MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED June 30, 2008 and 2007

Prepared by:

Office of the Chancellor
Minnesota State Colleges and Universities
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St. Paul, Minnesota 55101

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MINNESOTA STATE COLLEGES AND UNIVERSITIES

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

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 7, 2008

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, 2008 and 2007. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board. The Office of the Chancellor is responsible for preparation of the statements.

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

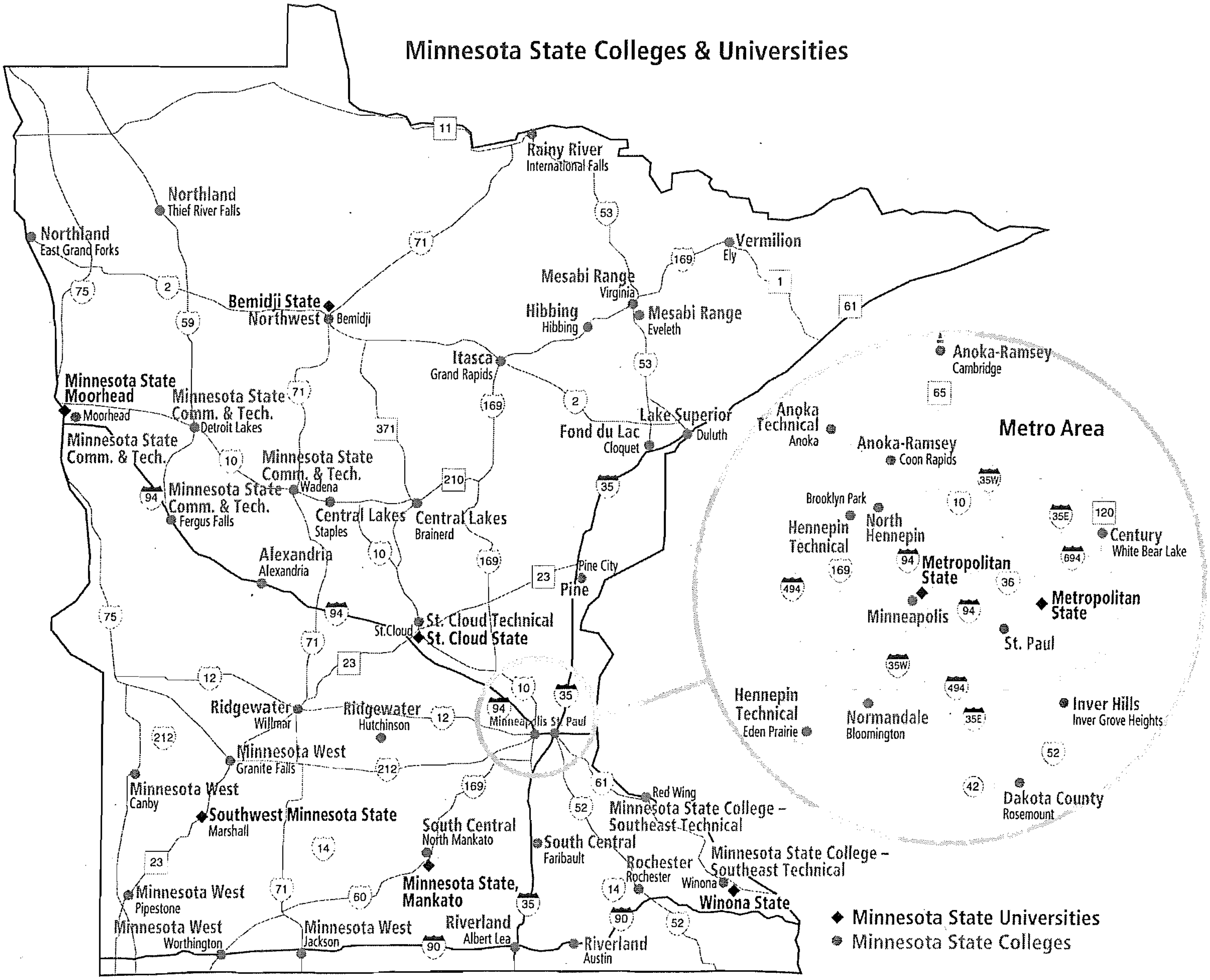
Net assets increased $9.4 million, an increase of 6.6 percent over fiscal year 2007 due both to rate and occupancy increases and aggressive cost controls. In June 2008, the Fund issued $41.0 million of revenue bonds increasing noncurrent bonds payable by $38.1 million.

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

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

Sincerely,

Laura M. King
Vice Chancellor-Chief Financial Officer



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
John O'Brien, Acting 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, Interim 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
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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.mr.mnscu.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.mnstate.edu

MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
Richard Shrubb, President
1-800-657-3966
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
Terrence Leas, President
Toll-free: 1-800-247-5039
www.riverland.edu

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

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

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

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

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

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

VERMILION COMMUNITY COLLEGE*
Ely
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 7, 2008

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, 2008 and 2007, 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; Hennepin Technical College; and Minneapolis Community and Technical College (collectively, the "Individual Colleges and Universities"); which represent 28% of the consolidated assets and 32% of the consolidated revenues of MnSCU for fiscal year 2008. For fiscal year 2007, we did not audit the financial statements of St. Cloud State University; Winona State University; Minnesota State University, Mankato; Minnesota State University, Moorhead; Century College; Metropolitan State University; Hennepin Technical College; and Minneapolis Community and Technical College, which represent 48% of the consolidated assets and 46% 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 statement of Southwest Minnesota State University Foundation; Winona State University Foundation; Metropolitan State University Foundation; Minnesota State University, Mankato Foundation, Inc; Bemidji State University Foundation; Minnesota State University Moorhead Alumni Foundation, Inc.; Century College Foundation; Fergus Area College Foundation; and St. Cloud State University Foundation, which cumulatively represent 100 percent of the total assets and 100 percent of the revenues of the total discretely presented component units. Those statements were also audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is also based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of MnSCU as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, MnSCU has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* as of July 1, 2007.

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 12, 2007. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MnSCU's financial statements for the year ended June 30, 2007, from which such summarized information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008 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 and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying introductory section has not been subjected to the auditing procedures applied by us and the other auditors in the audits of the financial statements and, accordingly, we express no opinion on them.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERÉ, LTD.
Minneapolis, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the consolidated financial position and activities of the Minnesota State Colleges and Universities system (the System) for the fiscal years ended June 30, 2008, 2007, and 2006. 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 3,700 educational programs, the System serves approximately 240,000 students annually in credit based courses, as measured by unduplicated headcount enrollment. An additional 139,000 students enroll in non-credit courses each year through the System's customized training services. The System employs about 19,500 full time and part time faculty and staff.

FINANCIAL HIGHLIGHTS

The System's financial position improved during fiscal year 2008 with net assets increasing by $119.9 million, or 9.1 percent, on total revenues of $1.8 billion. This follows a $126.3 million, or 10.6 percent increase during fiscal year 2007 on total revenues of $1.7 billion. The System's unrestricted net assets increased by $21.6 million, or 9.5 percent and $18.9 million, or 9.1 percent, in 2008 and 2007, respectively.

- Income before other revenues, expenses, gains or losses, described further below as the System's operating margin, was $8.4 million in 2008. This compares to income of $7.1 million and $6.1 million in 2007 and 2006, respectively.

- The state appropriation and tuition charged to students are the System's two largest revenue sources. The state appropriation increased by $63.7 million, or 10.6 percent in fiscal year 2008 after increasing 0.2 percent in fiscal year 2007 and 9.9 percent in fiscal year 2006. Gross tuition revenue increased $45.6 million or 7.4 percent, $50.7 million or 9.0 percent and $30.7 million or 5.8 percent in fiscal years 2008, 2007 and 2006, respectively. Tuition rate increases averaged 3.6 percent, 7.2 percent and 6.1 percent in fiscal years 2008, 2007, and 2006, respectively.

- Total debt supporting the System's capital asset investment programs increased in fiscal year 2008 by approximately $64.8 million to a total of $411.5 million, an 18.7 percent increase. Most of this increase was split evenly between general obligation and revenue bonds.

- Salaries and benefits, the largest cost category in the System, increased by $88.0 million, or 8.2 percent, and $40.4 million, or 3.9 percent, in fiscal years 2008 and 2007, respectively. This cost constitutes 70.3 percent of the System's fiscal year 2008 total operating expenses, compared to 70.1 percent for fiscal year 2007.

- 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 2008, 2007 and 2006 totaled 139,885, 135,839 and 134,220, 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).

