Minnesota State Colleges & Universities

Revenue Fund Annual Financial Report

For the years ended June 30, 2007 and 2006

Minnesota
STATE COLLEGES
& UNIVERSITIES

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2007 and 2006

Prepared by:

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

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REVENUE FUND

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

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INTRODUCTION

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INTRODUCTION

Minnesota
STATE COLLEGES
& UNIVERSITIES

OFFICE OF THE CHANCELLOR

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November 12, 2007

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

Dear Chancellor McCormick:

I am pleased to submit the audited annual financial statements for the Minnesota State Colleges and Universities Revenue Fund for the fiscal years ended June 30, 2007 and 2006. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board. The Office of the Chancellor is responsible for preparation of the statements.

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

Net assets increased $9.5 million, an increase of 7.2 percent over fiscal year 2006 due both to rate and occupancy increases and aggressive cost controls. In February 2007, the Fund issued $43.1 million of revenue bonds increasing noncurrent bonds payable by $41.1 million.

Within the financial statements, which were audited by Kern, DeWenter, Viere, Ltd., and received an unqualified opinion, you will find statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. The Revenue Fund ended fiscal year 2007 with total net assets of $142.3 million. Reserve balances, including requirements mandated by bond covenants are invested with the State Board of Investment or a Trustee. Investment earnings are used to keep student costs in the residence halls and student unions among the lowest in the region.

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

Sincerely,

Laura M. King
Vice Chancellor-Chief Financial Officer

2006-2007 Minnesota State Colleges and Universities Board of Trustees

2006-2007 Minnesota State Colleges and Universities System Officers

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

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

FINANCIAL SECTION

KDV

KERN · DEWENTER · VIERE

INDEPENDENT AUDITORS' REPORT

November 12, 2007

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

We have audited the accompanying financial statements of the Minnesota State Colleges and Universities Revenue Fund (Revenue Fund), as of and for the years ended June 30, 2007 and 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Revenue Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1, the financial statements present only the Revenue Fund and do not purport to, and do not, present fairly the financial position of the Minnesota State Colleges and Universities, as a whole, as of June 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Revenue Fund as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Revenue Fund. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying introductory section has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on the introductory information.

The accompanying Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of management inquiries regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

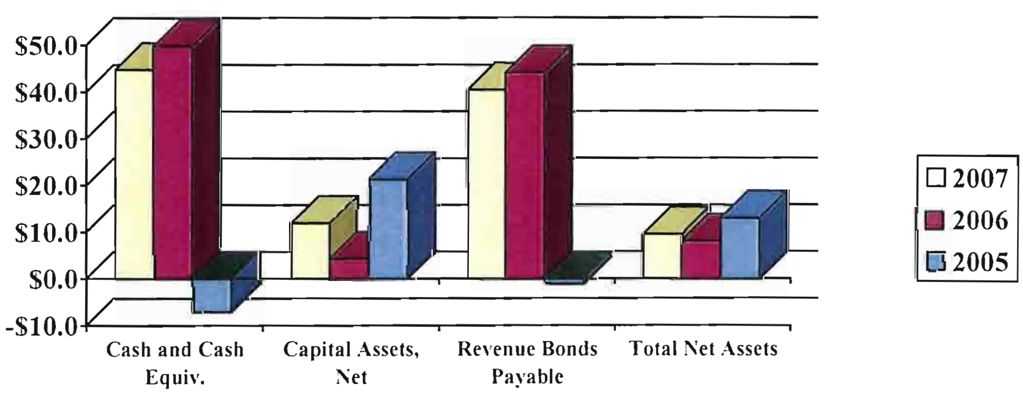
The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities, for the fiscal years ended June 30, 2007, 2006, and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

Minnesota State Colleges and Universities, a state supported system, is the largest single provider of higher education in the state of Minnesota and is comprised of 32 state-supported technical, community, and consolidated colleges, and universities. The Revenue Fund currently operates on only the seven state universities for purposes of managing operations of residence halls, dining halls, student union buildings, parking facilities, and other revenue-producing buildings as deemed necessary for the good and benefit of the universities.

