MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2010 and 2009

Prepared by:

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Minnesota State Colleges and Universities
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MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2010 and 2009

TABLE OF CONTENTS

INTRODUCTION

FINANCIAL SECTION

SUPPLEMENTAL SECTION

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 4, 2010

Members of the Board of Trustees
Chancellor James H. McCormick

I am pleased to submit to you the audited financial report for the Minnesota State Colleges and Universities system for the fiscal years ended June 30, 2010 and 2009. The consolidated financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the consolidated financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the consolidated financial statements, which were audited by the firm of LarsonAllen LLP, you will find the statements of net assets, the statements of revenue, expense, and changes in net assets and the statements of cash flows.

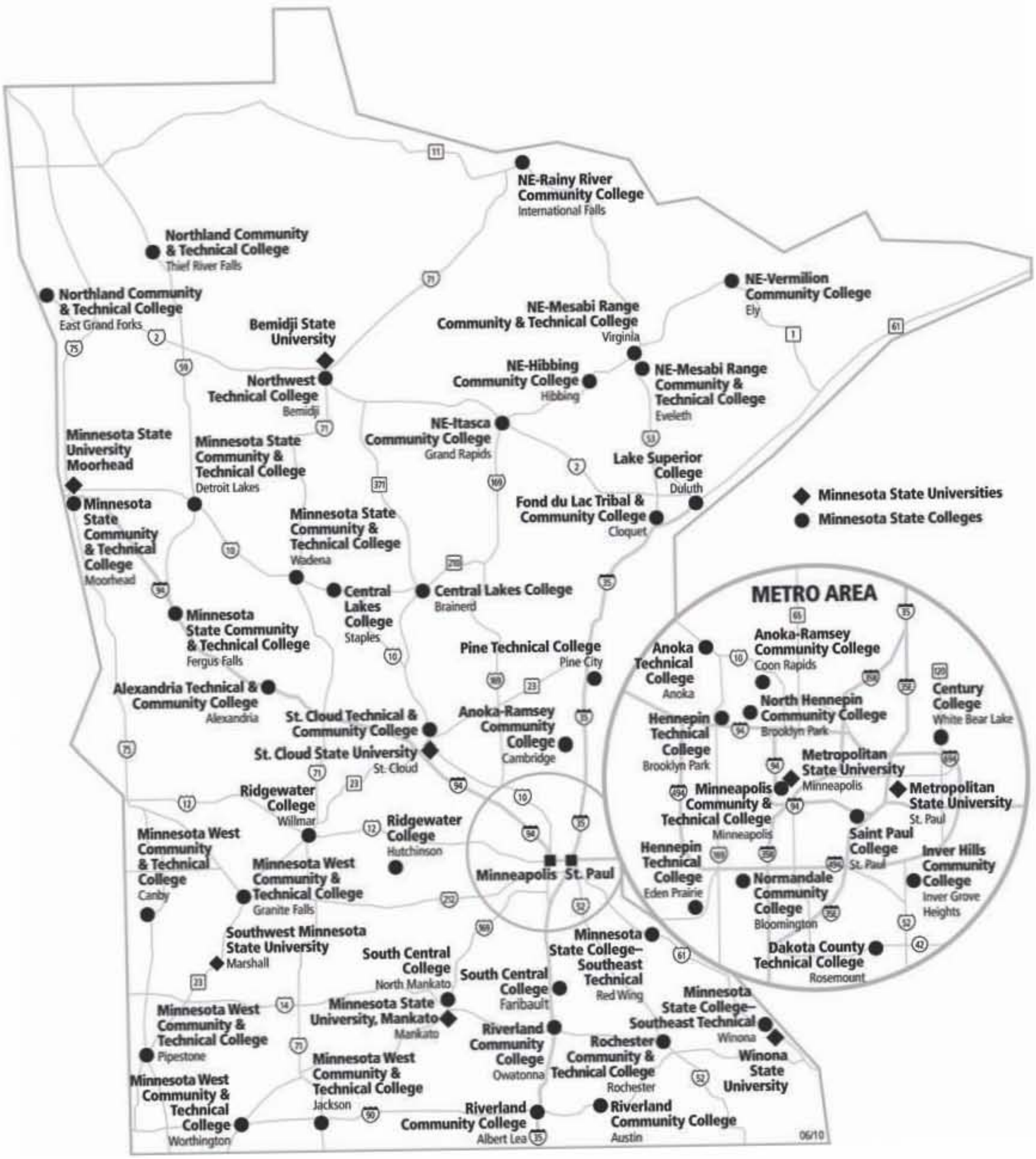
We are also providing separately audited financial statements for the Revenue Fund, all state universities and three of our two-year colleges. The completion of separately audited financial statements for 13 of the 32 colleges and universities places 66 percent of the expenses of the Minnesota State Colleges and Universities system under separate stand-alone audits. It is worth noting that the systemwide audit opinion, the Revenue Fund opinion and the opinions for the 13 separate audits are each without qualification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the Office of the Chancellor.