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 2008, 2007, and 2006, follow (in thousands):

Assets and Liabilities

	2008	2007	2006
Current assets	$ 684,197	$ 671,750	$ 584,335
Current restricted assets	115,387	107,561	60,697
Noncurrent restricted assets	40,038	14,955	4,204
Noncurrent assets	26,814	25,384	26,970
Capital assets, net	1,388,698	1,259,484	1,147,099
Total assets	2,255,134	2,079,134	1,823,305
Current liabilities	272,835	291,644	237,918
Noncurrent liabilities	545,020	470,158	394,381
Total liabilities	817,855	761,802	632,299
Invested in capital assets, net of related debt	1,089,660	998,935	913,128
Restricted	98,788	91,190	69,606
Unrestricted	248,831	227,207	208,272
Total Net assets	$ 1,437,279	$ 1,317,332	$ 1,191,006

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $44.0 million to a total of $555.2 million at June 30, 2008. This amount plus investments of $29.9 million represent approximately 4.5 months of fiscal year 2008 operating expenses (excluding depreciation), unchanged from fiscal year 2007. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the System's revenues.

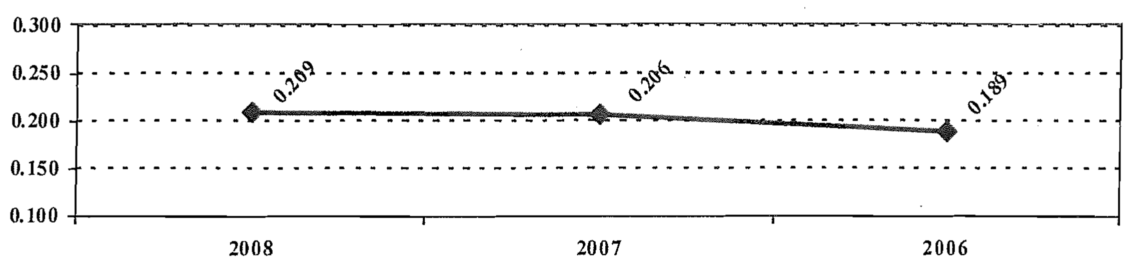
Current liabilities consist primarily of salaries and accounts payable. Salaries payable at June 30, 2008 increased from the prior year by 14.0 percent or $14.3 million to a total of $115.9 million. This increase is due in large part to an accrued, retroactive bargaining unit settlement for fiscal year 2008 of about $2 million plus one additional day of accrued salary and benefits of about $3 million. Accounts payable, including payables from restricted assets, decreased $8.1 million to $62.9 million. Capital project payables decreased by $10.9 million due to timing differences as construction activity remained robust. Consistent with prior years, the salary 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 increase in noncurrent liabilities was primarily due to a $63.3 million increase in long-term debt to $391.2 million at June 30, 2008. It is worth noting that the other compensation benefits liability increased $11.8 million to $123.3 million. This noncurrent liability consists primarily of $111.3 million for compensated absences, vacation and sick leave balances earned by employees, as well as other benefits. As more fully explained in Footnote 13, implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, resulted in a $6.0 million noncurrent liability accrual and is the primary cause of the increase in other compensation benefits.

Net Assets represent the residual interest in the System's assets after deducting liabilities. Investment in capital assets, net of related debt, represents by far the largest portion of net assets. It is worth noting that capital assets are carried at historical cost, not replacement cost. Restricted net assets have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for capital projects of $16.7 million, and debt service on bonds and restrictions imposed by bond covenants of $68.1 million, a $3.1 million increase from fiscal year 2007 due to a net increase in bond covenants related to revenue bonds issued in fiscal years 2008 and 2007.

The primary reserve ratio below depicts the percentage of total annual operating expenses that could be financed using only the balance of restricted and unrestricted net assets in the net asset table above, a balance called expendable net assets. The 2008 ratio of 0.209 represents 2.5 months of coverage, virtually unchanged from fiscal year 2007. It is the assets behind this ratio that must 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.

Primary Reserve Ratio



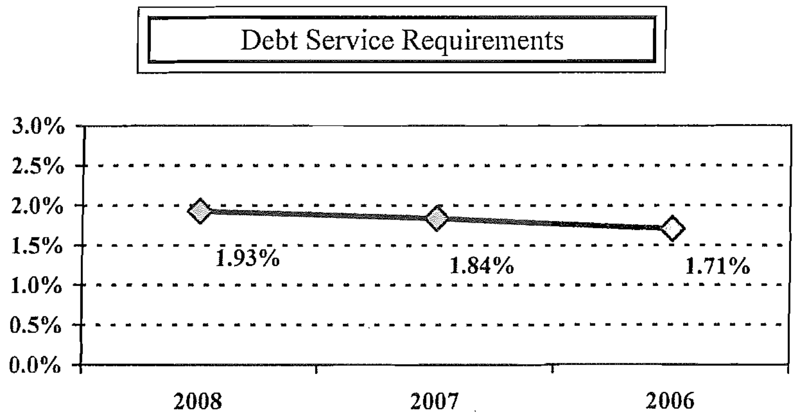
CAPITAL AND DEBT ACTIVITIES

With 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 Footnote 18 to the financial statements.

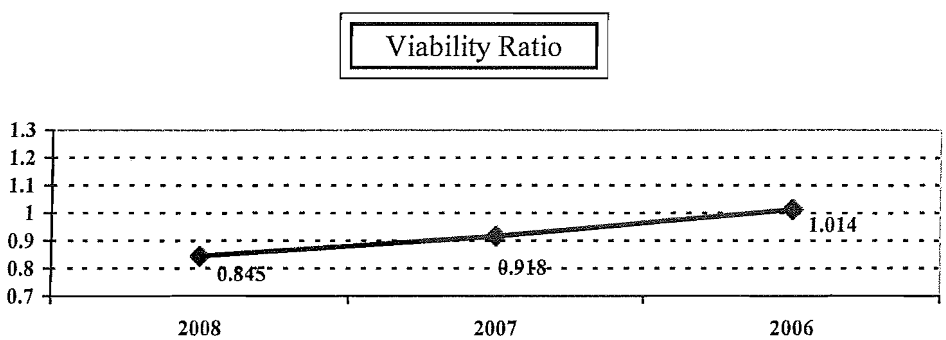
Fiscal year 2008, capital outlays approximated $230.9 million, including $201.8 million of new construction in progress. This compares to capital outlays of $195.8 million, including $165.9 million of new construction in progress, for fiscal year 2007. Capital outlays consist largely of replacement and renovation of academic facilities and significant investments in equipment.

Capital assets are primarily financed by long term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 7, 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 $212.1 million at June 30, 2008, a net increase of $27.2 million during the fiscal year. Revenue bonds payable at June 30, 2008 totaled $161.3 million, a net increase of $38.9 million from June 30, 2007, which reflects the sale of $41 million of revenue bonds in June 2008.

The following graph shows that the percentage of total revenue expended to cover debt service (principal and interest payments on bonds, capital leases and notes payable) has increased slowly for the three year period shown from $26.7 million in fiscal year 2006 to $34.7 million in fiscal year 2008. Although the increasing percentage indicates that debt service has grown faster than revenue, the System continues to be conservatively financed with a relatively low level of debt as measured by the level of debt service.



The viability ratio below demonstrates the System's ability to cover all outstanding debt (current and noncurrent portions of bond debt, capital lease debt and notes payable) through theoretical liquidation of expendable net assets (total net assets after excluding capital assets, net of related debt). This ratio, dividing expendable net assets by total long-term debt, provides current and potential creditors and other users with assurance that the System is able to cover its debt obligation even in the event of a substantial reduction in the value of its recorded assets or a significant, short-term interruption to operations. The decreases in the three years presented indicate that the System was not able to increase expendable net assets at a rate equal to or greater than the approximate 50 percent increase in debt for the same period.



CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Summarized revenues, expenses and changes in net assets for fiscal years 2008, 2007, and 2006 follow (in thousands):

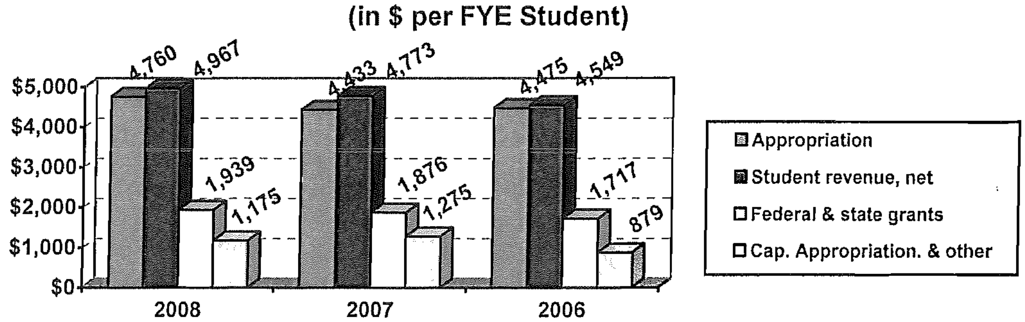
Revenues, Expenses and Net Assets

	2008	2007	2006
Operating revenue:			
Tuition, auxiliary and sales, net	$ 614,019	$ 573,993	$ 539,711
Restricted student payments, net	80,763	74,420	70,901
Grants and other	288,511	271,958	246,374
Total operating revenue	983,293	920,371	856,986
Nonoperating and other revenue:			
State appropriation	665,883	602,194	600,694
Capital appropriation	102,094	117,174	71,249
Miscellaneous nonoperating and other revenue	44,953	38,869	30,873
Total nonoperating and other revenue	812,930	758,237	702,816
Total revenues	1,796,223	1,678,608	1,559,802
Operating expense:			
Salaries and benefits	1,159,542	1,071,585	1,031,148
Other operating expenses	489,411	456,236	427,433
Total operating expense	1,648,953	1,527,821	1,458,581
Interest and other nonoperating expense	27,323	24,461	22,645
Total expenses	1,676,276	1,552,282	1,481,226
Increase in net assets	119,947	126,326	78,576
Net assets, beginning of year	1,317,332	1,191,006	1,112,430
Net assets, end of year	$ 1,437,279	$ 1,317,332	$ 1,191,006

Fiscal year 2008 total revenue increased 7.0 percent to $1.8 billion from fiscal year 2007 total revenue of $1.7 billion. Increases in student based revenue, net of scholarship allowances, of 7.2 percent and state appropriation of 10.6 percent are the main factors increasing total fiscal year 2008 revenue. State operating appropriation revenue increased in fiscal year 2008 after remaining flat in fiscal year 2007. On a per FYE basis, appropriation increased nearly 7.4 percent compared to a 4.1 percent increase in per FYE net student revenue. The following table looks per FYE student revenue from the various revenue sources.

