6 percent, in fiscal year 2009 and represented 71.3 percent of total operating expense. The fiscal year 2008 increase of $88.0 million, or 8.2 percent, represented 70.3 percent of total operating expense. Total compensation expense included fringe benefit costs of $284.0 million and $265.5 million in fiscal years 2009 and 2008, respectively.

All other operating expenses for fiscal years 2009 and 2008 increased about 0.6 percent and 7.3 percent, respectively. The most significant increase in fiscal year 2009 was a $6.4 million or 8.4 percent increase in depreciation expense due to the continued investment in capital asset replacement and renovation.

The net operating revenues ratio below (often referred to as operating margin ratio) is a measure of the surplus or deficit generated by on-going operations and as such impacts the other three ratios through increasing or decreasing net assets. Net operating revenue totaled ($9.3) million, $8.4 million and $7.1 million, respectively, in fiscal years 2009, 2008 and 2007. This is the "Income (Loss) Before Other Revenues, Expenses, Gains, or Losses" line found on the statements of revenues, expenses, and changes in net assets. Comparing the fiscal year 2008 median value of 1.8 percent and the fiscal year 2009 System value of -0.5 percent in the graph below, the median value represents $18,000 income per $1,000,000 of operating revenue while the System value represents $5,000 (loss) per $1,000,000 of operating revenue. *Note: System data below is without component units; including component units results in net operating revenues ratio values of -0.010, 0.003 and 0.007 in fiscal years 2009, 2008 and 2007, respectively.*

NET OPERATING REVENUES RATIOS

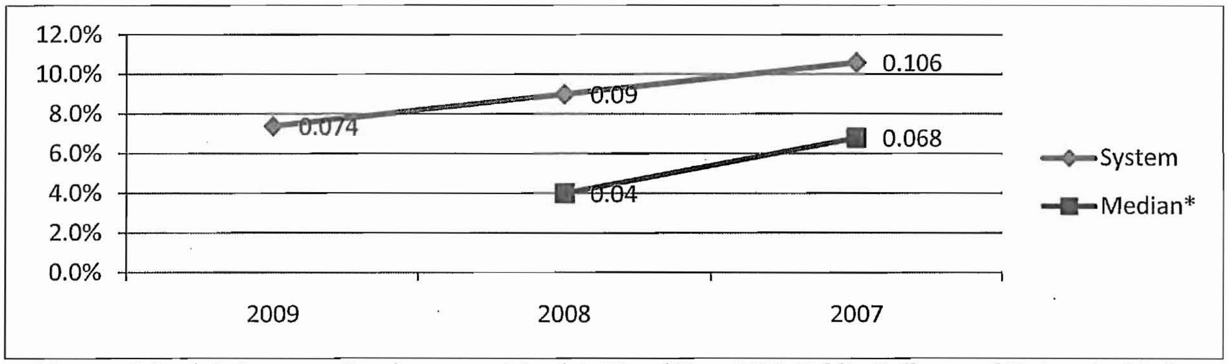


*Source: Moody's Investors Service report *Moody's Fiscal Year 2008 Public College and University Medians.*

The return on net assets ratio below is in many respects a measure of financial stewardship. Given the assets available at the start of the fiscal year, has the organization's financial position improved or deteriorated as measured by the change in net assets line on the statements of revenues, expenses, and changes in net assets? The System's return on net assets ratio is positively impacted by the state's financing of a significant portion of the System's buildings, building improvements, repairs and renovations, which has generated capital appropriation revenue of $106.7 million, $102.1 million, and $117.2 million in fiscal years 2009, 2008, and 2007, respectively. This is described in Note 1 and further above under "Capital and Debt Activities." Capital appropriation is the reason for the significant difference between the System's net operating revenue ratio above and the return on net assets ratio below. Without capital appropriation revenue, the System would need to generate equivalent net operating revenue through higher tuition and state operating appropriation or seek authority to issue equivalent debt.

Note: System data below is without component units; including component units results in return on net assets ratio values of 0.055, 0.089 and 0.116 in fiscal years 2009, 2008 and 2007, respectively.

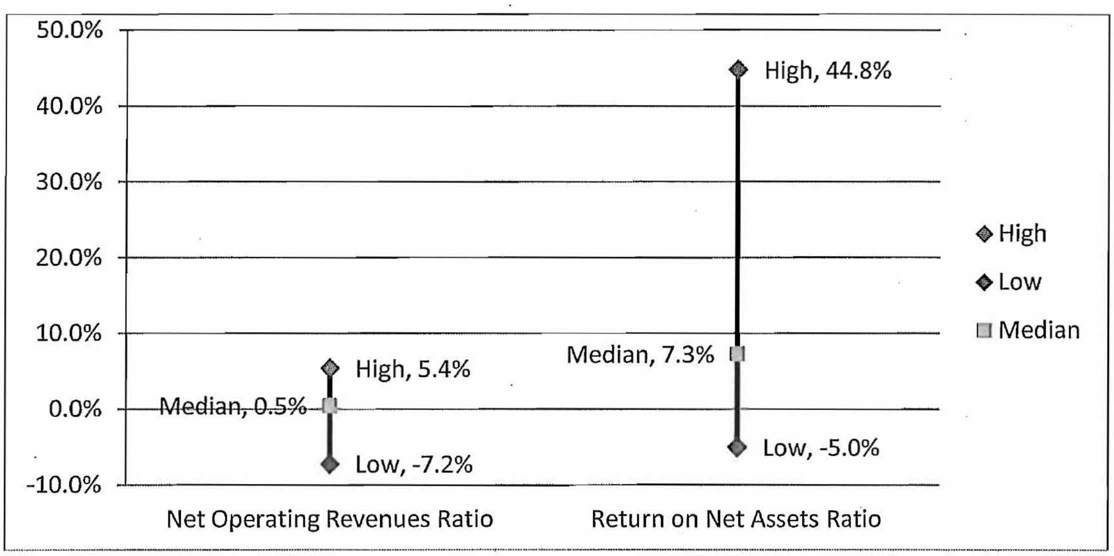
RETURN ON NET ASSETS RATIOS



*Source: Moody's Investors Service report *Moody's Fiscal Year 2008 Public College and University Medians.*

The following table compares both net operating revenues ratios and return on net assets ratios for all System colleges and universities showing the high, low and median values for each ratio. This illustrates the overall variability across colleges and universities while also illustrating the impact of state supported capital asset activity as reflected through capital appropriation revenue included in the return on net assets ratio.

VARIABILITY IN FISCAL YEAR 2009 COLLEGE AND UNIVERSITY FINANCIAL RESULTS



FOUNDATIONS

The System's annual financial report for the years ended June 30, 2009 and 2008, includes financial statements for the foundations of nine colleges and universities, including the foundations for all seven state universities, based on an assessment of the Foundations' significance to the System's financial statements. The accompanying financial report includes the Foundations' statements of financial position, analogous to the System's statements of net assets, and the Foundations' statements of activities, analogous to the Systems' statements of revenues, expenses, and changes in net assets. It should be noted that the Foundations' financial statements are not consolidated with the System's financial statements, nor are they included in any of the summary financial information presented above. The relationships between the Foundations and the related colleges and universities are described in Note 17.

INVESTMENTS

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Minnesota State Colleges and Universities System maintained a relatively strong financial position in fiscal year 2009 despite receiving a $20 million state appropriation unallotment. The System continues to rely heavily on state operating appropriation support to implement new programs tailored to the needs of the state's workforce, to maintain ongoing operations, and to devise the innovative strategies necessary to successfully manage the future challenges presented by a weak economy and a constantly evolving higher education marketplace.

The national and global economies have been in a significant recession throughout fiscal year 2009; most economic forecasts call for a slow recovery starting during fiscal year 2010. This recession is reducing state tax revenue, which in turn has already had a negative impact on the System's appropriation revenue with an appropriation unallotment of $20 million in fiscal year 2009. State appropriation revenue will be reduced in the fiscal 2010 and 2011 biennium although reductions will be somewhat offset with one-time federal stimulus funds expected to total approximately $79.2 million in the biennium. The fiscal years 2012 and 2013 biennium is expected to continue showing a significant gap between state revenue and collective appropriation requests. System leadership has worked tirelessly to minimize tuition increases and the detrimental impact of cost cutting on the System's approximately 3,800 educational programs; both efforts are aimed squarely at limiting negative impacts on students.

Earlier this fall, the U.S. House of Representatives passed a budget reconciliation bill, or HR 3221, the Student Aid and Fiscal Responsibility Act, that contains the community college initiative, an historic federal investment in community colleges and community college infrastructure. The bill also includes guaranteed increases in the Pell Grant maximum, and makes changes in financial aid, including simplifying the FAFSA form. Funding is available for these initiatives and others in the bill, by requiring that all institutions begin participating in the Direct Loan program by July 1, 2010. There is an estimated $80 billion cost savings over 10 years from moving to the Direct Loan program. The Senate has been drafting their version of the bill and it is expected to be released by the end of October or early November. Once the full Senate approves the bill, a conference committee will work through the differences between the House and Senate bills.