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

Sincerely,

Laura M. King
Vice Chancellor - Chief Financial Officer

Minnesota State Colleges & Universities



TWO-YEAR COLLEGES

Alexandria Technical & Community 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 & Community 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 & Universities

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

ANOKA-RAMSEY COMMUNITY COLLEGE
Cambridge, Coon Rapids
Jessica Stumpf, Interim President
(763) 433-1100
www.anokaramsey.edu

ANOKA TECHNICAL COLLEGE
Anoka
Shari Olson, Interim President
(763) 576-4850
www.anokatech.edu

BEMIDJI STATE UNIVERSITY
Bemidji
Richard Hanson, President
1-877-236-4354
www.bemidjistate.edu

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

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

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

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

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

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

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

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

LAKE SUPERIOR COLLEGE
Duluth
Patrick Johns, President
1-800-432-2884
www.lsc.edu

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

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

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

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

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

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

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

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

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

NORTH HENNEPIN COMMUNITY COLLEGE
Brooklyn Park
John O'Brien, 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
Richard Hanson, President
1-800-942-8324
www.ntcmn.edu

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

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

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

RIVERLAND COMMUNITY COLLEGE
Albert Lea, Austin, Owatonna
Terrence Leas, President
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 & COMMUNITY COLLEGE
St. Cloud
Joyce Helens, President
1-800-222-1009
www.sctcc.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
explore.southcentral.edu

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

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

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

**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*

The financial activity of the 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

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, 2010, 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 audit. The financial statements of MnSCU as of June 30, 2009 were audited by other auditors whose report dated November 6, 2009, expressed an unqualified opinion on those statements.

We did not audit the financial statements of Mankato State University, Minnesota State University Moorhead, Normandale Community College, Winona State University, Hennepin Technical College, Bemidji State University, Century College, Saint Cloud State University, and Minnesota State Community and Technical College (collectively, the "Individual Colleges and Universities"), which represent 51% of the consolidated assets and 51% of the consolidated revenues of MnSCU for fiscal year 2010. These financial statements were audited by other auditors whose reports have 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 reports of the other auditors. We also did not audit the financial statements of Bemidji State University Foundation, Century College Foundation, Fergus Area College Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., St. Cloud State University Foundation, Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 100% of the total assets and 100% of the revenues of the discretely presented component units. Those statements were also audited by other auditors whose reports have 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 reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Minnesota State Colleges and Universities, as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 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 should be considered in assessing the results of our audit.

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

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

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
November 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the consolidated financial position and activities of the Minnesota State Colleges and Universities system (the System) for the fiscal years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

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

FINANCIAL HIGHLIGHTS

The System's financial position improved during fiscal year 2010 with net assets increasing by $179.6 million, or 11.6 percent, on total revenues of $1.98 billion. This follows a $106.8 million, or 7.4 percent increase during fiscal year 2009 on total revenues of $1.85 billion. The System's unrestricted net assets increased by $76.4 million, or 30.3 percent and $3.1 million, or 1.2 percent, in fiscal years 2010 and 2009, respectively.

- Income (Loss) before other revenues, expenses, gains or losses, described further below as the System's net operating revenue, experienced a gain of $57.1 million in fiscal year 2010. This compares to a loss of ($9.3) million and income of $8.4 million in fiscal years 2009 and 2008, respectively.