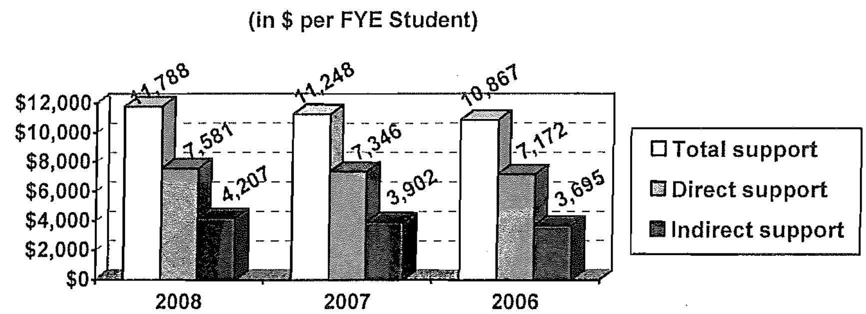
Revenue Sources

(in $ per FYE Student)



The following graph shows the operating expenditure investment per FYE student, or how revenue is spent. Direct student support includes instruction, academic support and student services while indirect includes all other operating expenses such as auxiliary enterprise costs, administrative costs and facilities support costs. The System's per FYE student investment in direct support activities increased $409 per FYE student or 5.7 percent between fiscal years 2006 and 2008 and $512 per FYE student or 13.9 percent for indirect support. Additional detail on System expenditures by functional classification can be found in Footnote 11.

Student Support Costs

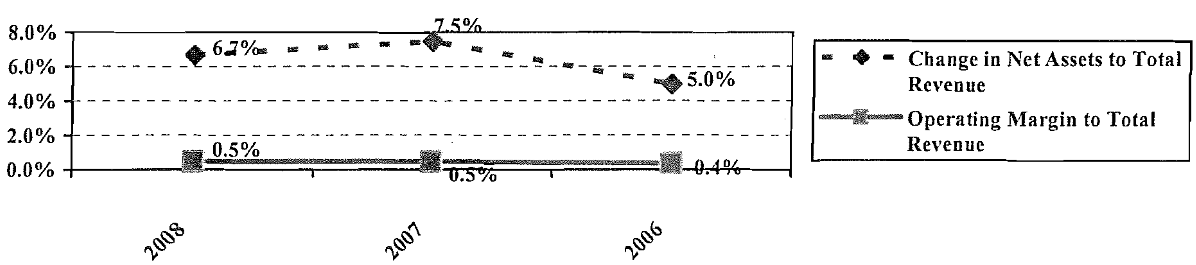


Compensation is the System's single largest expense component. In absolute dollars, compensation expense increased $88.0 million, or 8.2 percent, in fiscal year 2008 and represented 70.3 percent of total operating expense. The fiscal year 2007 increase of $40.4 million, or 3.9 percent, represented 70.1 percent of total operating expense. The 8.2 percent increase in fiscal year 2008 includes salary and benefit cost increases for various employee bargaining units and plans plus a $6.0 million first time accrual of other post-employment benefits required under GASB Standard No. 45 as more fully explained in Footnote 13.

All other operating expenses for fiscal years 2008 and 2007 increased about 7.3 percent and 6.7 percent, respectively. Fiscal year 2008 and 2007 purchased services expenses were the most significant increases, due primarily to increased construction activity and continued increases in energy costs.

One standard measure of overall financial performance is the change in net assets or "net income." The net income ratio, the top trend line in the graph below, compares the change in net assets (total revenue less total expense) to total revenue. Net assets increased $119.9 million, $126.3 million and $78.6 million in fiscal years 2008, 2007 and 2006, respectively. The operating margin ratio, the bottom trend line in the graph below, compares operating margin — the gain or (loss) before other revenues, expenses, gains or losses — to total operating and nonoperating revenue. The System generated small positive operating margins in fiscal years 2008, 2007 and 2006 after experiencing negative margins in fiscal years 2005, 2004 and 2003. The difference between the two ratios is almost entirely due to capital appropriation revenue being a component of net income but not a component of operating margin income or loss. The slight decline in the net income ratio is caused by a $15.1 million decline in capital appropriation revenue that was only partially offset by increases in other revenues.

Net Income and Operating Margin Ratios



FOUNDATIONS

The System's annual financial report for the years ended June 30, 2008 and 2007 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 more fully described in Notes 19 and 20.

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. Footnote 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.

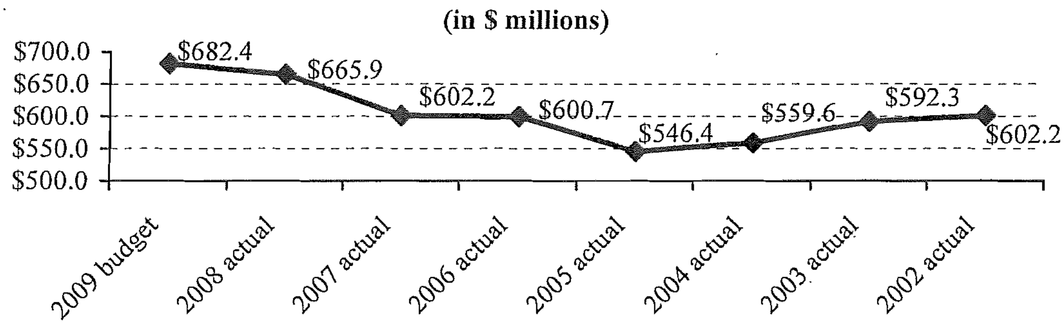
ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Minnesota State Colleges and Universities System maintained a relatively strong financial position in fiscal year 2008 helped by an increase in state operating appropriation, a modest increase in tuition revenue and a strong capital asset investment pattern financed by the state's capital bonding program and Revenue Fund bonds. The System benefits from strong leadership by the Board of Trustees, the Chancellor and all of the Presidents. They are committed to maintaining the level and quality of services to students and the citizens of Minnesota. However, the System 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 successfully prepare for future challenges presented by changes in the economy and the higher education market in general.

The national and global economies are showing every sign of a significant downturn. A recession will likely reduce state tax revenue, which in turn could negatively impact the System's appropriation revenue for the fiscal years 2010 and 2011 biennium. System leadership works tirelessly to minimize tuition increases and the resulting negative impact such increases have on students; the possibility of falling appropriation revenue is a serious concern and would likely present difficult cost control decisions.

The graph below uses actual appropriation data for fiscal years 2002—2008 and budgeted 2009 state appropriation data to illustrate the recent trend in state appropriations. There is no predictable pattern for state appropriation funding in that increases in student enrollment are not supported with commensurate increases in state appropriation funding. This lack of predictability places increased pressure on tuition as a revenue source while limiting the System's ability to build the financial strength necessary to counter dips in state appropriation funding, provide funds for potential emergencies and fund needed change and innovation.

State Appropriation Trend



Student full year equivalent for credit enrollment increased 3.0 percent in fiscal year 2008 to 139,885. Enrollment management is a continuing challenge across the System as demographic, economic and labor market forces shift over the next several years and beyond. Tuition planning is increasingly vital as the sharp increases have adversely impacted students.

In addition to inflationary pressure and specific, known cost increases, tax revenue dollars are increasingly stretched to cover competing needs such as higher education and the health and long term care needs of an aging population. The impact of reauthorization of the Higher Education Act (HEA) is another concern. After working on the reauthorization of the Higher Education Act since 2003 with 13 extensions, Congress finally reached agreement in August on a bill that sets federal higher education policy for the next five years. The Minnesota State Colleges and Universities will see some impact.

The bill sets a ceiling on the maximum Pell Grant of $9,000, and allows students to receive Pell Grant funds year-round, instead of just during the traditional academic year. The bill also gives the U.S. Department of Education more authority to regulate private student loans and also bars the Department from issuing regulations governing higher education accreditation.