On the appropriations side, earlier this fall, the House passed a fiscal year 2010 Labor-Health and Human Services-Education appropriations bill, which had Congress on-track to finish the appropriation process on-time this year (prior to the start of a new fiscal year October 1st). However, the full Senate has not passed their bill as of yet, due to attention on health care reform. Congress will need to pass a second continuing resolution that will allow the federal government to operate at current spending levels until the fiscal year 2010 appropriations are resolved.

The House appropriation bill provides an increase of $194 million over fiscal year 2009 for higher education, and student aid programs will receive $19.6 billion, an increase of $478 million. $17.8 billion will go toward Pell Grants supporting an award of $4,860, which combined with mandatory funding provided in the 2007 College Cost Reduction and Access Act, will increase the maximum award to $5,550 for the 2010-2011 school year.

Similar to the House bill, the Senate bill, passed by the full appropriation committee, but not the full Senate, includes funding for student financial aid, and maintains the maximum discretionary Pell Grant award level at $4,860. Combined with mandatory funding provided in the 2007 College Cost Reduction and Access Act, this will increase the maximum award to $5,550 for the 2010-2011 school year. Unlike the House bill, other than an increase of $441 million above 2009 funding for the National Institutes of Health, the Senate bill would fund all other higher education programs at their 2009 levels due to the influence of the recent passage of the American Recovery and Reinvestment Act (ARRA), which appropriated more than $124 billion for programs that are funded in this bill, including almost $100 billion for the Education Department.

The System works closely with and through several national associations in an on-going dialogue with Congress advocating the needs of both students and higher education.

Revenue Fund bond debt as of June 30, 2009 stands at $193.9 million out of a currently authorized limit of $200 million. The System will likely seek legislative approval in the coming legislative session to increase the authorized limit. The legislative session that ended in May 2008 extended coverage of the Revenue Fund to include all of the state colleges effective July 2008; the June 2009 $35.8 million revenue bond sale includes proceeds for projects at Century College, Normandale Community College and Minneapolis Community and Technical College.

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

REQUESTS FOR INFORMATION

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

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

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

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	$ 544,952	$ 555,193
Investments	27,341	29,899
Grants receivable	13,629	14,024
Accounts receivable, net	62,957	37,645
Prepaid expense	22,329	19,853
Inventory	14,326	13,075
Student loans and other assets, net	6,622	8,740
Securities lending collateral	358	5,768
Total current assets	692,514	684,197
Current Restricted Assets		
Cash and cash equivalents	138,846	115,387
Total current restricted assets	138,846	115,387
Noncurrent Restricted Assets		
Other assets	82	89
Construction in progress	15,174	39,949
Total noncurrent restricted assets	15,256	40,038
Total restricted assets	154,102	155,425
Noncurrent Assets		
Student loans and other assets, net	28,092	26,814
Capital assets, net	1,546,273	1,388,698
Total noncurrent assets	1,574,365	1,415,512
Total Assets	2,420,981	2,255,134
Liabilities		
Current Liabilities		
Salaries payable	121,061	115,894
Accounts payable	32,384	44,512
Unearned revenue	38,874	37,803
Payable from restricted assets	28,043	18,353
Interest payable	2,044	1,732
Funds held for others	9,815	7,758
Current portion of long-term debt	26,126	20,330
Other compensation benefits	18,570	20,447
Other liabilities	282	238
Securities lending collateral	358	5,768
Total current liabilities	277,557	272,835
Noncurrent Liabilities		
Noncurrent portion of long-term debt	433,590	391,171
Other compensation benefits	134,904	123,275
Capital contributions payable	30,805	30,574
Total noncurrent liabilities	599,299	545,020
Total Liabilities	876,856	817,855
Net Assets		
Invested in capital assets, net of related debt	1,181,908	1,089,660
Restricted expendable, bond covenants	51,881	48,329
Restricted expendable, other	58,430	50,459
Unrestricted	251,906	248,831
Total Net Assets	$ 1,544,125	$ 1,437,279

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

COMBINING MINNESOTA STATE COLLEGES' AND UNIVERSITIES' FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Assets				
Current Assets				
Cash and cash equivalents	$ 53	$ 51	$ 7	$ 2,033
Investments	10,687	1,266	2,443	-
Restricted cash and cash equivalents	-	-	-	-
Pledges and contributions receivable, net	537	-	-	205
Other receivables/Other assets	3	3	7	2
Annuities/Remainder interests/Trusts	-	-	-	-
Finance lease receivable	-	-	-	-
Total current assets	11,280	1,320	2,457	2,240
Noncurrent Assets				
Annuities/Remainder interests/Trusts	111	-	-	-
Long-term pledges receivable	878	-	-	-
Finance lease receivable, net	-	-	-	-
Artwork collection/Investment property	-	-	-	-
Restricted investments	-	-	-	2,146
Assets held for endowment	-	-	-	223
Buildings, property and equipment, net	342	-	-	-
Other assets	35	-	-	-
Total noncurrent assets	1,366	-	-	2,369
Total Assets	$ 12,646	$ 1,320	$ 2,457	$ 4,609
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 11	$ 50	$ -	$ 297
Interest payable	23	-	-	-
Annuities payable	38	-	-	-
Notes payable	6	-	-	-
Bonds payable	-	-	-	-
Scholarships payable/Other liabilities	-	-	-	16
Total current liabilities	78	50	-	313
Noncurrent Liabilities				
Annuities payable and Unitrust liabilities	-	-	-	-
Notes payable	1	-	-	-
Bonds payable	-	-	-	-
Other non-current liabilities	938	-	-	-
Total noncurrent liabilities	939	-	-	-
Total Liabilities	1,017	50	-	313
Net Assets				
Unrestricted	383	(2)	93	347
Temporarily restricted	1,838	478	(47)	1,654
Permanently restricted	9,408	794	2,411	2,295
Total Net Assets	11,629	1,270	2,457	4,296
Total Liabilities and Net Assets	$ 12,646	$ 1,320	$ 2,457	$ 4,609

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

Minnesota State University, Mankato Foundation, Inc.	Minnesota State University Moorhead Alumni Foundation, Inc.	St. Cloud State University Foundation	Southwest Minnesota State University Foundation	Winona State University Foundation	2009 Total	Restated 2008 Total
$ 166	$ 668	$ 575	$ 119	$ 7,729	$ 11,401	$ 6,287
29,055	6,015	21,187	2,660	8,028	81,341	103,075
-	-	1,378	-	-	1,378	1,378
2,924	406	511	402	389	5,374	6,459
127	1	123	44	244	554	551
-	1,177	-	-	107	1,284	1,544
-	-	700	-	-	700	660
32,272	8,267	24,474	3,225	16,497	102,032	119,954
-	-	289	-	-	400	460
625	881	576	945	1,121	5,026	5,544
-	-	11,283	-	-	11,283	11,983
-	1,166	148	282	-	1,596	2,228
-	-	-	2,268	-	4,414	4,555
-	-	-	-	-	223	33
982	3,641	194	7,554	9,855	22,568	23,731
-	-	288	196	875	1,394	926
1,607	5,688	12,778	11,245	11,851	46,904	49,460
$ 33,879	$ 13,955	$ 37,252	$ 14,470	$ 28,348	$148,936	$169,414
$ 180	$ 32	$ 52	$ 29	$ 2,667	$ 3,318	$ 1,840
-	16	109	12	34	194	176
-	16	14	-	46	114	124
-	-	-	-	294	300	1,096
432	147	700	455	-	1,734	1,241
-	-	136	-	-	152	337
612	211	1,011	496	3,041	5,812	4,814
1,134	538	230	-	-	1,902	2,380
-	-	-	-	8,086	8,087	18,677
716	3,544	12,820	7,292	-	24,372	14,668
-	-	-	-	-	938	183
1,850	4,082	13,050	7,292	8,086	35,299	35,908
2,462	4,293	14,061	7,788	11,127	41,111	40,722
1,770	283	(693)	872	373	3,426	11,724
1,273	3,495	8,666	3,265	3,813	24,435	37,147
28,374	5,884	15,218	2,545	13,035	79,964	79,821
31,417	9,662	23,191	6,682	17,221	107,825	128,692
$ 33,879	$ 13,955	$ 37,252	$ 14,470	$ 28,348	$148,936	$169,414