- The state appropriation and tuition charged to students are the System's two largest revenue sources. The state appropriation decreased by $48.2 million, or 7.3 percent in fiscal year 2010 after decreasing 0.5 percent in fiscal year 2009 and increasing 10.6 percent in fiscal year 2008. Gross tuition revenue increased $85.5 million or 12.2 percent, $39.3 million or 6 percent, and $45.6 million or 7.4 percent in fiscal years, 2010, 2009, and 2008, respectively. Tuition rate increases averaged 3.0 percent, 2.2 percent, and 3.6 percent in fiscal years 2010, 2009, and 2008, respectively.

- Federal grants increased by $144 million or 66 percent, and $27 million or 14 percent, and $19 million or 12 percent in fiscal years 2010, 2009, 2008 respectively. Of this increase $39.3 million came from funds received under the American Recovery and Reinvestment Act (ARRA) of 2009. ARRA commonly referred to as the federal stimulus package was enacted to create jobs and promote consumer spending in response to the most recent recession. Of this amount, $11.9 million was used to mitigate tuition increases. The remaining increase is related primarily to student Pell Grants.

- Total debt supporting the System's capital asset investment programs decreased in fiscal year 2010 by approximately $3.4 million to a total of $456.4 million, a 0.7 percent decrease. This decrease was due to a decrease in revenue bond indebtedness.

- Salaries and benefits, the largest cost category in the System, increased by $12.9 million, or 1.1 percent, and $65.3 million, or 5.6 percent, in fiscal years 2010 and 2009, respectively. This cost constitutes 69.9 percent of the System's fiscal year 2010 total operating expenses, compared to 71.3 percent for fiscal year 2009.

- The number of students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalents for credit students in fiscal years 2010, 2009 and 2008 totaled 155,601, 143,924, and 139,885, respectively. Enrollment in 2010 increased 8.1 percent over 2009 and 2.9 percent over 2008.

USING THE FINANCIAL STATEMENTS

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

FINANCIAL PERFORMANCE

The letter-based credit rating designations in the table on the next page are defined and used by Moody's Investors Services. All ratings denote creditworthiness relative to other U.S. municipal or tax-exempt issuers or issues. The relative credit worthiness is: Aaa = strongest, Aa = very strong, A = above average and A3 = average. The fiscal year 2009 values in the Financial Performance Measure Values table that follows is taken from *Moody's Fiscal Year 2009 Public College and University Medians* report and as such, represent median values for 220 public colleges and universities rated (in whole or in part) within Moody's public college and university portfolio. Fiscal year 2010 financial data is not available as yet. Rated components range from large state higher education systems to small public colleges and universities. Ratings may also be for a segment of a system or institution such as the Revenue Fund of the Minnesota State Colleges and University system, which is included within the "Aaa" rating below.

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

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

The table on the following page displays financial ratios as converted into weighted strength factor values, and sums these weighted values into a single composite score. Institutions may have differing values across the four factors but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the composite scores, *Strategic Financial Analysis for Higher Education,* suggests a composite value of 1 is equivalent to very little financial health, in the for-profit world it could perhaps be viewed as a "going-concern" threshold value, while a composite value of 3 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3 represent increasingly stronger financial health.

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

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

Financial Performance Measure										
Financial Performance Measure	FY10 System* & Revenue Fund		Moody's 2009 Public College/University medians – Converted to Weighted Values and Composite Financial Index (CFI)							
	System *	Revenue Fund	All	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Primary Reserve	0.70	2.42	1.00	2.03	1.34	1.11	1.21	0.97	0.74	0.37
Viability	0.84	0.36	0.66	1.59	1.13	0.88	0.79	0.42	0.33	0.22
Net Operating Revenue	0.48	1.80	0.23	0.59	0.47	0.23	0.16	0.13	0.23	(0.10)
Return on Net Assets	1.19	0.80	0.29	(0.20)	(0.20)	0.20	0.33	0.36	0.49	(0.30)
CFI	3.21	5.38	2.18	4.01	2.75	2.42	2.49	1.88	1.78	0.46
	The shaded cells link System values to the closest value(s) within a credit rating category									

* Consistent with Moody's underlying ratios, the System's individual and composite (CFI) values include component units as reported in this report. Component units increased CFI from 3.09 to 3.21 due primarily to the foundations' collective realized and unrealized gains on investment. See *Combining Minnesota State Colleges' and Universities' Foundations Statements of Activities.*

The comparisons in the table above using the four underlying financial ratio values and CFI calculation methodology, place the System's composite value just below the median composite value for "Aaa" rated institutions while placing the System's Revenue Fund composite value above the median values for "Aaa" rated institutions. It is important to note that the Moody's national data is 2009, lagging the System data by one year.