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position improved during fiscal year 2007 with net assets increasing by $9.5 million totaling $142 million, a 7.2 percent increase compared to the fiscal year 2006 increase of $8 million totaling $132.8 million, a 6.5 percent increase over fiscal year 2005. Cash and cash equivalents (unrestricted) at year-end totaled $48.1 million, an increase of $10.2 million over fiscal year 2006 at year-end. In February 2007, the Revenue Fund issued bonds totaling $43.1 million, with maturity dates of 13 and 20 years. The increase in cash and cash equivalents in the following table includes an increase of $34.5 million in restricted cash and cash equivalents.

Statements of Net Asset Changes (in Millions)



USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET ASSETS

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

Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summary of the Revenue Fund's assets, liabilities, and net assets at June 30, 2007, 2006, and 2005 follows:

(In Thousands)	2007	2006	2005
Current assets	$ 63,652	$ 48,089	$ 41,601
Current restricted assets	91,991	57,462	9,069
Noncurrent restricted assets	14,955	4,204	3,415
Capital assets, net	128,061	126,897	123,420
Total assets	298,659	236,652	177,505
Current liabilities	28,508	16,320	10,314
Noncurrent liabilities	127,813	87,505	42,441
Total liabilities	156,321	103,825	52,755
Net assets	$ 142,338	$ 132,827	$ 124,750

Current assets — consist primarily of cash and cash equivalents, and securities lending collateral. Unrestricted cash and cash equivalents increased by $10.2 million to total $48.1 million at June 30, 2007. Securities lending collateral increased by $3.9 million to total $11.1 million at June 30, 2007.

Current restricted assets — consist of unspent bond proceeds, which increased $34.5 million over the fiscal year due primarily to proceeds from issuance of new revenue bonds.

Noncurrent restricted assets — consist primarily of construction in process, which increased $10.8 million, as construction on bond projects continues.

Capital assets, net — increased $1.2 million, representing the portion of bond projects completed and repairs and renovations of facilities within current operations. There were no other noncurrent assets in fiscal years 2005 and 2006.

Current liabilities — consist primarily of accounts payable, securities lending collateral, and unearned revenue. Total accounts payable, including restricted accounts payable, increased by $7.1 million to total $9.8 million at June 30, 2007. Securities lending collateral increased by $3.9 million to total $11.1 million at June 30, 2007. Unearned revenue increased by $0.5 million to a total of $2.7 million at June 30, 2007.

Noncurrent liabilities — At June 30, 2007 noncurrent liabilities consisted primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable increased by $41.1 million to total $117.5 million at June 30, 2007. Noncurrent capital leases totaled $7.6 million; $3.6 million related to the John Neumaier Hall Apartments at Minnesota State University Moorhead, and $4.0 million related to the Atwood Memorial Center renovation at St. Cloud State University.

Net assets — represent the residual interest in the Revenue Fund's assets after deducting liabilities. The Revenue Fund's net assets at June 30, 2007, 2006, and 2005 are summarized as follows:

(In Thousands)	2007	2006	2005
Invested in capital assets, net of related debt	$ 85,557	92,223	$ 86,282
Restricted	12,159	7,702	6,101
Unrestricted	44,622	32,902	32,367
Total net assets	$ 142,338	132,827	$124,750

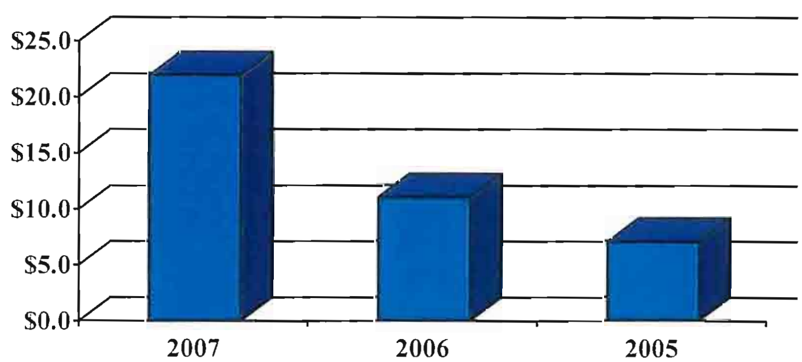
Invested in capital assets, net of related debt — represents the Revenue Fund's capital assets, net of both accumulated depreciation and the Revenue Fund's outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