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONDOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Operating Revenues		
Tuition, net	$ 507,596	$ 485,656
Fees, net	76,251	71,559
Sales and room and board, net	56,572	56,804
Restricted student payments, net	89,629	80,763
Federal grants	216,482	189,202
State grants	80,834	82,014
Other income	17,115	17,295
Total operating revenues	1,044,479	983,293
Operating Expenses		
Salaries	1,224,801	1,159,542
Purchased services	220,513	220,647
Supplies	89,593	86,684
Repairs and maintenance	28,093	36,842
Depreciation	82,982	76,536
Financial aid, net	33,506	28,135
Other expense	37,860	40,567
Total operating expenses	1,717,348	1,648,953
Operating loss	(672,869)	(665,660)
Nonoperating Revenues (Expenses)		
Appropriations	662,417	665,883
Private grants	17,301	15,368
Securities lending income	-	1,281
Interest income	10,066	18,853
Interest expense	(17,155)	(16,749)
Grants to other organizations	(9,106)	(9,349)
Securities lending rebates/fees	-	(1,225)
Total nonoperating revenues (expenses)	663,523	674,062
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(9,346)	8,402
Capital appropriations	106,733	102,094
Capital grants	4,544	7,109
Donated assets and supplies	4,262	1,142
Gain on disposal of capital assets	653	1,200
Change in net assets	106,846	119,947
Total Net Assets, Beginning of Year	1,437,279	1,317,332
Total Net Assets, End of Year	$ 1,544,125	$ 1,437,279

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

COMBINING MINNESOTA STATE COLLEGES' AND UNIVERSITIES' FOUNDATIONS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Support and Revenue				
Contributions	$ 2,860	$ 419	$ -	$ 1,254
Endowment gifts	583	-	15	-
In-kind contributions	-	153	-	-
Investment income	-	30	-	173
Realized gains and losses	-	(63)	70	-
Unrealized losses	(2,041)	(192)	(333)	(285)
Program income	66	-	104	-
Special events	-	30	-	-
Fundraising income	-	-	48	-
Other income	15	-	-	-
Total support and revenue	1,483	377	(96)	1,142
Expenses				
Program services				
Program services	-	-	-	906
Scholarships	773	287	267	-
University activities	-	419	-	-
Special projects	1,489	-	-	-
Total program services	2,262	706	267	906
Supporting services				
Interest expense	-	-	-	-
Management and general	71	134	43	53
Fundraising expenses	377	29	1	192
Depreciation and amortization	-	-	-	-
Other expense	-	-	-	-
Total supporting services	448	163	44	245
Total expenses	2,710	869	311	1,151
Change in Net Assets	(1,227)	(492)	(407)	(9)
Net Assets, Beginning of Year	12,856	1,762	2,864	4,305
Net Assets, End of Year	$ 11,629	$ 1,270	$ 2,457	$ 4,296

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

Minnesota State University, Mankato Foundation, Inc.	Minnesota State University Moorhead Alumni Foundation, Inc.	St. Cloud State University Foundation	Southwest Minnesota State University Foundation	Winona State University Foundation	2009 Total	Restated 2008 Total
$ 3,207	$ 1,636	$ 2,144	$ 3,142	$ 2,052	$ 16,714	$ 29,166
-	-	-	-	-	598	1,130
1,716	-	1,749	333	-	3,951	4,436
1,345	175	1,741	117	422	4,003	4,512
(7,378)	(751)	(574)	(353)	(1,683)	(10,732)	(271)
(103)	(866)	(2,844)	(533)	(1,714)	(8,911)	(7,027)
-	404	-	129	1,297	2,000	2,253
-	8	-	94	-	132	37
-	-	-	-	108	156	393
178	-	-	745	-	938	886
(1,035)	606	2,216	3,674	482	8,849	35,515
-	78	2,882	355	723	4,944	5,133
3,001	607	1,148	724	920	7,727	7,653
-	382	-	249	3,552	4,602	1,459
-	-	-	3,590	53	5,132	5,643
3,001	1,067	4,030	4,918	5,248	22,405	19,888
69	199	678	-	-	946	999
512	319	908	297	44	2,381	2,446
1,776	84	816	421	57	3,753	3,655
25	153	-	-	-	178	178
7	46	-	-	-	53	71
2,389	801	2,402	718	101	7,311	7,349
5,390	1,868	6,432	5,636	5,349	29,716	27,237
(6,425)	(1,262)	(4,216)	(1,962)	(4,867)	(20,867)	8,278
37,842	10,924	27,407	8,644	22,088	128,692	120,414
$ 31,417	$ 9,662	$ 23,191	$ 6,682	$ 17,221	$107,825	$ 128,692

MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED 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	$ 805,740	$ 770,789
Cash repayment of program loans	3,453	4,426
State grants	80,834	82,014
Federal grants	216,759	187,723
Cash paid to suppliers for goods or services	(450,607)	(442,672)
Cash payments to employees	(1,209,167)	(1,133,307)
Financial aid disbursements	(34,673)	(28,216)
Cash payments of program loans	(3,647)	(5,794)
Net cash flows used in operating activities	(591,308)	(565,037)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	642,417	665,883
Agency activity	2,057	(1,293)
Private grants	17,301	15,368
Grants to other organizations	(9,106)	(9,349)
Net cash flows from noncapital financing activities	652,669	670,609
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(201,008)	(240,016)
Capital appropriation	106,733	112,708
Capital grants	2,801	7,109
Proceeds from sale of capital assets	1,441	2,618
Proceeds from borrowing	68,500	81,276
Proceeds from bond premiums and discounts	1,875	1,814
Interest paid	(17,909)	(15,314)
Repayment of lease principal	(2,328)	(2,772)
Repayment of note principal	(703)	(996)
Repayment of bond principal	(19,764)	(16,339)
Net cash flows used in capital and related financing activities	(60,362)	(69,912)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	9,093	7,122
Purchase of investments	(8,397)	(8,305)
Proceeds from securities lending transactions	-	56
Investment earnings	11,523	17,287
Net cash flows from investing activities	12,219	16,160
Net Increase in Cash and Cash Equivalents	13,218	51,820
Cash and Cash Equivalents, Beginning of Year	670,580	618,760
Cash and Cash Equivalents, End of Year	$ 683,798	$ 670,580

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Operating Loss	$ (672,869)	$ (665,660)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	82,982	76,536
Provision for loan defaults	(57)	(26)
Loan principal repayments	3,453	4,426
Loans issued	(3,647)	(5,794)
Forgiven loans	575	746
Donated and lease equipment not capitalized	1,593	1,335
Change in assets and liabilities		
Inventory	(1,251)	(2,705)
Accounts receivable	(3,569)	634
Grants receivable	395	(2,332)
Accounts payable	(12,758)	2,533
Salaries payable	5,166	14,277
Other compensation benefits	9,753	11,719
Capital contributions payable	232	(247)
Unearned revenue	1,071	2,225
Other	(2,377)	(2,704)
Net reconciling items to be added to operating income	81,561	100,623
Net cash flows used in operating activities	$ (591,308)	$ (565,037)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 32,353	$ 21,046
Equipment on account	76	1,062
Donated equipment	3,251	-
Capital assets capitalized under notes payable	-	1,406
Change in fair marker value of investment	(1,861)	(176)
Investment earnings on account	806	1,484
Amortization of bond premium/discount	1,084	944

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF FIDUCIARY NET ASSETS HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Assets		
Mutual Funds	$ 763,897	$ 850,285
Total Assets	763,897	850,285
Liabilities		
Total Liabilities	-	-
Net Assets Held in Trust for Pension Benefits	$ 763,897	$ 850,285

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Additions:		
Contributions		
Employer	$ 39,032	$ 35,629
Member	33,060	30,247
Contributions from roll overs and other sources	1,338	1,669
Total Contributions	73,430	67,545
Net Investment Loss	(130,382)	(62,169)
Total Additions	(56,952)	5,376
Deductions:		
Benefits and refunds paid to plan members	29,127	35,804
Administrative fees	309	310
Total Deductions	29,436	36,114
Net Decrease	(86,388)	(30,738)
Net Assets Held in Trust for Pension Benefits, Beginning of Year	850,285	881,023
Net Assets Held in Trust for Pension Benefits, End of Year	$ 763,897	$ 850,285

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units.* Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 17. For GASB consolidated financial statement purposes, most college foundations are not considered significant to the Minnesota State Colleges and Universities System and, therefore, are not included as discretely presented component units.