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 2010, 2009, and 2008 follow (in thousands):

ASSETS, LIABILITIES AND NET ASSETS

	2010	2009	2008
Current assets	$ 799,657	$ 692,514	$ 684,197
Current restricted assets	109,994	138,846	115,387
Noncurrent restricted assets	36,313	15,256	40,038
Noncurrent assets	27,069	28,092	26,814
Capital assets, net	1,651,294	1,546,273	1,388,698
Total assets	2,624,327	2,420,981	2,255,134
Current liabilities	300,181	277,557	272,835
Noncurrent liabilities	600,380	599,299	545,020
Total liabilities	900,561	876,856	817,855
Invested in capital assets, net of related debt	1,272,489	1,181,908	1,089,660
Restricted	122,961	110,311	98,788
Unrestricted	328,316	251,906	248,831
Total Net assets	$ 1,723,766	$ 1,544,125	$ 1,437,279

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $110.4 million to a total of $655.4 million at June 30, 2010. This $655.4 million of cash and cash equivalents plus investments of $31.1 million represent approximately 4.9 months of fiscal year 2010 operating expenses (excluding depreciation), a increase of 0.7 months from fiscal year 2009. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the System's revenues.

Current liabilities consist primarily of salaries, accounts payable and the current portion of long term debt. Salaries and benefits payable at June 30, 2010 increased from the prior year by 1.5 percent or $1.9 million to a total of $122.9 million. Accounts payable, including payables from restricted assets, decreased $4.9 million due to normal timing differences. Consistent with prior years, the salaries payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 - August 31 year. The current portion of long term debt increased $0.8 million to $26.9 million at June 30, 2010 due to increases over the past few years in both general obligation and revenue bonds. Unearned revenue had an increase of $23.5 million which includes unspent bond proceeds along with an increase in unearned tuition and grant revenue.

The noncurrent liabilities remained relatively flat in fiscal year 2010 compared to fiscal year 2009. The June 30, 2010 balance for the noncurrent portion of the other compensation benefits liability increased $5.5 million to $140.4 million. This noncurrent liability consists primarily of $120 million for compensated absences, vacation and sick leave balances earned by employees, as well as other benefits. This was offset with a $4.1 million decrease in the noncurrent portion of long term debt liabilities.

Net Assets represent the System's residual interest in total assets after deducting liabilities. Investment in capital assets, net of related debt, represents by far the largest portion of net assets. Capital assets are carried at historical cost, not replacement cost. Restricted net assets have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for capital projects of $25.9 million, and debt service on bonds and restrictions imposed by bond covenants of $57.2 million, a $5.3 million increase from fiscal year 2009, primarily due to an increase in unspent revenue fund net assets.

CAPITAL AND DEBT ACTIVITIES

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

Fiscal year 2010, capital outlays totaled $215.0 million, including $192.0 million of new construction in progress, and fiscal year 2009 capital outlays totaled $215.9 million, including $192.4 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the System is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The System recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the System has no debt service responsibility. General obligation bonds payable totaled $237.0 million at June 30, 2010, a net increase of $7.6 million during the fiscal year. Revenue bonds payable at June 30, 2010 totaled $184.9 million, a net decrease of $8.9 million from June 30, 2009.

The percentage of total revenue expended to cover debt service (principal and interest payments on bonds, capital leases and notes payable) has increased from 1.88 percent or $31.6 million in fiscal year 2007, to 2.5 percent, or $49.7 million in fiscal year 2010.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Summarized revenues, expenses and changes in net assets for fiscal years 2010, 2009, and 2008 follow (in thousands):