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

CAPITAL AND DEBT ACTIVITIES

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

Construction in Progress (In Millions)



Capital outlays, including $19.9 million in expenditures for construction in progress, totaled $20.1 million in fiscal year 2007, compared to $12.1 million in fiscal year 2006. Capital expenses are primarily composed of replacement and renovation of dormitories, student unions, and dining facilities.

At June 30, 2007, the noncurrent portion of revenue bonds payable totaled $117.5 million, with $1.9 million current portion payable. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 5 of the financial statements. Note 4 to the financial statement shows that buildings and improvements increased by $9 million due to the completion of prior years' construction in progress.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

A summarized statement for the fiscal years ended June 30, 2007, 2006, and 2005 follows:

(In Thousands)

	2007	2006	2005
Operating revenue:			
Room and board	$ 59,817	$ 56,653	$ 53,247
Fees	11,115	10,538	9,568
Sales and services	4,597	4,928	4,680
Other	1,327	709	1,187
Total operating revenue	76,856	72,828	68,682
Nonoperating revenue and other gains/(losses):			
Interest and other nonoperating revenue	6,217	4,073	7,259
Total nonoperating revenue and gains	6,217	4,073	7,259
Total revenues	83,073	76,901	75,941
Operating expense:			
Salaries and benefits	19,173	18,860	18,122
Supplies and services	34,033	32,275	29,333
Repairs and maintenance	4,510	1,997	3,162
Depreciation and amortization	8,043	7,835	7,107
Other	3,062	4,364	3,267
Total operating expenses	68,821	65,331	60,991
Nonoperating expense:			
Interest expense	4,663	3,496	1,401
(Gain)/loss on disposal of capital assets	78	(3)	50
Total nonoperating expense	4,741	3,493	1,451
Total expenses	73,562	68,824	62,442
Increase in net assets	9,511	8,077	13,499
Net assets, beginning of year	132,827	124,750	111,773
Prior period adjustment	—	—	(522)
Net assets, beginning of year, as adjusted	132,827	124,750	111,251
Net assets, end of year	$ 142,338	$ 132,827	$ 124,750

The $3.2 million increase in room and board revenue resulted from additional rooms plus rate increases to cover operating expense increases and to fund the reinvestment program. Nonoperating revenue increased due to an increase in interest income in fiscal year 2007 of $2.1 million.

INVESTMENTS

For the fiscal year 2007 Bond Sale the Revenue Fund changed from a Master Resolution to an Indenture. The fiscal year 2007 bond proceeds along with all Debt Service Reserve Accounts, and the Debt Service Account for fiscal year 2007 were deposited with a Trustee (US Bank) who is managing the investments. The remaining proceeds of the fiscal year 2005 sale ($35.8 million), and the Debt Service Accounts for the fiscal years 2002 and 2005 sales, along with all operating funds, are on deposit in the State Treasury where they earn Invested Treasury Cash (ITC) rates.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

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

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

The Minnesota State Colleges & Universities will request additional bonding authority up to $250,000,000 from the state legislature in the coming session. The current authority is $150,000,000 with $119,440,000 in debt outstanding.

The Revenue Fund is tentatively planning a bond sale in mid calendar 2008. In January 2008 the Board of Trustees will be asked to approve the following projects:

- $30,000,000 for a new residence hall at Winona State University;
- $8,500,000 for Wellness Center at Winona State University; this project is part a $16,500,000 remodeling of Memorial Hall for which $5,000,000 of State of Minnesota General Obligation Bonds has been requested, and $3,000,000 of donations are anticipated.
- $16,000,000 for a new residence hall at Minnesota State University, Mankato.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2007 financial position and results for all those with an interest in the Revenue Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