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

Bemidji State University Foundation
1501 Birchmont Dr. NE #17
Bemidji, MN 56601-2699

Century College Foundation
3300 Century Avenue North
White Bear Lake, MN 55110-1842

Fergus Area College Foundation
Minnesota State Community & Technical College
1414 College Way
Fergus Falls, MN 56537

Metropolitan State University Foundation
700 E. Seventh St.
St. Paul, MN 55106-5000

MN State University, Mankato Foundation, Inc.
224 Alumni Foundation Center
1536 Warren Street
Mankato, MN 56001

MN State University Moorhead Alumni Foundation, Inc.
1104 Seventh Ave. S.
Moorhead, MN 56563

St. Cloud State University Foundation
Alumni and Foundation Center
720 Fourth Ave. South
St. Cloud, MN 56301-4498

Southwest Minnesota State University Foundation
1501 State Street
Marshall, MN 56258

Winona State University Foundation
Eighth & Johnson Streets
P.O. Box 5838
Winona, MN 55987-5838

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

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

Minnesota State Colleges and Universities is the fiscal agent for the Project for Automated Library Services (PALS). PALS is a consortium of over 125 libraries and branches. Services are provided on a contractual basis to private college, state agency, public school and special libraries as well as the University of Minnesota and all Minnesota State Colleges and Universities' libraries. During fiscal years 2009 and 2008, PALS received revenues of $1,930,932 and $1,752,717, respectively, and incurred expenses of $2,249,825 and $2,428,354, respectively.

Minnesota State Colleges and Universities is a member of the Internet System for Education and Employment Knowledge (ISEEK), which includes the University of Minnesota and five state agencies. ISEEK is comprised of one appointee from each of the ISEEK parties. Minnesota State Colleges and Universities acts as the fiscal agent, but does not have an equity interest in ISEEK. During fiscal years 2009 and 2008, Minnesota State Colleges and Universities appropriated for ISEEK $307,000 and $330,000 respectively, which were recorded as expenses within the System wide activity.

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

Minnesota State Colleges and Universities is the fiscal agent for the Northwest Telecommunications Region (NETS). NETS is a higher education consortium established to deliver interactive television in northwest Minnesota. During fiscal years 2009 and 2008, the NETS consortium received revenues of $891,961 and $874,350, respectively, with the primary sources being a Higher Education Services Office grant and membership dues. During fiscal years 2009 and 2008, Minnesota State Colleges and Universities incurred expenses for NETS of $834,390 and $830,146, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Northeast Alliance for Telecommunications (NEAT). NEAT is an alliance established to deliver telecommunications among the following schools: Hibbing Community College, Lake Superior College, Mesabi Range Community and Technical College, Vermilion Community College, Fond du Lac Tribal and Community College, Itasca Community College, and Rainy River Community College. During fiscal years 2009 and 2008, NEAT received revenues of $224,182 and $221,291, respectively. During fiscal years 2009 and 2008, NEAT incurred expenses of $226,869 and $220,026, respectively.

Minnesota State Colleges and Universities was the fiscal agent for the Consortium of Minnesota Educational Tele-communities (COMET) in 2008 and prior years, while the University of Minnesota is the fiscal agent in 2009. COMET is the Learning Network shared by Minnesota State University, Mankato, Winona State University, Minnesota State College - Southeast Technical, Winona, Riverland Community College, Rochester Community & Technical College, and the University of Minnesota. During fiscal year 2008, COMET received revenues of $944,304, and incurred expenses of $1,070,890, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Southwest/West Central Higher Education Organization (SHOT). Similar to COMET, SHOT is a consortium of higher education schools established to provide telecommunications to the region. Member schools include Southwest Minnesota State University, Minnesota West Community & Technical College, Ridgewater College, the University of Minnesota Southwest Research and Outreach Center, and the University of Minnesota, Morris. During fiscal years 2009 and 2008, SHOT received revenues of $669,162 and $880,707, respectively. During fiscal years 2009 and 2008, SHOT incurred expenses of $923,512 and $870,122, respectively.

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

Rochester Community and Technical College participates in a jointly constructed facility with the city of Rochester, Minnesota, for the University Center Rochester Regional Sports Complex. The complex includes an 114,000 square foot sports facility, soccer and football fields, and baseball and softball diamonds. The College retains full ownership of the complex and shares the use of the complex with the city based on a joint use agreement. Under the joint use agreement, the city maintains the playfields and schedules their use. One softball diamond, one baseball diamond, three football practice fields, and a football game field are maintained by the college. The college maintains and schedules the UCR Regional Sports Center building. The city shares in the revenues generated by the sports facility and shares in the operating costs of the facility.

Rochester Community and Technical College incurred total operating expenses of $426,707 and $319,317 for fiscal years 2009 and 2008, respectively. In fiscal years 2009 and 2008, the total revenue offsetting these expenses was $225,179 and $161,960, respectively. In fiscal years 2009 and 2008, the revenue generated during the city portion of the time in the facility was $126,640 and $129,528, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

Buildings	30-40 years
Building improvement	15-20 years
Equipment	3-20 years
Internally developed software	7 years
Library collections	7 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, building improvements, and internally developed software 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 and library collection purchases are capitalized regardless of amount spent.

Funds Held for Others — Funds held for others are assets held primarily for student organizations, faculty and staff health reimbursement accounts, and retirement contributions.

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

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

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

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

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of $212,951,296 and $191,275,638. Sales are also net of cost of goods sold of $60,865,687 and $56,710,898 for fiscal years 2009 and 2008, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances of $2,324,426 and $2,064,768 for fiscal years 2009 and 2008, respectively. Sales are also net of cost of goods sold of $91,088 and $88,686 for fiscal years 2009 and 2008, respectively.

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

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2008 accounts payable related to capital projects funded with general obligation bonds, in the amount of $13,789,242, have been reclassified as restricted accounts payable.

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

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

- *Invested in capital assets, net of related debt:* capital assets, net of accumulated depreciation and outstanding principal balances of debt and other borrowings attributable to the acquisition, construction or improvement of those assets.

- *Restricted expendable:* net assets subject to externally imposed stipulations. Net asset restrictions for Minnesota State Colleges and Universities are as follows:

  Restricted for bond covenants — revenue bond restrictions

  Restricted for other — includes restrictions for the following:

  Capital projects — restricted for completion of capital projects.

  Debt service — legally restricted debt repayment.

  Donations — restricted per donor requests.

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

  Loans — college and university capital contribution for Perkins Loans.

Net Assets Restricted for Other
(In Thousands)

	2009	2008
Capital projects	$22,355	$16,682
Debt service	22,016	19,814
Donations	4,232	4,910
Faculty contract obligations	5,846	5,107
Loans	3,981	3,946
Total	$58,430	$50,459

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

New Accounting Pronouncements — In June 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 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 State 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 the state appropriation, tuition revenues, and most fees are held in the state treasury. In addition, each campus has at least one local bank account. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

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

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

At June 30, 2009 and 2008, the local bank balances were $63,554,399 and $56,647,990, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

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

As of June 30
(In Thousands)

Carrying Amount	2009	2008
Cash, in bank	$ 42,229	$ 38,089
Money markets	5,510	5,538
Repurchase agreements	11,444	11,214
Restricted local cash	264	403
Cash, trustee account (US Bank)	83,251	75,643
Total local cash and cash equivalents	142,698	130,887
Total treasury cash accounts	541,100	539,693
Grand Total	$ 683,798	$ 670,580

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

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has a foreign checking account, denominated in both the European Euro and the British Pound. For fiscal year 2009 the fair value is $255,331 in U.S. dollars, of which $52,428 is represented in Euros, and $202,903 is represented in British Pounds. The fair value of this account for fiscal year 2008 was $147,555 in U.S. dollars, of which $16,353 is represented in Euros and $131,202 is represented in British Pounds.

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

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

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

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

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

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

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 Minnesota State Colleges and Universities' policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Minnesota State Colleges and Universities complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term debt investments. As of June 30, 2009, the Minnesota State Colleges and Universities had the following investments and maturities:

Year Ended June 30
(In Thousands)

Investment Type	2009 Fair Value	Weighted Maturity (Years)	2008 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	$ 1,789	3.94	$ 1,471	4.69
Commercial paper	—	—	1,894	0.13
U.S. agencies	12,221	13.63	11,159	12.42
Asset backed security	1	24.25	1	25.25
State investment pool cash equivalents	823	0.17	460	0.14
U.S. treasuries	500	0.04	817	1.62
Total	15,334		15,802	
Portfolio weighted average maturity		11.33		9.31
Certificates of deposit	8,683		8,923	
Mutual stock funds	749		1,229	
Stock	1,709		2,890	
Repurchase agreements	850		1,022	
Real estate	16		33	
Total	$ 27,341		$ 29,899	

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 the fiscal years 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 State Street and Wells Fargo:

Security 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

Security 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 balances are made up primarily of receivables from individuals and due from the state not paid as of June 30, 2009. The due from the state was collected in August of 2009.