There are also plenty of new reporting requirements in the bill, including language that requires the Secretary of Education to publish annual lists of the institutions with the highest and lowest tuition and fees, and net prices, by sector, as well as lists of the institutions with the largest percentage increases in net price and in tuition and fees over the previous three years. Institutions appearing on the lists would be required to report on the factors that contributed to their price increases and the steps they are taking to hold down costs.

Congress is expected to adjourn the 110th Congress without passing the major appropriation bills, including the Labor - HHS - Education appropriations bill. So while authorization has been given for spending, we will likely not know where the funding will fall until the appropriation bill passes early next year. Congress did pass a continuing resolution to keep the federal government funded through March 6, 2009.

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

Revenue Fund bond debt as of June 30, 2008 stands at $158.5 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 to $250 million. 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 continuing success of the System depends in part on our partnership with the state of Minnesota and its citizens. Preservation of the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The System will likewise continue aggressive management of costs and services to ensure efficient, effective operations on behalf of current and future students.

REQUESTS FOR INFORMATION

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

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

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

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 555,193	$ 511,199
Investments	29,899	28,891
Grants receivable	14,024	11,692
Accounts receivable, net	37,645	47,708
Prepaid expense	19,853	20,263
Inventory	13,075	10,370
Student loans and other assets, net	8,740	8,482
Securities lending collateral	5,768	33,145
Total current assets	684,197	671,750
Current Restricted Assets		
Cash and cash equivalents	115,387	107,561
Total current restricted assets	115,387	107,561
Noncurrent Restricted Assets		
Other assets	89	95
Construction in progress	39,949	14,860
Total noncurrent restricted assets	40,038	14,955
Total restricted assets	155,425	122,516
Noncurrent Assets		
Student loans and other assets, net	26,814	25,384
Capital assets, net	1,388,698	1,259,484
Total noncurrent assets	1,415,512	1,284,868
Total Assets	2,255,134	2,079,134
Liabilities		
Current Liabilities		
Salaries payable	115,894	101,617
Accounts payable	58,300	65,504
Unearned revenue	37,803	35,578
Payable from restricted assets	4,565	5,499
Interest payable	1,732	1,614
Funds held for others	7,758	9,048
Current portion of long-term debt	20,330	18,866
Other compensation benefits	20,447	20,483
Other liabilities	238	290
Securities lending collateral	5,768	33,145
Total current liabilities	272,835	291,644
Noncurrent Liabilities		
Noncurrent portion of long-term debt	391,171	327,817
Other compensation benefits	123,275	111,520
Capital contributions payable	30,574	30,821
Total noncurrent liabilities	545,020	470,158
Total Liabilities	817,855	761,802
Net Assets		
Invested in capital assets, net of related debt	1,089,660	998,935
Restricted expendable, bond covenants	48,329	45,042
Restricted expendable, other	50,459	46,148
Unrestricted	248,831	227,207
Total Net Assets	$ 1,437,279	$ 1,317,332

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, 2008 AND 2007
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Assets				
Current Assets				
Cash and cash equivalents	$ 61	$ 35	$ 56	$ 2,246
Investments	12,486	1,747	2,800	180
Restricted cash and cash equivalents	-	-	-	-
Pledges and contributions receivable, net	359	45	-	339
Other receivables and Other assets	3	1	8	4
Annuities/Remainder interests/Trusts	-	-	-	-
Finance lease receivable	-	-	-	-
Total current assets	12,909	1,828	2,864	2,769
Noncurrent Assets				
Annuities/Remainder interests/Trusts	97	-	-	-
Long-term pledges receivable	274	-	-	156
Finance lease receivable, net	-	-	-	-
Artwork collection and Investment property	-	-	-	-
Restricted investments	-	-	-	-
Assets held for endowment	-	-	-	2,076
Buildings, property and equipment, net	383	-	-	-
Other assets	36	-	-	-
Total noncurrent assets	790	-	-	2,232
Total Assets	$ 13,699	$ 1,828	$ 2,864	$ 5,001
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 29	$ 46	$ -	$ 509
Interest payable	3	-	-	-
Annuities payable	37	-	-	-
Notes payable	353	-	-	-
Bonds payable	-	-	-	-
Scholarships payable and Other liabilities	28	20	-	187
Total current liabilities	450	66	-	696
Noncurrent Liabilities				
Annuities payable and Unitrust liabilities	203	-	-	-
Notes payable	7	-	-	-
Bonds payable	-	-	-	-
Other Non-current Liabilities	183	-	-	-
Total noncurrent liabilities	393	-	-	-
Total Liabilities	843	66	-	696
Net Assets				
Unrestricted	532	87	79	410
Temporarily restricted	2,278	798	388	1,917
Permanently restricted	10,046	877	2,397	1,978
Total Net Assets	12,856	1,762	2,864	4,305
Total Liabilities and Net Assets	$ 13,699	$ 1,828	$ 2,864	$ 5,001

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	2008 Total	2007 Total
$ 154	$ 799	$ 196	$ 77	$ 2,663	$ 6,287	$ 3,340
35,739	6,968	24,362	3,309	15,484	103,075	93,789
-	-	1,378	-	-	1,378	1,378
2,965	498	555	1,260	512	6,533	10,658
56	1	115	50	313	551	369
-	1,416	-	-	128	1,544	1,645
-	-	660	-	-	660	600
38,914	9,682	27,266	4,696	19,100	120,028	111,779
-	-	363	-	-	460	488
1,384	871	1,437	541	1,290	5,953	4,340
-	-	11,983	-	-	11,983	12,643
-	881	1,059	288	-	2,228	1,178
-	-	-	2,512	-	2,512	2,452
-	-	-	-	-	2,076	2,288
836	3,794	203	8,364	10,151	23,731	23,192
-	-	309	215	366	926	806
2,220	5,546	15,354	11,920	11,807	49,869	47,387
$ 41,134	$ 15,228	$ 42,620	$ 16,616	$ 30,907	$169,897	$159,166
$ 181	$ 46	$ 62	$ 903	$ 64	$ 1,840	$ 610
-	17	114	7	35	176	181
-	16	11	-	60	124	68
-	139	-	464	279	1,235	428
442	-	660	-	-	1,102	1,184
-	-	102	-	-	337	154
623	218	949	1,374	438	4,814	2,625
1,521	395	261	-	-	2,380	2,440
-	3,691	-	6,598	8,381	18,677	17,917
1,148	-	13,520	-	-	14,668	15,770
-	-	-	-	-	183	-
2,669	4,086	13,781	6,598	8,381	35,908	36,127
3,292	4,304	14,730	7,972	8,819	40,722	38,752
8,865	344	574	871	788	12,550	14,268
1,514	4,733	10,954	4,990	9,122	36,694	37,988
27,463	5,847	16,362	2,783	12,178	79,931	68,158
37,842	10,924	27,890	8,644	22,088	129,175	120,414
$ 41,134	$ 15,228	$ 42,620	$ 16,616	$ 30,907	$169,897	$159,166

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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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Revenues		
Tuition, auxiliary and sales, net	$ 614,019	$ 573,993
Restricted student payments, net	80,763	74,420
Federal grants	189,202	169,629
State grants	82,014	85,166
Other income	17,295	17,163
Total operating revenues	983,293	920,371
Operating Expenses		
Salaries	1,159,542	1,071,585
Purchased services	220,647	195,894
Supplies	86,684	83,377
Repairs and maintenance	36,842	39,185
Depreciation	76,536	72,131
Financial aid, net	28,135	27,577
Other expense	40,567	38,072
Total operating expenses	1,648,953	1,527,821
Operating income (loss)	(665,660)	(607,450)
Nonoperating Revenues (Expenses)		
Appropriations	665,883	602,194
Private grants	15,368	13,512
Securities lending income	1,281	1,361
Interest income	18,853	21,968
Interest expense	(16,749)	(14,078)
Grants to other organizations	(9,349)	(9,037)
Securities lending rebates/fees	(1,225)	(1,346)
Total nonoperating revenue (expenses)	674,062	614,574
Income Before Other Revenues, Expenses, Gains, or Losses	8,402	7,124
Capital appropriations	102,094	117,174
Capital grants	7,109	-
Donated assets and supplies	1,142	1,839
Gain on disposal of capital assets	1,200	189
Change in net assets	119,947	126,326
Total Net Assets, Beginning of Year	1,317,332	1,191,006
Total Net Assets, End of Year	$ 1,437,279	$ 1,317,332