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

	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	$ 48,104	$ 37,899
Accounts receivable, net	4,402	2,948
Securities lending collateral	11,146	7,242
Total current assets	63,652	48,089
Current Restricted Assets		
Cash and cash equivalents	91,991	57,462
Total current restricted assets	91,991	57,462
Noncurrent Restricted Assets		
Other restricted assets	95	102
Construction in progress	14,860	4,102
Total noncurrent restricted assets	14,955	4,204
Total Restricted Assets	106,946	61,666
Noncurrent Assets		
Capital assets, net	128,061	126,897
Total noncurrent assets	128,061	126,897
Total Assets	298,659	236,652
Liabilities		
Current Liabilities		
Salaries payable	771	726
Accounts payable	4,320	2,740
Unearned revenue	2,732	2,238
Payable from restricted assets	5,499	-
Interest Payable	1,614	1,032
Current portion of long-term debt	2,212	2,132
Compensated absences payable	214	210
Securities lending collateral	11,146	7,242
Total current liabilities	28,508	16,320
Noncurrent Liabilities		
Compensated absences payable	1,288	1,380
Noncurrent portion of long-term debt	126,525	86,125
Total noncurrent liabilities	127,813	87,505
Total Liabilities	156,321	103,825
Net Assets		
Invested in capital assets, net of related debt	85,557	92,223
Restricted expendable	12,159	7,702
Unrestricted	44,622	32,902
Total Net Assets	$ 142,338	$ 132,827

The notes are an integral part of the financial statements.

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

	2007	2006
Operating Revenues		
Room and board	$ 59,817	$ 56,653
Fees	11,115	10,538
Sales and services	4,597	4,928
Other income	1,327	709
Total operating revenues	76,856	72,828
Operating Expenses		
Salaries	19,173	18,860
Food service	18,301	17,040
Other purchased services	11,301	11,776
Supplies	4,431	3,459
Repairs and maintenance	4,510	1,997
Depreciation	8,043	7,835
Other expense	3,062	4,364
Total operating expenses	68,821	65,331
Operating income	8,035	7,497
Nonoperating Revenues (Expenses)		
Interest income	6,217	4,073
Interest expense	(4,663)	(3,496)
Total nonoperating revenue (expenses)	1,554	577
Income Before Other Revenues, Expenses, Gains, or Losses	9,589	8,074
Gain (loss) on disposal of capital assets	(78)	3
Change in net assets	9,511	8,077
Total Net Assets - Beginning of Year	132,827	124,750
Total Net Assets - End of Year	$ 142,338	$ 132,827

The notes are an integral part of the financial statements.

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

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	$ 76,484	$ 73,261
Cash paid to suppliers for goods or services	(41,843)	(39,659)
Cash payments to employees	(19,218)	(18,865)
Net cash provided by operating activities	15,423	14,737
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(12,731)	(11,956)
Proceeds from sale of capital assets	17	9
Proceeds from borrowing	43,070	45,320
Proceeds from bond premium	-	1,929
Bond discount paid	(399)	-
Interest paid	(4,081)	(2,971)
Repayment of lease principal	(257)	(231)
Repayment of bond principal	(1,875)	(1,170)
Net cash flows from capital and related financing activities	23,744	30,930
Cash Flows from Investing Activities		
Investment earnings	5,567	4,055
Net cash flows from investing activities	5,567	4,055
Net Increase in Cash and Cash Equivalents	44,734	49,722
Cash and Cash Equivalents, Beginning of Year	95,361	45,639
Cash and Cash Equivalents, End of Year	$ 140,095	$ 95,361

Operating Income	$ 8,035	$ 7,497
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	8,043	7,835
Change in assets and liabilities		
Accounts receivable	(865)	6
Accounts payable	(244)	(1,029)
Salaries payable	43	9
Compensated absences payable	(88)	(14)
Unearned revenues	494	427
Other	5	6
Net reconciling items to be added to operating income	7,388	7,240
Net cash flow used in operating activities	$ 15,423	$ 14,737

Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 7,598	$ 274
Buildings acquired through a capital lease	-	46
Loss on retirement of capital assets	97	-
Investment earnings on account	592	-
Amortization of bond discount	(19)	-
Amortization of bond premium	79	52

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES, REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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

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

Basis of Presentation — The reporting policies of the Revenue Fund, a fund of the Minnesota State Colleges and Universities, conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets; statements of revenues, expenses, and changes in net assets; and statements of cash flows include financial activities of the Revenue Fund.