At June 30, 2009 and 2008, the total accounts receivable balances were $87,099,916 and $60,751,080, respectively, less an allowance for uncollectible receivables of $24,143,064 and $23,106,289, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2009	2008
Tuition	$ 32,259	$ 31,192
Fees	7,629	6,834
Sales and service	7,557	6,818
Room and board	2,814	2,415
Third party obligations	4,435	2,207
Grants	852	734
Capital projects	2,630	887
Other income	8,924	9,664
Due from the State of Minnesota	20,000	—
Total accounts receivable	87,100	60,751
Allowance for doubtful accounts	(24,143)	(23,106)
Total	$ 62,957	$ 37,645

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of deposits in the state's Debt Service Fund for future general obligations bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. For fiscal years 2009 and 2008, Minnesota State Colleges and Universities' deposits were $22,016,221 and $19,814,261, respectively. In addition, as of June 30, 2009 and 2008, Minnesota State Colleges and Universities had prepaid expense of $312,735 and $38,341, respectively, primarily for software license fees.

5. LOANS RECEIVABLE

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

As of June 30, 2009 and 2008, the loans receivable for this program totaled $34,441,579 and $34,821,962, respectively, less an allowance for uncollectible loans of $2,578,823 and $2,635,997, respectively.

6. 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	$ 79,170	$ 1,027	$ —	$ —	$ 80,197
Construction in progress	174,314	192,390	—	(213,535)	153,169
Total capital assets, not depreciated	253,484	193,417	—	(213,535)	233,366
Capital assets, depreciated:					
Buildings and improvements	2,029,352	—	—	213,535	2,242,887
Equipment	247,283	13,858	16,282	—	244,859
Internally developed software	7,832	1,980	124	—	9,688
Library collections	48,168	6,651	6,293	—	48,526
Total capital assets, depreciated	2,332,635	22,489	22,699	213,535	2,545,960
Less accumulated depreciation:					
Buildings and improvements	952,186	58,098	—	—	1,010,284
Equipment	175,997	16,568	16,282	—	176,283
Internally developed software	2,157	1,384	—	—	3,541
Library collections	27,132	6,932	6,293	—	27,771
Total accumulated depreciation	1,157,472	82,982	22,575	—	1,217,879
Total capital assets depreciated, net	1,175,163	(60,493)	124	213,535	1,328,081
Total capital assets, net	$ 1,428,647	$ 132,924	$ 124	$ —	$ 1,561,447

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 77,809	$ 1,369	$ 8	$ —	$ 79,170
Construction in progress	132,191	201,826	—	(159,703)	174,314
Total capital assets, not depreciated	210,000	203,195	8	(159,703)	253,484
Capital assets, depreciated:					
Buildings and improvements	1,876,974	—	7,325	159,703	2,029,352
Equipment	247,362	16,944	17,023	—	247,283
Internally developed software	4,151	3,681	—	—	7,832
Library collections	48,264	7,072	7,168	—	48,168
Total capital assets, depreciated	2,176,751	27,697	31,516	159,703	2,332,635
Less accumulated depreciation:					
Buildings and improvements	907,355	52,112	7,281	—	952,186
Equipment	176,562	16,458	17,023	—	175,997
Internally developed software	1,071	1,086	—	—	2,157
Library collections	27,419	6,880	7,167	—	27,132
Total accumulated depreciation	1,112,407	76,536	31,471	—	1,157,472
Total capital assets depreciated, net	1,064,344	(48,839)	45	159,703	1,175,163
Total capital assets, net	$ 1,274,344	$ 154,356	$ 53	$ —	$ 1,428,647

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2009	2008
Purchased services	$ 10,177	$ 15,013
Other payables	6,773	7,810
Supplies	4,652	6,728
Repairs and maintenance	2,713	5,360
Capital projects	4,310	2,693
Employee benefits	2,498	1,783
Financial aid	175	1,574
Grants to other	512	1,405
Inventory	498	1,084
Equipment	76	1,062
Total	$ 32,384	$ 44,512

In addition, as of June 30, 2009 and 2008, Minnesota State Colleges and Universities had payable from restricted assets in the amounts of $28,043,293 and $18,353,000 respectively, which was related to capital projects financed by general obligation bonds and revenue bonds.

8. 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 debt for fiscal years 2009 and 2008 follow:

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 10,342	$ 1,875	$ 1,084	$ 11,133	$ —
Capital leases	21,917	125	2,328	19,714	2,141
General obligation bonds	212,123	32,690	15,380	229,433	16,786
Notes payable	5,829	456	703	5,582	929
Revenue bonds	161,290	35,810	3,246	193,854	6,270
Total long term debt	$ 411,501	$ 70,956	$ 22,741	$ 459,716	$ 26,126

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 9,472	$ 1,814	$ 944	$ 10,342	$ —
Capital leases	24,496	193	2,772	21,917	2,280
General obligation bonds	184,945	40,256	13,078	212,123	14,258
Notes payable	5,419	1,406	996	5,829	702
Revenue bonds	122,351	41,020	2,081	161,290	3,090
Total long term debt	$ 346,683	$ 84,689	$ 19,871	$ 411,501	$ 20,330

The changes in other compensation benefits for fiscal years 2009 and 2008 follow:

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 125,958	$ 16,816	$ 10,812	$ 131,962	$ 13,192
Early termination benefits	6,344	3,421	3,879	5,886	3,313
Net other postemployment benefit	6,008	8,492	4,038	10,462	—
Workers' compensation	5,412	2,517	2,765	5,164	2,065
Total other compensation benefits	$ 143,722	$ 31,246	$ 21,494	$ 153,474	$ 18,570

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 117,620	$ 19,249	$ 10,911	$ 125,958	$ 14,634
Early termination benefits	8,528	2,426	4,610	6,344	3,865
Net other postemployment benefit	—	10,096	4,088	6,008	—
Workers' compensation	5,855	2,503	2,946	5,412	1,948
Total other compensation benefits	$ 132,003	$ 34,274	$ 22,555	$ 143,722	$ 20,447

Bond Premium/Discount — Bonds were issued in fiscal years 2009 and 2008, resulting in net premiums of $1,875,012 and $1,814,033, respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

Capital Leases — Liabilities for capital leases include those leases that meet the criteria in FASB Statement No. 13, *Accounting for Leases*. See Note 11 for additional information.

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

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

Revenue Bonds — 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, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 3.25 percent to 6.5 percent. In addition, the Vermilion Community College and Itasca Community College issued revenue bonds through the state of Minnesota Higher Education Facility Authority and the Itasca County Housing Redevelopment Authority.

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. Principal and interest paid for the current year and total customer net revenues were $9,907,130 and $93,781,000, respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 52.71 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,695,998. For the current year, principal and interest paid and total customer net revenues were $206,855 and $393,537, respectively. These revenue bonds have a variable interest rate of 2.5 percent to 5.75 percent.

In addition, Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds financing modular housing are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 39.55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $335,000. For the current year, principal and interest paid and total customer net revenues were $86,300 and $214,388, respectively. These revenue bonds have a fixed interest rate of 6 percent.

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

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned. See Note 9 for details.

Net Other Postemployment Benefit — Net other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program, retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 10 for further details.

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $5,163,944 and $5,411,789 at June 30, 2009 and 2008, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end and is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $30,805,156 and $30,573,521 at June 30, 2009 and 2008, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program. The net increase/(decrease) is $ 231,635 and ($247,141) for the fiscal years 2009 and 2008, respectively.

Principal and interest payment schedules are provided in the following table for notes payable, general obligation bonds, revenue bonds and capital leases.

There are no payment schedules for bond premium/discount, compensated absences, early termination benefits, net other postemployment benefits, workers' compensation, and capital contributions.

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2010	$ 16,786	$ 11,462	$ 6,270	$ 8,302
2011	16,275	10,232	7,235	8,327
2012	16,288	9,444	7,960	8,029
2013	15,464	8,665	8,720	7,700
2014	15,365	7,898	8,970	7,344
2015-2019	69,965	28,489	48,670	30,544
2020-2024	54,664	12,500	52,590	18,749
2025-2029	24,626	2,318	42,770	7,425
2030-2034	—	—	10,825	931
Less: Issuance costs	—	—	(156)	—
Total	$ 229,433	$ 91,008	$ 193,854	$ 97,351

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases		Notes Payable	
	Principal	Interest	Principal	Interest
2010	$ 2,141	$ 958	$ 929	$ 250
2011	1,575	870	961	205
2012	1,552	802	719	161
2013	1,068	744	604	125
2014	1,098	700	404	99
2015-2019	6,400	2,662	1,378	300
2020-2024	4,257	1,047	587	53
2025-2029	1,024	301	—	—
2030-2034	599	40	—	—
Total	$ 19,714	$ 8,124	$ 5,582	$ 1,193

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2009 and 2008.

Minnesota State College Faculty (MSCF) contract — The MSCF contract allows former Minnesota Community College Faculty Association (MCCFA) faculty members who meet certain eligibility and a combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary, and health insurance paid for one year after separation. The cash incentive can be paid either in one or two payments.