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, 2008 AND 2007
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Support and Revenue				
Contributions	$ 1,555	$ 329	$ -	$ 1,372
Endowment gifts	595	-	535	-
In-kind contributions	-	59	-	-
Investment income	-	57	123	167
Realized gains and losses	-	(30)	-	-
Unrealized gains and losses	(278)	(180)	(211)	(216)
Program income	63	-	254	-
Special events	-	30	-	-
Fundraising income	-	-	43	-
Other income	14	-	-	-
Total support and revenue	1,949	265	744	1,323
Expenses				
Program services				
Program services	-	-	-	722
Scholarships	774	161	197	-
University activities	-	234	-	-
Special projects	862	-	-	-
Total program services	1,636	395	197	722
Supporting services				
Interest expense	-	-	-	-
Management and general	174	114	69	66
Fundraising expenses	378	25	1	196
Depreciation and amortization	-	-	-	-
Other expense	-	-	-	-
Total supporting services	552	139	70	262
Total expenses	2,188	534	267	984
Change in Net Assets	(239)	(269)	477	339
Net Assets, Beginning of Year	13,095	2,031	2,387	3,966
Net Assets, End of Year	$ 12,856	$ 1,762	$ 2,864	$ 4,305

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	2008 Total	2007 Total
	$ 11,831	$ 2,017	$ 4,774	$ 4,007	$ 3,764	$ 29,649	$ 22,961
	-	-	-	-	-	1,130	674
	2,009	-	2,044	324	-	4,436	3,977
	1,112	171	1,647	199	1,045	4,521	5,224
	(1,659)	229	883	210	87	(280)	4,096
	(181)	(1,178)	(2,363)	(473)	(1,947)	(7,027)	3,993
	-	404	-	114	1,418	2,253	1,879
	-	7	-	-	-	37	57
	-	-	-	92	258	393	346
	214	-	-	658	-	886	890
	13,326	1,650	6,985	5,131	4,625	35,998	44,097
	-	52	3,248	373	738	5,133	4,200
	3,218	642	1,197	699	765	7,653	6,924
	-	219	-	371	635	1,459	2,674
	-	-	-	4,725	56	5,643	912
	3,218	913	4,445	6,168	2,194	19,888	14,710
	91	208	700	-	-	999	1,053
	521	286	878	313	25	2,446	2,201
	1,785	80	706	302	182	3,655	3,137
	25	153	-	-	-	178	-
	34	37	-	-	-	71	217
	2,456	764	2,284	615	207	7,349	6,608
	5,674	1,677	6,729	6,783	2,401	27,237	21,318
	7,652	(27)	256	(1,652)	2,224	8,761	22,779
	30,190	10,951	27,634	10,296	19,864	120,414	97,635
	$ 37,842	$ 10,924	$ 27,890	$ 8,644	$ 22,088	$129,175	$120,414

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

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 770,789	$ 720,160
Cash repayment of program loans	4,426	6,468
State grants	82,014	85,166
Federal grants	187,723	169,341
Cash paid to suppliers for goods or services	(442,672)	(402,211)
Cash payments to employees	(1,133,307)	(1,056,157)
Financial aid disbursements	(28,216)	(28,906)
Cash payments of program loans	(5,794)	(6,112)
Net cash used in operating activities	(565,037)	(512,251)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	665,883	602,194
Agency activity	(1,293)	2,981
Private grants	15,368	13,512
Grants to other organizations	(9,349)	(9,037)
Net cash flows from noncapital financing activities	670,609	609,650
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(240,016)	(175,289)
Capital appropriation	112,708	106,852
Capital grants	7,109	-
Proceeds from sale of capital assets	2,618	1,389
Proceeds from borrowing	81,276	86,270
Proceeds from bond premiums and discounts	1,814	2,541
Interest paid	(15,314)	(15,194)
Repayment of lease principal	(2,772)	(2,440)
Repayment of note principal	(996)	(1,101)
Repayment of bond principal	(16,339)	(16,442)
Net cash flows from capital and related financing activities	(69,912)	(13,414)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	7,122	1,783
Purchase of Investments	(8,305)	(3,654)
Proceeds from securities lending transactions	56	15
Investment earnings	17,287	19,563
Net cash flows from investing activities	16,160	17,707
Net Increase in Cash and Cash Equivalents	51,820	101,692
Cash and Cash Equivalents, Beginning of Year	618,760	517,068
Cash and Cash Equivalents, End of Year	$ 670,580	$ 618,760

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

Operating Loss	$ (665,660)	$ (607,450)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	76,536	72,131
Provision for loan defaults	(26)	155
Loan principal repayments	4,426	6,468
Loans issued	(5,794)	(6,112)
Forgiven loans	746	652
Donated and lease equipment not capitalized	1,335	2,367
Change in assets and liabilities		
Inventory	(2,705)	(708)
Accounts receivable	634	(3,060)
Grants receivable	(2,332)	77
Accounts payable	2,533	6,562
Salaries payable	14,277	5,105
Other compensation benefits	11,719	9,730
Capital contributions payable	(247)	(1,472)
Unearned revenue	2,225	3,879
Other	(2,704)	(575)
Net reconciling items to be added to operating income	100,623	95,199
Net cash flow used in operating activities	$ (565,037)	$ (512,251)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 16,482	$ 32,869
Equipment on account	1,062	847
Donated equipment	-	1,034
Capital assets capitalized under notes payable	1,406	592
Change in fair marker value of investment	(176)	995
Investment earnings on account	1,484	686
Amortization of bond premium/discount	944	804

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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Investment pools, at fair value		
Mutual Funds	$ 850,285	$ 881,023
Total Assets	850,285	881,023
Liabilities		
Total Liabilities	-	-
Net Assets Held in Trust for Pension Benefits	$ 850,285	$ 881,023

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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Additions:		
Contributions		
Employer	$ 35,629	$ 32,186
Member	30,247	27,295
Contributions from roll overs and other sources	1,669	16,951
Total Contributions	67,545	76,432
Net Investment Gain (Loss)	(62,169)	98,222
Total Additions	5,376	174,654
Deductions:		
Benefits and refunds paid to plan members	35,804	33,233
Administrative fees	310	367
Total Deductions	36,114	33,600
Net Increase (Decrease)	(30,738)	141,054
Net Assets Held in Trust for Pension Benefits, Beginning of Year	881,023	739,969
Net Assets Held in Trust for Pension Benefits, End of Year	$ 850,285	$ 881,023

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units.* Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 20. For GASB consolidated financial statement purposes, most college foundations are not considered significant to the Minnesota State Colleges and Universities system and, therefore, are not included as discretely presented component units.

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

Bemidji State University Foundation
1500 Birchmont Dr. NE
Bemidji, MN 56601-2699

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

Fergus Area College Foundation
1414 College Way
Fergus Falls, MN 56537

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

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

MN State University, Mankato Foundation, Inc.
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
720 Fourth Ave. South
St. Cloud, MN 56301-4498

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

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 2008 and 2007, PALS received revenues of $1,752,717 and $1,825,627, respectively, and incurred expenses of $2,428,354 and $1,807,271, 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 2008 and 2007, Minnesota State Colleges and Universities appropriated $330,000 each fiscal year to ISEEK, which were recorded as expenses within the system wide activity.

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

Minnesota State Colleges and Universities is the fiscal agent for the Northwest Telecommunications Region (NETS). NETS is a higher education consortium established to deliver interactive television in northwest Minnesota. During fiscal years 2008 and 2007, the NETS consortium received revenues of $874,350 and $749,721, respectively, with the primary sources being a Higher Education Services Office grant and membership dues. During fiscal years 2008 and 2007, Minnesota State Colleges and Universities incurred expenses for NETS of $767,835 and $778,835, 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 2008 and 2007, NEAT received revenues of $221,291 and $232,167, respectively. During fiscal years 2008 and 2007, NEAT incurred expenses of $220,026 and $232,958, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Consortium of Minnesota Educational Tele-communities (COMET). COMET is the Learning Network shared by Minnesota State University, Mankato, Winona State University, Minnesota State College - Southeast Technical,Winona, Riverland Community College, Rochester Community & Technical College, and the University of Minnesota. During fiscal years 2008 and 2007, COMET received revenues of $944,304 and $1,042,473, respectively. During fiscal years 2008 and 2007, COMET incurred expenses of $1,070,890 and $1,042,473, 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 2008 and 2007, SHOT received revenues of $880,707 and $891,809, respectively. During fiscal years 2008 and 2007, SHOT incurred expenses of $870,122 and $893,850, 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 $319,317 and $341,568 for fiscal years 2008 and 2007, respectively. In fiscal years 2008 and 2007, the total revenue offsetting these expenses was $161,960 and $178,324, respectively. In fiscal years 2008 and 2007, the revenue generated during the city portion of the time in the facility was $129,528 and $129,624, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. Minnesota State Colleges and Universities is responsible for a portion of the debt service on the bonds sold for some college and university projects. Minnesota State Colleges and Universities may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, early retirement benefits, 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, Auxiliary, and Sales, Net — Tuition, auxiliary, and sales are reported net of scholarship allowances. Sales are also net of cost of goods sold of $56,710,898 and $53,396,859 for fiscal years 2008 and 2007, respectively.

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

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.

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)

	2008	2007
Capital projects	$ 16,682	$ 12,175
Debt service	19,814	19,989
Donations	4,910	4,997
Faculty contract obligations	5,107	4,996
Loans	3,946	3,991
Total	$ 50,459	$ 46,148

- *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 — Minnesota State Colleges and Universities has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) as of July 1, 2007. As required by the provisions of GASB 45, the System has reported a net OPEB obligation of $6,008,000.