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

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

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

Cash and Cash Equivalents — At June 30, 2007 and 2006, the cash balance represents cash and cash equivalents in the state treasury and US Bank (trustee). Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds. Amounts held for capital projects and debt service are recorded as restricted cash.

Investments — The Revenue Fund contracts with the Minnesota State Board of Investment (SBI) and U.S. Bank, N.A. for investment management services. Investments consist of those permitted by bond covenants, state statutes, and the Board. SBI is authorized to invest in U.S. securities, stripped U.S. securities, repurchase agreements, asset-backed and private placement commercial paper, corporate medium-term notes, and bankers' acceptances in accordance with SBI's internal investment guidelines. Investments are reported at fair value, based on quoted market prices. Amounts held for capital projects and debt service are recorded as restricted investments.

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

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

Estimated useful lives are as follows:

Buildings	30-40 years
Building Improvements	20 years
Equipment	5-20 years

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

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

		Bond Payable (In Thousands)			
		2007	2006	2005	Maturity Date
Series 2002A	4.8398 %	$ 20,410	$ 21,245	$ 22,045	October 1, 2022
Series 2002B	6.4557 %	11,285	11,680	12,050	October 1, 2022
Series 2005A	4.9233 %	41,570	41,930	—	October 1, 2032
Series 2005B	5.0000 %	3,105	3,390	—	October 1, 2015
Series 2007A	4.1566 %	33,770	—	—	October 1, 2026
Series 2007B	4.2670 %	5,980	—	—	October 1, 2019
Series 2007C	5.6409 %	3,320	—	—	October 1, 2026
Total		$119,440	$ 78,245	$ 34,095	

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.

Operating Activities — Operating activities, as reported in the statements of revenues, expenses, and changes in net assets, are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the Revenue Fund's revenues and expenses are from exchange transactions. Interest income, which is relied upon for operations, is recorded as nonoperating revenue.

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

Fees, Room and Board, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of $1,749,062 and $1,218,313 for fiscal years ended June 30, 2007 and 2006, respectively, are reported on the Minnesota State Colleges and Universities' system financial statements, but are not reflected in these statements. Sales and services are net of cost of goods sold of $102,010 and $90,535 for fiscal years ended June 30, 2007 and 2006, respectively.

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

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

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

- *Invested in capital assets, net of related debt*: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted Expendable*: net assets *subject* to externally imposed stipulations. Net asset restrictions for the Revenue Fund are as follows:
  - *Restricted for capital projects/debt service* — restricted for *completion* of capital projects or repayment of bond debt.
- *Unrestricted*: net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be *designated* for specific purposes by action of management, Office of the Chancellor, or the Board of Trustees.

New Accounting Pronouncements — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*. This statement requires employers to accrue the cost of postretirement medical plans while employees who receive these benefits are providing services to the employer. GASB Statement No. 45 is effective for Minnesota State Colleges and Universities for the year ending June 30, 2008. The net OPEB obligation reported on the fiscal year 2008 financial statements will be $84,606.

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

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to room and board fees are in the state treasury. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance, or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2007	2006
Cash, treasury account	$ 93,392	$95,361
Cash, trustee account (US Bank)	46,703	—
Total	$ 140,095	$95,361

The Revenue Fund's treasury account balance was $93,392,385 and $94,990,322 at June 30, 2007 and 2006, respectively. This balance was adjusted by items in transit to arrive at the Revenue Fund's cash – treasury account balance.

Restricted cash of $91,990,852 and $57,461,890 as of June 30, 2007 and 2006, respectively, represents unexpended bond proceeds. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

Investments — The Minnesota State Board of Investment (SBI) manages the majority of the state's investments. All investments managed by SBI are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24 broadly restricts investments to obligations and stocks of the United States and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally, when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments. All money in the Revenue Fund is further restricted to investments permitted by Minnesota Statutes, Chapter 118A.