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2009 and 2008 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2009	51	$ 1,447
2008	57	1,592

The MSCF contract allows former United Technical College Educators (UTCE) faculty members who meet certain eligibility and a combination of age and years of service requirements, to receive either an early retirement incentive cash payment, the right to continue, at the employer's expense, health insurance benefits up to age 65; or a combination of both,. The cash incentive can be paid either in one or more payments.

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2009 and 2008 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2009	111	$ 2,814
2008	116	2,639

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2009 and 2008 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2009	45	$ 1,543
2008	74	1,842

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2009 and 2008 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2009	4	$ 82
2008	8	271

10. NET OTHER POSTEMPLOYMENT BENEFITS

Minnesota State Colleges and Universities provides health insurance benefits for certain retired employees under a single employer fully insured plan, as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2008 there were approximately 610 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the annual OPEB cost for 2009 and 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2009	2008
Annual required contribution (ARC)	$ 8,439	$ 10,096
Interest on net OPEB obligation	285	—
Adjustment to ARC	(232)	—
Annual OPEB cost	8,492	10,096
Contributions during the year	(4,038)	(4,088)
Increase in net OPEB obligation	4,454	6,008
Net OPEB obligation, beginning of year	6,008	—
Net OPEB obligation, end of year	$ 10,462	$ 6,008

Minnesota State Colleges and Universities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2009 and 2008 were as follows:

For the Year Ended, June 30
(In Thousands)

	2009	2008
Beginning of year net OPEB obligation	$ 6,008	$ —
Annual OPEB cost	8,492	10,096
Employer contribution	(4,038)	(4,088)
End of year net OPEB obligation	$ 10,462	$ 6,008
Percentage contributed	47.55 %	40.49 %

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2008	—	$ 92,551	$ 92,551	0.00%	$ 894,035	10.35%

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 8.97 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Operating Leases — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2009 and 2008, totaled $16,235,807 and $17,419,997, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net assets.

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

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

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2010	$ 14,084
2011	9,453
2012	5,787
2013	4,354
2014	2,412
2015-2019	6,035
2020-2024	4,769
2025-2029	3,713
2030-2034	419
Total	$ 51,026

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

- In fiscal year 2006, the Minnesota State University, Mankato entered into a five year $1,346,582 capital lease (principal and interest) for a telecommunication system. In fiscal year 2005, the University entered into a 15 year, $3,281,428 (principal and interest) capital lease for an emergency generator.
- In fiscal year 2003, Minnesota State University Moorhead entered into a lease agreement with Minnesota State University Moorhead Alumni Foundation Inc for $3,940,000, 30 year capital lease for John Neumaier Hall Apartments. Also, in fiscal year 2003, the Foundation constructed the Hendrix Health Center on land owned by the University, while entering into a ten year capital lease for $525,000.
- In fiscal year 2002, Winona State University leased a generator in the amount of $2,240,835, with a final payment occurring in fiscal year 2012.
- In fiscal year 2004, St. Cloud State University entered into a lease agreement with the St. Cloud State University Foundation for Atwood Memorial Center in the amount of $3,924,434 for construction costs. In fiscal year 2005, an additional $779,910 was added to the lease agreement. Also in 2005, a second lease agreement was signed for a newly completed stadium and recreation center in the amount of $10,084,954.

Income Leases — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2009 and 2008 totaled $2,002,177 and $1,873,125, respectively, and are included in other income in the statements of revenues, expenses, and changes in net assets.

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2010	$ 2,293
2011	1,334
2012	569
2013	246
2014	182
2015-2019	127
Total	$ 4,751

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2009
(In Thousands)

Description	Salaries	Other	Total
Academic support	$ 161,634	$ 50,521	$ 212,155
Institutional support	142,850	64,347	207,197
Instruction	630,489	54,543	685,032
Operation & maintenance of plant	63,012	78,963	141,975
Public service	11,727	7,372	19,099
Research	5,610	3,673	9,283
Student services	163,598	47,019	210,617
Auxiliary enterprises	45,881	69,621	115,502
Depreciation	—	82,982	82,982
Scholarships & fellowships	—	33,506	33,506
Total operating expenses	$ 1,224,801	$ 492,547	$ 1,717,348

For the Year Ended June 30, 2008
(In Thousands)

Description	Salaries	Other	Total
Academic support	$ 146,044	$ 56,482	$ 202,526
Institutional support	135,778	63,742	199,520
Instruction	601,279	56,029	657,308
Operation & maintenance of plant	60,209	81,928	142,137
Public service	11,106	6,310	17,416
Research	5,818	4,313	10,131
Student services	154,869	45,731	200,600
Auxiliary enterprises	44,439	70,205	114,644
Depreciation	—	76,536	76,536
Scholarships & fellowships	—	28,135	28,135
Total operating expenses	$ 1,159,542	$ 489,411	$ 1,648,953

13. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Minnesota State Retirement System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000. The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, are 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. For the period July 1, 2008 to June 30, 2009, the funding requirement is 4.50 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State Colleges and Universities are as follows:

(In Thousands)	
Fiscal Year	Amount
2009	$ 9,705
2008	8,502
2007	7,443

Teachers Retirement Fund (TRF)

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

The Teachers Retirement Fund is a cost sharing, multiple employer, defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement.

The applicable rates for coordinated members range from 1.2 percent and 1.7 percent for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. Minnesota State Colleges and Universities, as an employer for some participants, are liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. Effective July 1, 2006, employer and employee contributions were 5 percent and 5.5 percent, respectively. Effective July 1, 2007, the funding requirement is 5.5 percent for both employer and employee coordinated members. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State Colleges and Universities are as follows:

(In Thousands)		
Fiscal Year	Employer	Employee
2009	$ 10,440	$ 10,440
2008	9,833	9,833
2007	9,579	10,423

Public Employees Retirement Fund (PERF)

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

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

The statutory authority for PERF is Minnesota Statutes, Chapter 353. Effective January 1, 2007, the funding requirement increased to 5.75 percent for employees and 6.25 percent for employers. Effective January 1, 2008, the funding requirement increased to 6 percent for employees and to 6.5 percent for employers. Effective January 1, 2009 and again January 1, 2010, employer contributions will increase .25 percent respectively. Actual contributions were 100 percent of required contributions. Required contributions for the Minnesota State Colleges and Universities were:

	(In Thousands)	
Fiscal Year	Employer	Employee
2009	$ 1,305	$ 1,139
2008	1,306	1,158
2007	1,278	1,128

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

(In Thousands)		
Fiscal Year	Employer	Employee
2009	$ 25,407	$ 19,022
2008	22,147	16,569
2007	21,346	15,913

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	$ 6,000 to $ 52,000	$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State College Faculty Association	6,000 to 56,000	2,500
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

Minnesota State Colleges and Universities matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for Minnesota State Colleges and Universities were as follows:

(In Thousands)	
Fiscal Year	Amount
2009	$ 14,716
2008	12,288
2007	12,870

14. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance university dormitories and student unions. The Minnesota Higher Education Facilities Authority sold bonds to finance Vermilion Community College dormitories and modular housing. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory. Also see Note 8, Long Term Obligations, for additional information on the pledging of the revenues.

Summary financial information for Revenue Fund for the fiscal years ended June 30, 2009 and 2008 follows.

Summary Information for Revenue Fund
(In Thousands)

	2009	2008
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 62,038	$ 60,031
Restricted assets	122,997	134,557
Capital assets, net	192,177	141,521
Total assets	377,212	336,109
Liabilities		
Current liabilities	20,912	18,751
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	73,988	64,685
Total net assets	$ 161,106	$ 151,751
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 93,781	$ 83,619
Depreciation expense	(10,043)	(8,857)
Other operating expenses	(69,867)	(65,166)
Net operating income	13,871	9,596
Nonoperating revenues (expenses)		
Interest income	2,467	5,265
Interest expense	(7,091)	(5,374)
Capital grants	100	—
Gain (Loss) on disposal of capital assets	8	(74)
Total nonoperating revenues (expenses)	(4,516)	(183)
Change in net assets	9,355	9,413
Net assets, beginning of year	151,751	142,338
Net assets, end of year	$ 161,106	$ 151,751
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 22,605	$ 21,833
Capital and related financing activities	(9,389)	(16,735)
Investing activities	3,079	4,444
Net increase	16,295	9,542
Cash beginning of year	149,637	140,095
Cash end of year	$ 165,932	$ 149,637

Summary financial information for Vermilion Community College (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2009 and 2008, respectively, follows. The revenue bonds for Vermillion's residence hall were paid in full during fiscal year 2009 and audited financial statements were not required. Therefore, no residence hall financial statements are presented for fiscal year 2009.