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

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

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to 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, 2008 and 2007, the local bank balances were $56,647,990 and $53,708,160, 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	2008	2007
Cash - in bank	$ 38,089	$ 29,948
Money markets	5,538	8,657
Repurchase agreements	11,214	13,817
Restricted local cash	403	492
Total local cash and cash equivalents	55,244	52,914
Cash - treasury accounts	615,336	565,846
Total	$ 670,580	$ 618,760

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

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has a foreign checking account, denominated in both the British Pound and European Euro. The fair value of this account is $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's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit investments to the top quality rating categories of a nationally recognized rating agency.

The following table summarizes investments.

As of June 30
(In Thousands)

Investment Type	2008	2007
Certificates of deposit	$ 8,923	$ 8,689
Money market mutual fund	—	129
U.S. treasuries	817	1,352
U.S. agencies	11,159	9,332
Corporate/municipal bonds	1,471	1,077
Stocks	2,890	3,299
State investment pool cash equivalents	460	831
Mutual stock fund	1,229	1,340
Repurchase agreements	1,022	1,022
Real estate	33	35
Asset backed security	1	1
Commercial paper	1,894	1,784
Total	$29,899	$ 28,891

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

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The 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 the Minnesota State Colleges and Universities had the following investments and maturities:

Year Ended June 30
(In Thousands)

Investment Type	2008 Fair Value	Weighted Maturity (Years)	2007 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	$ 1,471	4.69	$ 1,077	4.65
Commercial paper	1,894	0.13	1,784	0.16
U.S. agencies	11,159	12.42	9,332	10.10
Asset backed security	1	25.25	1	26.25
State investment pool cash equivalents	460	0.14	831	0.20
U.S. treasuries	817	1.62	1,352	3.83
Total	15,802		14,377	
Portfolio weighted average maturity		9.31		7.30
Certificates of deposit	8,923		8,689	
Money market mutual funds	—		129	
Mutual stock funds	1,229		1,340	
Stock	2,890		3,299	
Repurchase agreements	1,022		1,022	
Real estate	33		35	
Total	$ 29,899		$ 28,891	

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 2008 and 2007, State Street and Wells Fargo lent on behalf of the state of Minnesota, certain securities held by State Street or Wells Fargo as custodian and received cash (both 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 2008 or 2007. In addition, there were no losses during fiscal years 2008 or 2007 resulting from default of the borrowers, State Street or Wells Fargo.

During fiscal years 2008 and 2007, the state of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008 and 2007, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

The following tables provide information related to the securities invested by Wells Fargo and State Street as of June 30, 2008 and 2007, respectively.

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

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

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

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

3. LOANS RECEIVABLE

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

As of June 30, 2008 and 2007, the loans receivable for this program totaled $34,821,962 and $34,199,964, respectively, less an allowance for uncollectible loans of $2,635,997 and $2,662,212, respectively.

4. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and for capital project expense reimbursements from the state not paid as of June 30, 2008. At June 30, 2008 and 2007, the total accounts receivable balances were $60,751,080 and $70,820,100, respectively, less an allowance for uncollectible receivables of $23,106,289 and $23,111,377, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2008	2007
Tuition	$ 31,192	$ 30,013
Fees	6,834	6,336
Sales and service	6,818	6,378
Room and board	2,415	2,543
Third party obligations	2,207	2,943
Grants	734	1,587
Other income	9,664	10,698
Capital projects	887	10,322
Total accounts receivable	60,751	70,820
Allowance for doubtful accounts	(23,106)	(23,112)
Total	$ 37,645	$ 47,708

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

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

5. PREPAID EXPENSE

Prepaid expense consists primarily of deposits in the state's Debt Service Fund for future general obligations bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. For fiscal years 2008 and 2007, Minnesota State Colleges and Universities' deposits were $19,814,261 and $19,989,116, respectively.

In addition, as of June 30, 2008 and June 30, 2007, Minnesota State Colleges and Universities had prepaid expense of $38,341 and $274,000, respectively, for software license fees.

6. CAPITAL ASSETS

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

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 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	251,513	20,625	17,023	—	255,115
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	177,633	17,544	17,023	—	178,154
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

Year Ended June 30, 2007
(In Thousands)

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

7. LONG TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long term obligations for fiscal years 2008 and 2007 follow:

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

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	8,528	2,426	4,610	6,344	3,865
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

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 7,735	$ 2,541	$ 804	$ 9,472	$ —
Capital leases	25,471	1,465	2,440	24,496	2,677
General obligation bonds	153,499	43,200	11,754	184,945	13,114
Notes payable	5,832	688	1,101	5,419	995
Revenue bonds	81,525	43,070	2,244	122,351	2,080
Total long term debt	$ 274,062	$ 90,964	$ 18,343	$ 346,683	$ 18,866

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 110,931	$ 50,003	$ 43,314	$ 117,620	$ 14,436
Early termination	5,932	5,785	3,189	8,528	4,291
Workers' compensation	5,411	3,007	2,563	5,855	1,756
Total other compensation benefits	$ 122,274	$ 58,795	$ 49,066	$ 132,003	$ 20,483

Bond Premium/Discount — Bonds were issued in fiscal years 2008 and 2007, resulting in net premiums of $1,814,033 and $2,540,605, 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 9 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 of $5,000. All projects completed under Minnesota Statutes, section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate for the energy loans is tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 4 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 15.77 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $243,921,849. Principal and interest paid for the current year and total customer net revenues were $7,318,621 and $83,619,000, respectively.

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 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,967,030. For the current year, principal and interest paid and total customer net revenues were $204,668 and $377,209, 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 39.57 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $421,300. For the current year, principal and interest paid and total customer net revenues were $84,900 and $218,108, 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 — Early termination benefits are benefits received for discontinuing service earlier than planned. See Note 14 for details.

Other Postemployment Benefit — 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 13 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 $5,411,789 and $5,854,736 at June 30, 2008 and 2007, 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 $30,573,521 and $30,820,662 at June 30, 2008 and 2007, 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 decrease is $247,141 and $1,471,582 for the fiscal years 2008 and 2007, 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 compensated absences, other postemployment benefits, capital contributions, workers' compensation, early termination benefits, or bond premium.

Long Term Debt Repayment Schedule
(In Thousands)

	Notes Payable		General Obligation Bonds	
Fiscal Years	Principal	Interest	Principal	Interest
2009	$ 702	$ 274	$ 14,258	$ 9,485
2010	704	238	15,150	8,766
2011	729	200	14,641	8,059
2012	719	161	14,653	7,373
2013	604	125	13,830	6,705
2014-2018	1,527	352	64,097	24,101
2019-2023	844	84	50,787	10,477
2024-2028	—	—	24,707	1,874
Total	$ 5,829	$ 1,434	$212,123	$76,840

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases Principal	Capital Leases Interest	Revenue Bonds Payable Principal	Revenue Bonds Payable Interest
2009	$ 2,280	$ 1,051	$ 3,090	$ 7,112
2010	2,110	955	6,270	7,207
2011	1,566	868	6,510	6,941
2012	1,519	801	6,785	6,663
2013	1,051	744	7,075	6,369
2014-2018	6,081	2,955	38,280	26,790
2019-2023	5,512	1,368	44,855	17,183
2024-2028	971	353	35,090	7,331
2029-2033	827	78	13,335	1,424
Total	$ 21,917	$ 9,173	$ 161,290	$ 87,020

8. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2008	2007
Capital projects	$ 16,482	$ 27,370
Purchased services	15,013	13,638
Supplies	6,728	6,657
Repairs and maintenance	5,360	4,548
Grants to other	1,405	1,472
Financial aid	1,574	1,408
Employee benefits	1,783	1,544
Equipment	1,062	847
Inventory	1,084	999
Other payables	7,809	7,021
Total	$ 58,300	$ 65,504

In addition, as of June 30, 2008, Minnesota State Colleges and Universities had payable from restricted assets in the amount of $4,563,759, which was related to capital projects in the Revenue Fund.

9. LEASE AGREEMENTS

Operating Leases — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2008 and 2007, totaled $17,419,997 and $17,724,055, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net assets.

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

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2009	$ 16,054
2010	11,038
2011	4,924
2012	3,728
2013	3,371
2014-2018	6,604
2019-2023	3,465
2024-2028	2,945
Total	$ 52,129

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

- In fiscal year 2002, Winona State University leased a generator in the amount of $2,240,835, with a final payment occurring in fiscal year 2012.
- In fiscal year 2003, Minnesota State University Moorhead entered into two capital lease agreements with their foundation: A 30 year lease agreement for the John Neumaier Hall Apartments in the amount of $3,940,000 and a ten year lease for the Hendrix Health Center in the amount of $525,000.
- In fiscal year 2004, St. Cloud State University entered into a lease agreement with the St. Cloud State University Foundation for Atwood Memorial Center in the amount of $3,924,434 for construction costs. In fiscal 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.
- In fiscal year 2005, Minnesota State University, Mankato entered into a 15 year capital lease for an emergency generator for $2,343,714.