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

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

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

At June 30, 2007 and June 30, 2006, the Revenue Fund had no debt securities.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Revenue Fund's policy for reducing this risk of loss is to comply with Board Procedure 7.5.1 which requires compliance with Minnesota Statutes, Section 118A.03 and further excludes the use of FDIC insurance when meeting collateral requirements.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Revenue Fund's policy for reducing this risk is to comply with Board Procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments.

As of June 30, 2007 and June 30, 2006 the Revenue Fund had no investments.

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

During the fiscal years ended June 30, 2007 and 2006, State Street and Wells Fargo lent, on behalf of the state of Minnesota, certain securities held by State Street or Wells Fargo as custodian and received cash (both U.S. and foreign currency) and securities issued or guaranteed by the U.S. government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years ended June 30, 2007 and 2006 on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during the fiscal years ended June 30, 2007 and 2006. In addition, there were no losses during the fiscal years ended June 30, 2007 and 2006 resulting from default of the borrowers.

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

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

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

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

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

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

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the universities. The Revenue Fund's portion of the allocation is $11,146,000 and $7,242,000 as of June 30, 2007 and 2006, respectively.

3. ACCOUNTS RECEIVABLE

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

Summary of Accounts Receivable at June 30
(In Thousands)

	2007	2006
Room and board	$ 4,159	$ 3,016
Interest	592	—
Fees	527	554
Sales and service	261	146
Other income	260	544
Total accounts receivable	5,799	4,260
Allowance for uncollectible	(1,397)	(1,312)
Total	$ 4,402	$ 2,948

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

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

4. CAPITAL ASSETS

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

Year Ended June 30, 2007
(In Thousands)

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

Year Ended June 30, 2006
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 1,469	$ —	$ —	$ —	$ 1,469
Construction in progress	6,965	11,949	—	(7,914)	11,000
Total capital assets, not depreciated	8,434	11,949	—	(7,914)	12,469
Capital assets, depreciated:					
Buildings	138,928	—	—	106	139,034
Buildings and improvements	100,483	—	—	7,808	108,291
Equipment	3,441	164	82	—	3,523
Total capital assets, depreciated	242,852	164	82	7,914	250,848
Less accumulated depreciation:					
Buildings	82,860	2,646	—	—	85,506
Buildings and improvements	39,352	4,967	—	—	44,319
Equipment	2,347	222	76	—	2,493
Total accumulated depreciation	124,559	7,835	76	—	132,318
Total capital assets depreciated, net	118,293	(7,671)	6	7,914	118,530
Total capital assets, net	$ 126,727	$ 4,278	$ 6	$ —	$ 130,999

5. LONG-TERM OBLIGATIONS

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

Long-Term Obligations 2007
(In Thousands)

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

Long-Term Obligations 2006
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds payable	$ 34,095	$ 45,320	$ 1,170	$ 78,245	$ 1,875
Revenue bond premium	—	1,929	52	1,877	—
Capital lease payable	8,320	46	231	8,135	257
Compensated absences	1,604	1,022	1,036	1,590	210
Totals	$ 44,019	$ 48,317	$ 2,489	$ 89,847	$ 2,342

Revenue Bonds Payable — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $150,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 4.156 to 6.5 percent.

Bond Discount and Premium — In fiscal year 2007 bonds were issued resulting in discounts of $398,783. In fiscal year 2006 bonds were issued resulting in premiums of $1,929,284. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds. Bond discounts and premiums are combined on the Statements of Net Assets.

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

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

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

The gross amount of the leased assets and related depreciation as of June 30, 2007 and 2006, was $8,848,814 and $8,842,270, and $1,358,519 and $981,547, respectively, and is included within buildings and improvements.

Compensated Absences — Revenue Fund employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated in cash only at the time of termination from state employment. There are no payment schedules for compensated absences.