Vermilion Community College Financial Summary
(In Thousands)

	2009	2008	
	Modular Housing	Modular Housing	Residence Halls
CONDENSED STATEMENTS OF NET ASSETS			
Assets			
Current assets	$ 34	$ 24	$ 147
Restricted assets	140	143	—
Capital assets, net	866	901	1,277
Total assets	1,040	1,068	1,424
Liabilities			
Current liabilities	86	90	21
Noncurrent liabilities	225	290	—
Total liabilities	311	380	21
Net assets			
Invested in capital assets, net of related debt	641	612	1,277
Restricted	66	67	—
Unrestricted	22	9	126
Total net assets	$ 729	$ 688	$ 1,403
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS			
Operating revenues	$ 214	$ 218	$ 424
Depreciation expense	(36)	(34)	(72)
Other operating expenses	(119)	(126)	(320)
Net operating income	59	58	32
Nonoperating revenues (expenses)			
Interest income	1	5	—
Interest expense	(19)	(23)	—
Loss on disposal of capital assets	—	—	(6)
Total nonoperating revenues (expenses)	(18)	(18)	(6)
Transfers in and out	—	137	(259)
Change in net assets	41	177	(233)
Net assets, beginning of year	688	511	1,636
Net assets, end of year	$ 729	$ 688	$ 1,403
CONDENSED STATEMENTS OF CASH FLOWS			
Net cash provided by (used in)			
Operating activities	$ 82	$ 75	$ 108
Noncapital financing activities	—	—	15
Capital and related financing activities	(86)	(101)	(325)
Investing activities	1	4	—
Net decrease in cash	(3)	(22)	(202)
Cash beginning of year	143	165	335
Cash end of year	$ 140	$ 143	$ 133

Summary financial information for Itasca Community College (which is reported within the Northeast Higher Education District) for the years ended June 30, 2009 and 2008, respectively, follows.

Itasca Community College Financial Summary
(In Thousands)

	2009 Residence Halls	2008 Residence Halls
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 52	$ 65
Restricted assets	264	259
Capital assets, net	3,664	3,783
Total assets	3,980	4,107
Liabilities		
Current liabilities	141	127
Noncurrent liabilities	2,103	2,174
Total liabilities	2,244	2,301
Net Assets		
Invested in capital assets, net of related debt	1,481	1,529
Restricted	264	259
Unrestricted	(9)	18
Total net assets	$ 1,736	$ 1,806
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 394	$ 377
Depreciation expense	(119)	(119)
Other operating expenses	(227)	(229)
Net operating income	48	29
Nonoperating revenues (expenses)		
Interest income	9	14
Interest expense	(127)	(130)
Total nonoperating revenues (expenses)	(118)	(116)
Change in net assets	(70)	(87)
Net assets, beginning of year	1,806	1,893
Net assets, end of year	$ 1,736	$ 1,806
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 184	$ 182
Investing activities	9	13
Capital and related financing activities	(207)	(238)
Net decrease in cash	(14)	(43)
Cash, beginning of year	305	348
Cash, end of year	$ 291	$ 305

15. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2009
(In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Alexandria	Law Enforcement Center	$ 10,500	$ 9,646	$ 854	2009 Aug
Anoka-Ramsey	Classrooms	3,800	336	3,464	2010 May
Bemidji	Sattgast Hall Addition	8,900	6,454	2,446	2010 May
Century	Classroom Renovation	7,900	2	7,898	2010 July
Century	Parking Lot Renovation	4,075	1,017	3,058	2009 Nov
Inver Hills	Classroom Addition Renovation	13,200	9,886	3,314	2009 Oct
Metropolitan	Law Enforcement Center	13,900	767	13,133	2010 May
Minneapolis	Science & Allied Health Renovation	18,800	18,249	551	2009 July
MSU, Mankato	Trafton Science Center	25,800	9,061	16,739	2010 Aug
MSU, Mankato	Outdoor Recreation Renovation	6,700	38	6,462	2010 Aug
MSU Moorhead	Lommen Hall	13,100	1,588	11,512	2010 Jun
MSU Moorhead	Wellness Center	9,500	8,534	966	2010 Apr
Normandale	Student Union	14,500	3	14,497	2011 Mar
Normandale	Classroom Addition Renovation	7,000	5,543	1,457	2009 Sep
Northland	Classroom Addition Renovation	7,800	6,268	1,532	2009 Dec
Ridgewater	Technical Instruction	3,500	341	3,159	2010 Dec
Southwest	Science & Hospitality/Culinary	9,200	549	8,651	2012 May
SCSU	Brown Hall Renovation	13,200	4,796	8,404	2010 Apr
SCSU	National Hockey Center Renovation	6,500	478	6,022	2010 Sep
St. Paul	Transportation & Technology Lab	13,500	11,064	2,436	2009 Dec
Winona	Residence Hall	29,600	4,524	25,076	2010 Aug
Winona	Wellness Center Memorial Hall	18,400	3,705	14,695	2010 Aug

*Alexandria Technical College; Anoka-Ramsey Community College; Bemidji State University; Century College; Inver Hills Community College; Metropolitan State University; Minneapolis Community & Technical College; Minnesota State University, Mankato; Minnesota State University Moorhead; Normandale Community College; Northland Community Technical College; Ridgewater Community & Technical College; Southwest Minnesota State University; St. Cloud State University; St. Paul Technical College; and Winona State University.

16. RISK MANAGEMENT

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

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

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

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

Institution deductible	\$2,500 to \$250,000
Fund responsibility	Deductible to \$1,000,000
Primary re-insurer coverage	\$1,000,001 to \$25,000,000
Multiple re-insurers' 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

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

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

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

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

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2009 and 2008.

(In Thousands)

	Beginning Liability	Net Additions & Changes	Payments	Ending Liabilities
Fiscal Year Ended 6/30/09	\$ 5,412	\$ 2,517	\$ 2,765	\$ 5,164
Fiscal Year Ended 6/30/08	5,855	2,503	2,946	5,412

17. COMPONENT UNITS

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

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

Minnesota State Colleges and Universities received $16,085,950 and $17,756,612 in fiscal years 2009 and 2008, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State Colleges and Universities and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

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

The foundations financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions and reported as follows:

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

Investments — The Foundations adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held By Not for Profit Organizations,* in 1997. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Schedule of Investments, June 30, 2009
(In Thousands)

Investments	Bemidji State Univ. Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State Univ. Foundation	MSU, Mankato Foundation
Balanced mutual funds	$ —	$ —	$ 1,665	$ 1,629	$ 2,688
Equity securities	3,956	697	53	—	17,902
Fixed income/Bonds/U.S. treasuries	4,257	43	442	196	5,724
Money market/Certificate of deposit	21	526	—	269	2,132
Other investments	461	—	283	52	567
Real estate (held for investment)	1,992	—	—	—	42
Total	$ 10,687	$ 1,266	$ 2,443	$ 2,146	$ 29,055

	MSU Moorhead Foundation	St. Cloud State Univ. Foundation	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Balanced mutual funds	$ 404	$ 9,892	$ —	$ —	$ 16,278
Equity securities	4,795	1,857	2,424	5,320	38,788
Fixed income/Bonds/U.S. treasuries	477	3,641	2,279	2,458	17,733
Money market/Certificate of deposit	281	5,797	225	250	9,501
Other investments	58	—	—	—	1,421
Real estate (held for investment)	—	—	—	—	2,034
Total	$ 6,015	$ 21,187	$ 4,928	$ 8,028	$ 85,755

Schedule of Investments, June 30, 2008
(In Thousands)

Investments	Bemidji State Univ. Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State Univ. Foundation	MSU, Mankato Foundation
Balanced mutual funds	$ —	$ —	$ 1,932	$ 251	$ 3,392
Equity securities	6,852	791	69	968	25,144
Fixed income/Bonds/U.S. treasuries	3,531	74	488	899	4,222
Money market/Certificate of deposit	325	882	—	105	980
Other investments	514	—	311	—	199
Real estate (held for investment)	1,264	—	—	—	1,802
Total	$ 12,486	$ 1,747	$ 2,800	$ 2,223	$ 35,739

	MSU Moorhead Foundation	St Cloud State Univ. Foundation	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Balanced mutual funds	$ 347	$ 12,038	$ —	$ —	$ 17,960
Equity securities	5,763	2,616	3,254	10,563	56,020
Fixed income/Bonds/U.S. treasuries	549	4,760	2,279	4,916	21,718
Money market/Certificate of deposit	220	4,948	288	5	7,753
Other investments	89	—	—	—	1,113
Real estate (held for investment)	—	—	—	—	3,066
Total	$ 6,968	$ 24,362	$ 5,821	$ 15,484	$ 107,630

Capital Asset — Summaries of the foundations' capital assets for fiscal years 2009 and 2008 are:

Schedule of Capital Assets, June 30, 2009
(In Thousands)