Income Leases — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2008 and 2007 totaled $1,873,125 and $862,035, 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
2009	$ 1,597
2010	1,345
2011	1,123
2012	444
2013	122
2014-2018	157
2019-2023	25
Total	$ 4,813

10. TUITION, AUXILIARY, AND SALES, NET

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

For the Year Ended June 30
(In Thousands)

	2008	2007
Tuition	$ 659,820	$ 614,264
Fees	83,204	78,404
Sales, net	61,000	54,702
Room and board	1,343	1,306
Restricted student payments	82,755	76,427
Subtotal	888,122	825,103
Less scholarship allowance	(193,340)	(176,690)
Total	$ 694,782	$ 648,413

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

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

Description	Salaries	Other	Total
Instruction	$ 601,279	$ 56,029	$ 657,308
Research	5,818	4,313	10,131
Public service	12,106	4,310	16,416
Academic support	146,044	56,482	202,526
Student services	154,869	45,731	200,600
Institutional support	134,778	65,742	200,520
Operation & maintenance of plant	60,209	81,928	142,137
Depreciation	—	76,536	76,536
Scholarships & fellowships	—	28,135	28,135
Auxiliary enterprises	44,439	70,205	114,644
Total operating expenses	$ 1,159,542	$ 489,411	$ 1,648,953

For the Year Ended June 30, 2007
(In Thousands)

Description	Salaries	Other	Total
Instruction	$ 562,789	$ 54,622	$ 617,411
Research	6,599	3,479	10,078
Public service	8,872	4,108	12,980
Academic support	136,021	54,195	190,216
Student services	145,432	44,695	190,127
Institutional support	115,790	46,730	162,520
Operation & maintenance of plant	55,274	87,361	142,635
Depreciation	—	72,131	72,131
Scholarships & fellowships	—	27,577	27,577
Auxiliary enterprises	40,808	61,338	102,146
Total operating expenses	$ 1,071,585	$ 456,236	$ 1,527,821

12. 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. For the period July 1, 2007 to June 30, 2008, the funding requirement is 4.25 percent for both employer and employee. The funding requirement for both employer and employee increase 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State Colleges and Universities are as follows:

(In Thousands)	
Fiscal Year	Amount
2008	$ 8,502
2007	7,443
2006	6,639

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. 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
2008	$ 9,833	$ 9,833
2007	9,579	10,423
2006	8,751	8,716

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
2008	$ 1,306	$ 1,158
2007	1,278	1,128
2006	1,181	1,102

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
2008	$ 22,147	$ 16,569
2007	21,346	15,913
2006	17,405	13,087

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
Inter Faculty Organization	$6,000 to $51,000	$ 2,250
Minnesota State College Faculty Association	6,000 to 52,000	2,300
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Administrators	6,000 to 52,000	2,300
Middle Management Association Unclassified	6,000 to 38,000	1,600
Minnesota Association of Professional Employees Unclassified	6,000 to 38,000	1,600
Other Unclassified Members	6,000 to 38,000	1,600

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
2008	$ 12,288
2007	12,870
2006	10,704

13. 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, 2006 there were approximately 741 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost 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 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

Annual required contribution (ARC)	$ 10,096
Interest on net OPEB obligation	—
Adjustment to ARC	—
Annual OPEB cost	10,096
Contributions during the year	(4,088)
Increase in net OPEB obligation	6,008
Net OPEB cost, beginning of year	—
Net OPEB cost, end of year	$ 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 year 2008 were as follows:

Fiscal Year Ended, June 30, 2008
(In Thousands)

Annual OPEB cost	$ 10,096
Less employer contribution	4,088
Net OPEB obligation	$ 6,008
Percentage contributed	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, 2006	—	$94,235	$94,235	0.00 %	$841,505	11.20 %

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, 2006 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 9.13 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.

14. 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 2008 and 2007.

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 2008 and 2007 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	57	$ 1,592
2007	75	2,851

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 The number of retired faculty who received this benefit and the amount of future liability as of the end of benefits up to age 65; or a combination of both. The cash incentive can be paid either in one or more payments.

Fiscal years 2008 and 2007 are as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	116	$ 2,639
2007	112	2,676

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 2008, and 2007 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	74	$ 1,842
2007	74	2,660

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 2008 and 2007 is as follows:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	8	$ 271
2007	11	341

15. CONTINGENT LIABILITIES — LITIGATION

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

Minneapolis Community and Technical College v. U.S. Department of Education
A federal audit of financial aid granted by Minneapolis Community and Technical College in academic years 00/01-04/05 may result in exceptions and potential fines against the College. The College will try to settle any issues that are raised by the U.S. Department of Education, but if unsuccessful, will vigorously defend any claims by the federal agency.

DuFour v. Century College
An independent contractor, formerly operating a business on campus, asserts wrongful contract termination. The College is currently investigating the matter and the claimant's attorney has threatened litigation, if the matter is not settled. The College plans to vigorously defend this matter, if it reaches the litigation stage.

Jones v. Mesabi Range Community & Technical College
Plaintiff initiated a lawsuit against Mesabi Range Community & Technical College an individual instructor, alleging sexual harassment and discrimination, as well as other causes of action. The parties are in the early stages of discovery. The University will attempt to settle this claim, but will vigorously defend this claim if settlement is not possible.

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 2008 and 2007.

Institution deductible	$2,500 to $250,000
Fund responsibility	Deductible to $1,500,000
Primary re-insurer coverage	$1,500,001 to $12,000,000
Multiple re-insurers' coverage	$12,000,001 to $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, 2008 and 2007.

	Beginning Liability	Net Additions & Changes	Payments	Ending Liabilities
Fiscal Year Ended 6/30/08	$ 5,855	$ 2,503	$ 2,946	$ 5,412
Fiscal Year Ended 6/30/07	5,411	3,007	2,563	5,855

17. 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 7, 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, 2008 and 2007 follows.

Summary Information for Revenue Fund
(In Thousands)

	2008	2007
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 60,031	$ 63,652
Restricted assets	134,557	106,946
Capital assets, net	141,521	128,061
Total assets	336,109	298,659
Liabilities		
Current liabilities	18,751	28,508
Noncurrent liabilities	165,607	127,813
Total liabilities	184,358	156,321
Net assets		
Invested in capital assets, net of related debt	87,066	85,557
Restricted	64,685	56,781
Total net assets	$ 151,751	$ 142,338
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 83,619	$ 76,856
Depreciation expense	(8,857)	(8,043)
Other operating expenses	(65,166)	(60,778)
Net operating income	9,596	8,035
Nonoperating revenues (expenses)		
Interest income	5,265	6,217
Interest expense	(5,374)	(4,663)
Loss on disposal of capital assets	(74)	(78)
Total nonoperating revenues (expenses)	(183)	1,476
Change in net assets	9,413	9,511
Net assets, beginning of year	142,338	132,827
Net assets, end of year	$ 151,751	$ 142,338
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 21,833	$ 15,423
Capital and related financing activities	(16,735)	23,744
Investing activities	4,444	5,567
Net increase	9,542	44,734
Cash beginning of year	140,095	95,361
Cash end of year	$ 149,637	$ 140,095

Summary financial information for Vermilion Community College (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2008 and 2007, respectively, follows.

Vermilion Community College
(In Thousands)

	2008		2007	
	Residence Halls	Modular Housing	Residence Halls	Modular Housing
CONDENSED STATEMENTS OF NET ASSETS				
Assets				
Current assets	$ 147	$ 24	$ 355	$ 27
Restricted assets	—	143	—	146
Capital assets, net	1,277	901	1,289	782
Total assets	1,424	1,068	1,644	955
Liabilities				
Current liabilities	21	90	8	89
Noncurrent liabilities	—	290	—	355
Total liabilities	21	380	8	444
Net assets				
Invested in capital assets, net of related debt	1,277	612	1,289	427
Restricted	—	67	—	74
Unrestricted	126	9	347	10
Total net assets	$ 1,403	$ 688	$ 1,636	$ 511
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating revenues	$ 424	$ 218	$ 464	$ 227
Depreciation expense	(72)	(34)	(66)	(31)
Other operating expenses	(320)	(126)	(252)	(114)
Net operating income	32	58	146	82
Nonoperating revenues (expenses)				
Interest income	—	5	12	7
Interest expense	—	(23)	(11)	(27)
Loss on disposal of capital assets	(6)	—	—	—
Total nonoperating revenues (expenses)	(6)	(18)	1	(20)
Transfers in and out	(259)	137	15	—
Change in net assets	(233)	177	162	62
Net assets, beginning of year	1,636	511	1,474	449
Net assets, end of year	$ 1,403	$ 688	$ 1,636	$ 511
CONDENSED STATEMENTS OF CASH FLOWS				
Net cash provided by (used in)				
Operating activities	$ 108	$ 75	$ 109	$ 93
Noncapital financing activities	15	—	—	—
Capital and related financing activities	(325)	(101)	(303)	(117)
Investing activities	—	4	11	7
Net (decrease) in cash	(202)	(22)	(183)	(17)
Cash beginning of year	335	165	518	182
Cash end of year	$ 133	$ 143	$ 335	$ 165

Summary financial information for Itasca Community College (which is reported within the Northeast Higher Education District) for the years ended June 30, 2008 and 2007, respectively, follows.