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

Long-Term Debt Repayment Schedule
(In Thousands)

	Revenue Bonds Payable		Capital Leases	
Fiscal Years	Principal	Interest	Principal	Interest
2008	$ 1,945	$ 5,909	$ 267	$ 395
2009	3,180	5,496	294	384
2010	4,655	5,330	308	372
2011	4,855	5,123	320	359
2012	5,065	4,906	333	346
2013-2017	28,265	20,793	1,948	1,487
2018-2022	32,375	13,589	2,447	966
2023-2027	26,895	6,033	922	403
2028-2032	9,920	1,859	1,039	128
2033-2037	2,285	57	—	—
Total	$ 119,440	69,095	7,878	4,840

6. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2007	2006
Purchased services and other payables	$ 1,065	$ 1,477
Restricted purchased services payable	5,499	—
Supplies	536	178
Repairs and maintenance	2,719	1,085
Total	$ 9,819	$ 2,740

7. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

The SERF is a cost-sharing, multiple-employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65.

The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rate for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. The Revenue Fund, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes two plans: an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Both plans are mandatory, tax-deferred, single employer defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities' unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities' specific bargaining units. The plans cover unclassified teachers, librarians, administrators and certain other staff. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Teachers Insurance and annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

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

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

Sup*plemental Retirement Plan* (SRP)

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

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

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

The Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2007, 2006, and 2005 were equal to the required contributions for each year, which were $741,745, $574,845, and $552,853, respectively.

8. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities 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 Risk Management Fund. Some campuses also purchase optional physical damage coverage for their newest or most expensive vehicles.

While property and casualty coverage is required by Minnesota State Colleges and Universities policy, campuses may select optional coverage such as internship liability, international accident, international liability, professional liability for employed physicians, and student health services professional liability. The Risk Management Fund also purchases these coverages.

Risk Insurance Coverage available is:

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

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

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

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

9. UNRESTRICTED NET ASSETS

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

Net Assets (In Thousands)	2007	2006
Repairs and replacements	\$ 7,401	\$ 8,227
Maintenance and operations	37,221	24,675
Total	\$ 44,622	\$ 32,902

10. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State Colleges and Universities. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were \$5,040,851 and \$5,161,958 for the years ended June 30, 2007 and 2006, respectively.

Within the accounts receivable balance, \$2,513,931 and \$1,991,664 is due from other funds as of June 30, 2007 and 2006, respectively, which is cash held in a local account outside of the Revenue Fund.

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

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

11. COMMITMENTS

During fiscal year 2007, the Revenue Fund activities included commitments for the following projects:

- Bemidji State University expended $2,068,000 on a new residence hall (Linden Hall). Total project cost is estimated at $8,500,000 with expected completion in January 2008.

- Minnesota State University, Mankato expended $10,439,000 to date for a new residence hall (Sears Hall). Total project cost is estimated at $34,300,000 with completion expected in June 2008.

- Minnesota State University, Moorhead expended $2,353,000 to date for Kise Commons. Total project cost is estimated at $5,650,000 with completion expected in December 2007.

SUPPLEMENTAL SECTION

KERN · DEWENTER · VIERE

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

November 12, 2007

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

We have audited the financial statements of Minnesota State Colleges and Universities Revenue Fund (Revenue Fund) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Revenue Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

MnSCU's response to the finding identified in our audit is described in the previous section. We did not audit MnSCU's response and, accordingly, we express no opinion on it.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES:

07-1 UNRECORDED INTEREST RECEIVABLE:

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

Condition: As part of the audit, it was noted that the revenue fund had omitted approximately $372,000 of accrued interest receivable asset in its year end financial statements.

Cause: MnSCU has not established an effective process to capture and record interest receivable at the institution level at June 30, 2007.

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

Recommendation: We recommend management establish internal control procedures, including second party review or other control procedures, to ensure the accrual of interest receivable at year end.

Management's Response: The Office of the Chancellor will remind the Universities to record monthly interest earnings timely. The Office will also establish a process to ensure that all interest earnings are properly reported in the financial statements.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES:

07-2 JOURNAL ENTRY APPROVAL PROCESS:

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

Condition: As part of the audit was noted that there was not always documentation of review or approval of revenue fund journal entries tested as part of our audit.

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

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

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

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

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