	Bemidji State Univ. Foundation	MSU, Mankato Foundation	MSU Moorhead Foundation	St Cloud State Univ. Foundation
Capital assets, not depreciated:				
Land	$ —	$ 945	$ 425	$ 175
Total capital assets, not depreciated	—	945	425	175
Capital assets, depreciated:				
Buildings and improvements	532	246	4,667	—
Equipment	257	—	—	248
Total capital assets, depreciated	789	246	4,667	248
Total accumulated depreciation	(447)	(209)	(1,451)	(229)
Total capital assets depreciated, net	342	37	3,216	19
Total capital assets, net	$ 342	$ 982	$ 3,641	$ 194

	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Capital assets, not depreciated:			
Land	$ 265	$ 552	$ 2,362
Total capital assets, not depreciated	265	552	2,362
Capital assets, depreciated:			
Buildings and improvements	8,127	10,745	24,317
Equipment	37	281	823
Total capital assets, depreciated	8,164	11,026	25,140
Total accumulated depreciation	(875)	(1,723)	(4,934)
Total capital assets depreciated, net	7,289	9,303	20,206
Total capital assets, net	$ 7,554	$ 9,855	$ 22,568

Schedule of Capital Assets, June 30, 2008
(In Thousands)

	Bemidji State Univ. Foundation	MSU, Mankato Foundation	MSU Moorhead Foundation	St Cloud State Univ. Foundation
Capital assets, not depreciated:				
Land	$ —	$ 775	$ 425	$ 175
Construction in progress	—	—	—	—
Total capital assets, not depreciated	—	775	425	175
Capital assets, depreciated:				
Buildings and improvements	532	—	4,667	—
Equipment	257	246	—	246
Total capital assets, depreciated	789	246	4,667	246
Total accumulated depreciation	(406)	(185)	(1,298)	(218)
Total capital assets depreciated, net	383	61	3,369	28
Total capital assets, net	$ 383	$ 836	$ 3,794	$ 203

	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Capital assets, not depreciated:			
Land	$ 265	$ 552	$ 2,192
Construction in progress	563	—	563
Total capital assets, not depreciated	828	552	2,755
Capital assets, depreciated:			
Buildings and improvements	8,126	10,745	24,070
Equipment	37	281	1,067
Total capital assets, depreciated	8,163	11,026	25,137
Total accumulated depreciation	(627)	(1,427)	(4,161)
Total capital assets depreciated, net	7,536	9,599	20,976
Total capital assets, net	$ 8,364	$ 10,151	$ 23,731

Summaries of the foundations long term obligations:

- Minnesota State University, Mankato Foundation, Inc. — bonds payable, Taylor Center Campaign $1,148,000.
- Minnesota State University Moorhead Alumni Foundation, Inc. — dormitory bond loan payable $3,482,113 and notes payable totaling $208,753 with Bremer Bank.
- St. Cloud State University Foundation, Inc. — an agreement on March 1, 2002 with the Housing and Redevelopment Authority, the city of St. Cloud, MN and U.S. Bank National Association to issue $16,515,000 in revenue bonds, $13,520,000 of which are still outstanding at June 30, 2008
- Winona State University Foundation, Inc. — mortgage payable to finance the construction and start up operations of the student housing project totaling $8,380,199.
- Southwest Minnesota State University Foundation, Inc. — utilities assessments payable to the City of Marshall totaling $50,809 and a student housing revenue note payable to Bremer Bank totaling $5,226,546. Debt related to the Regional Events Center include three notes payable to Bremer Bank NA, Marshall, Minnesota in the amount $213,584 and $316,265 and $834,823. An interest free note payable to Aramark Educational Services, LLC for renovations and equipment for $317,188. Additionally $787,466 is payable to the Schwan's Corporate Giving Foundation. This amount represents gifts pledged to the Foundation on behalf of the construction of the Regional Events Center.
- Bemidji State University Foundation, Inc. – note payable to GMC Financing in the amount of $7,594.

Schedule of Long Term Obligations
(In Thousands)

Year	MSU, Mankato Foundation	MSU Moorhead Foundation	St Cloud State Univ. Foundation	Winona State Univ. Foundation	Southwest MSU Foundation	Bemidji State Univ. Foundation	Total
2010	$ 432	$ 147	$ 700	$ 294	$ 455	$ 6	$ 2,034
2011	245	155	725	307	531	1	1,964
2012	245	164	750	323	542	—	2,024
2013	226	105	790	339	1,470	—	2,930
2014	—	103	830	356	232	—	1,521
Thereafter	—	3,017	9,725	6,761	4,517	—	24,020
Total	$ 1,148	$ 3,691	$ 13,520	$ 8,380	$ 7,747	$ 7	$ 34,493

18. ACTIVITIES WITH THE STATE OF MINNESOTA

Lending Activity — The Minnesota State Colleges and Universities general operating fund is a part of the state's general treasury account. During fiscal year 2009 the State of Minnesota borrowed a total of $250 million from Minnesota State Colleges and Universities general fund which was repaid with interest within six weeks. The $20 million due from the state of Minnesota as of June 30, 2009 (see Note 3), as a result of an accounting error, was paid back with interest in August 2009.

Subsequent to year end the state of Minnesota borrowed $330 million from Minnesota State Colleges and Universities general fund for cash flow purposes resulting from changes in the timing of the state tax revenue. The state of Minnesota has assured Minnesota State Colleges and Universities this will be repaid with interest in full before the end of fiscal year 2010.

General Obligation Bond Issuances — In August and November 2009, two general obligation state bond issuances occurred, in the amount of $80 million each, at a true interest rate of 3.4 and 3.25 percent, respectively. Minnesota State Colleges and Universities pays one third of the debt service on $70.75 million of the August issue and $1.3 million of the November issue of these bonds, over the life of the bonds. The first debt service payment on these bonds will be November 2009.

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SUPPLEMENTAL SECTION

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

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

November 6, 2009

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

We have audited the consolidated financial statements of Minnesota State Colleges and Universities (MnSCU), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 6, 2009. Our audit opinion also includes references to other auditor's reports, which are included in the audited financial statements. We conducted our audit in accordance with 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. The financial statements of the discretely presented Foundation component units were not audited in accordance with *Government Auditing Standards.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects MnSCU's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of MnSCU's financial statements that is more than inconsequential will not be prevented or detected by MnSCU's internal control. We consider deficiencies 2009-01 and 2009-02 described in the following Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described are material weaknesses in internal control over financial reporting.

COMPLIANCE AND OTHER MATTERS

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

We noted certain other matters that we reported to management of MnSCU in a separate letter dated November 6, 2009.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

KDV

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2009

SIGNIFICANT DEFICIENCIES

2009-01 Systemwide Information Technology

Criteria:

MnSCU management is responsible for establishing and maintaining internal controls for proper Information Technology general and application controls.

Condition:

MnSCU has not developed a process to adequately address prior year Information Technology comments that are essential for data security and business continuity in a timely manner.

In addition, MnSCU has not implemented adequate user level security over current web application environments.

Cause:

Development of the required process has been limited due to resources, prioritization of audit comments and implementation of new Information Technology systems.

Effect:

The effect of not adequately addressing current and prior year comments could affect the ability of MnSCU to record, process, summarize and report data consistently with the assertions of management in the financial statements.

Recommendation:

We recommend MnSCU develop a comprehensive process for addressing Information Technology comments. The process should categorize, prioritize, assign responsibility, establish timelines and monitor results to ensure resolution of these comments. In addition, MnSCU should ensure appropriate user level security is in place over web application environments.

Management's Response:

The Office of Chancellor will develop a comprehensive reporting process to ensure prior year and current year Information Technology audit comments are resolved in a timely manner.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2009

SIGNIFICANT DEFICIENCIES

2009-02 Reconciliation of Local Campus Bank Accounts

Criteria:

MnSCU management is responsible for establishing and maintaining internal controls for proper review of bank reconciliations and reporting of cash balances.

Condition:

MnSCU has not reconciled all local campus bank accounts in a timely and accurate manner at June 30, 2009.

Cause:

Certain local bank accounts have not been reconciled due to turnover at certain campuses and a lack of training at certain campuses.

Effect:

The effect of not adequately addressing current and prior year comments could affect the ability of MnSCU to record, process, summarize and report cash balances consistently with the assertions of management in the financial statements.

Recommendation:

We recommend all campus local bank accounts be reconciled on a timely basis. To accomplish this recommendation, we recommend additional training be provided at the campus level to accurately complete bank reconciliations in a timely manner, and that the Office of Chancellor continue to monitor timely reconciliation compliance and reporting. We also recommend the Office of Chancellor consider allocating additional resources to assist in the reconciliation process through increased campus assistance or coordination of shared campus services.

Management's Response:

The Office of the Chancellor will work with the Colleges and Universities to reconcile all local bank accounts on a timely basis and consider allocating additional resources to the campuses if necessary.

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