Itasca Community College
(In Thousands)

	2008 Residence Halls	2007 Residence Halls
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 65	$ 19
Restricted assets	259	346
Capital assets, net	3,783	3,901
Total assets	4,107	4,266
Liabilities		
Current liabilities	127	128
Noncurrent liabilities	2,174	2,245
Total liabilities	2,301	2,373
Net Assets		
Invested in capital assets, net of related debt	1,529	1,581
Restricted	259	346
Unrestricted	18	(34)
Total net assets	$ 1,806	$ 1,893
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 377	$ 347
Depreciation expense	(119)	(119)
Other operating expenses	(229)	(201)
Net operating income	29	27
Nonoperating revenues (expenses)		
Interest income	14	17
Interest expense	(130)	(132)
Total nonoperating revenues (expenses)	(116)	(115)
Transfers in and out	—	205
Change in net assets	(87)	117
Net assets, beginning of year	1,893	1,776
Net assets, end of year	$ 1,806	$ 1,893
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 182	$ 158
Investing activities	13	17
Capital and related financing activities	(238)	(60)
Net increase (decrease) in cash	(43)	115
Cash, beginning of year	348	233
Cash, end of year	$ 305	$ 348

18. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2008
(In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Alexandria	Law Enforcement Center	$ 10,500	$ 62	$ 10,438	2009 Nov
Century	Classroom Renovation	7,900	2	7,898	2010 Nov
Fond du Lac	Lester Jack Briggs Cultural Center	12,390	8,022	4,368	2008 Nov
Inver Hills	Classroom Addition and Renovation	13,200	10,960	2,240	2010 Sep
Minneapolis	Science & Allied Health Renovation	18,874	15,224	3,650	2008 Nov
MSU, Mankato	Outdoor Recreation Renovation	9,000	22	8,978	2010 Aug
MSU, Mankato	Sears Residence Hall	31,800	28,862	2,938	2008 Sept
MSU, Mankato	Trafton Hall Addition	35,700	28,900	6,800	2008 Oct
MSU, Mankato	Trafton Science Center Renovation	25,500	373	25,127	2010 Aug
MSU, Moorhead	Wellness Center	9,500	4,766	4,734	2009 Apr
Northland	Classroom Addition Renovation	7,800	40	7,760	2009 Nov
Southwest State	Regional Event Center	16,000	14,800	1,200	2008 Aug
Southwest State	Residence Hall	14,357	1,544	12,813	2009 July
SCSU	Parking Ramp	10,800	7,600	3,200	2008 Aug
SCSU	Robert A. Wick Science Addition	14,000	10,803	3,197	2008 Dec
SCTC	Addition & Workforce Remodel	15,056	12,788	2,268	2009 Jun
Winona	Maxwell Hall Renovation	11,186	10,600	586	2008 July
Winona	Wellness Center Memorial Hall	18,400	52	18,348	2010 Aug

* Alexandria Technical College, Century College; Fond du Lac Tribal & Community College; Inver Hills Community College, Minneapolis Community & Technical College; Minnesota State University, Mankato; Minnesota State University Moorhead; Northland Community Technical College, St. Cloud State University; St. Cloud Technical College; Southwest Minnesota State University; and Winona State University.

19. RELATED PARTY TRANSACTIONS

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

As of June 30
(In Thousands)

	2008	2007
Bemidji State University	$ 774	$ 737
Metropolitan State University	692	449
Minnesota State University, Mankato	3,218	2,936
Minnesota State University Moorhead	532	500
St. Cloud State University	4,362	3,479
Southwest Minnesota State University	5,632	1,396
Winona State University	2,194	2,478
Century College	187	166

As of June 30, 2008, Minnesota State University Moorhead had two capital lease agreements with its Foundation. The John Neumaier Hall Apartments had an outstanding lease liability of $3,561,541 and the Hendrix Health Center had an outstanding lease liability of $268,323. Total principal and interest payments made during fiscal year 2008 were $264,953 for the John Neumaier Hall Apartments and $74,082 for the Hendrix Health Center.

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

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

20. COMPONENT UNITS

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

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

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

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

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

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

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, 2008
(In Thousands)

Investments	BSU Foundation	Century College Foundation	Fergus Falls Area College Foundation	Metropolitan State Foundation	MSU, Mankato Foundation
Money markets	$ 325	$ 882	$ 261	$ —	$ 980
Certificates of deposits	—	—	—	100	—
U.S. government securities	—	—	—	80	—
Mutual funds	6,852	—	1,932	—	32,664
Equity securities	—	791	—	—	82
Corporate stock & bonds	—	—	556	—	—
Fixed income securities/bonds	3,531	74	—	—	12
Other investments	1,778	—	51	—	2,001
Total	$ 12,486	$ 1,747	$ 2,800	$ 180	$ 35,739

Investments	MSU Moorhead Foundation	SCSU Foundation	Southwest MN Foundation	WSU Foundation	Total
Money markets	$ 220	$ 2,045	$ 288	$ —	$ 5,001
Certificates of deposits	—	—	—	5	105
U.S. Government securities	—	—	—	1,214	1,294
Mutual funds	1,669	12,290	—	12,531	67,938
Equity securities	—	—	3,254	1,208	5,335
Corporate stock & bonds	4,990	10,027	—	—	15,573
Fixed income securities/bonds	—	—	2,279	526	6,422
Other investments	89	—	—	—	3,919
Total	$ 6,968	$ 24,362	$ 5,821	$ 15,484	$ 105,587

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

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

Investments	MSU Moorhead Foundation	SCSU Foundation	Southwest MN Foundation	WSU Foundation	Total
Money markets	$ 531	$ 801	$ 295	$ —	$ 4,298
Certificates of deposits	—	—	—	10	221
U.S. Government securities	—	—	—	1,315	1,415
Mutual funds	1,794	13,285	—	12,937	57,514
Equity securities	—	—	3,176	1,471	5,835
Corporate stock & bonds	4,764	11,088	—	—	15,916
Fixed income securities/bonds	—	—	3,150	364	8,244
Other investments	95	—	—	—	2,798
Total	$ 7,184	$ 25,174	$ 6,621	$ 16,097	$ 96,241

Schedule of Assets Held for Endowment
(In Thousands)

Assets	Metropolitan State Foundation 2008	Metropolitan State Foundation 2007
Investments	$ 2,043	$ 2,157
Contributions receivable	32	130
Accrued interest receivable	1	1
Total	$ 2,076	$ 2,288

Summaries of the foundations long term obligations:

- Minnesota State University, Mankato Foundation, Inc. — bonds payable, Taylor Center Campaign $1,590,000.
- Minnesota State University Moorhead Alumni Foundation, Inc. — dormitory bond loan payable $3,561,541 and notes payable totaling $268,323 with Bremer Bank.
- St. Cloud State University Foundation, Inc. — an agreement on March 1, 2002 with the Housing and Redevelopment Authority, the city of St. Cloud, MN and U.S. Bank National Association to issue $16,515,000 in revenue bonds, $14,180,000 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 $8,660,164.
- Southwest Minnesota State University Foundation, Inc. — utilities assessments payable to the City of Marshall totaling $58,626 and a student housing revenue note payable to Bremer Bank totaling $5,370,187. Debt related to the Regional Events Center include two notes payable to Bremer Bank NA, Marshall, Minnesota in the amount $228,000 and $337,500. Additionally $1,067,466 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 $13,290 for a vehicle.

Schedule of Long Term Obligations
(In Thousands)

Year	MSU, Mankato Foundation	MSU Moorhead Foundation	SCSU Foundation	WSU Foundation	SWU Foundation	BSU Foundation
2009	$ 442	$ 139	$ 660	$ 279	$ 464	$ 353
2010	432	147	700	293	430	6
2011	245	155	725	307	415	1
2012	245	164	750	323	422	—
2013	226	105	790	339	386	—
Thereafter	—	3,120	10,555	7,119	4,945	—
Total	$ 1,590	$ 3,830	$ 14,180	$ 8,660	$ 7,062	$ 360

21. SUBSEQUENT EVENTS

General Obligation Bond Issuances — In July 2008, $75,000,000 in general obligation state bonds were issued at a true interest rate of 4.3 percent. Minnesota State Colleges and Universities pays one third of the debt service on $67,500,000 of these bonds issued over the life of the bonds. The first debt service payment on these bonds will be November 2008.

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SUPPLEMENTAL SECTION

KDV

Expert advice. When you need it.[SM]

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 7, 2008

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, 2008, and have issued our report thereon dated November 7, 2008. Our audit opinion also includes references to other auditor's reports, which are included in the audited financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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.

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.

KDV

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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 7, 2008.

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

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