REVENUES, EXPENSES AND NET ASSETS

	2010	2009	2008
Operating revenue:			
Tuition, auxiliary and sales, net	$ 659,596	$ 640,419	$ 614,019
Restricted student payments, net	96,695	89,629	80,763
Other	14,813	17,115	17,295
Total operating revenue	771,104	747,163	712,077
Nonoperating and other revenue:			
State appropriation	614,169	662,417	665,883
Capital appropriation	119,774	106,733	102,094
Grants	468,757	319,161	286,584
Miscellaneous nonoperating and other revenue	9,041	14,981	29,585
Total nonoperating and other revenue	1,211,741	1,103,292	1,084,146
Total revenues	1,982,845	1,850,455	1,796,223
Operating expense:			
Salaries and benefits	1,237,709	1,224,801	1,159,542
Other operating expenses	532,602	492,547	489,411
Total operating expense	1,770,311	1,717,348	1,648,953
Interest and other nonoperating expense	32,893	26,261	27,323
Total expenses	1,803,204	1,743,609	1,676,276
Increase in net assets	179,641	106,846	119,947
Net assets, beginning of year	1,544,125	1,437,279	1,317,332
Net assets, end of year	$ 1,723,766	$ 1,544,125	$ 1,437,279

Fiscal year 2010 total revenue increased 7.2 percent to $1.98 billion from fiscal year 2009 total revenue of $1.85 billion. Student based revenue, net of scholarship allowances, increased 3.6 percent and federal grant revenue increased 66.5 percent. Federal funding from the ARRA along with an increase in the financial aid funds are the main contributors to the $150 million increase in grants in fiscal year 2010.

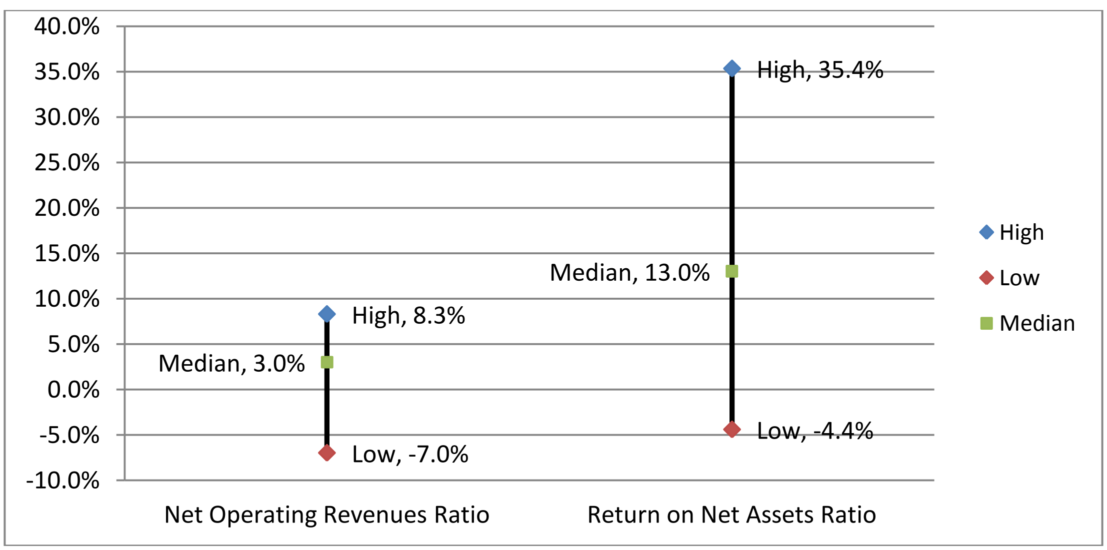
Compensation is the System's single largest expense component. In absolute dollars, compensation expense increased $12.9 million, or 1.1 percent, in fiscal year 2010 and represented 69.9 percent of total operating expense. The fiscal year 2009 increase of $65.3 million, or 5.6 percent, represented 71.3 percent of total operating expense. Total compensation expense included fringe benefit costs of $293.8 million and $284.0 million in fiscal years 2010 and 2009, respectively.

All other operating expenses for fiscal years 2010 and 2009 increased about 8.1 percent and 0.6 percent, respectively. The most significant increase in fiscal year 2010 was a $31.8 million increase in net financial aid due to an increase in student eligibility and awards amounts, along with a $5.5 million or 6.6 percent increase in depreciation expense due to the continued investment in capital asset replacement and renovation.

The net operating revenues ratio (often referred to as operating margin ratio) is a measure of the surplus or deficit generated by on-going operations and as such impacts the other three ratios through increasing or decreasing net assets. The return on net assets ratio is in many respects a measure of financial stewardship. Given the assets available at the start of the fiscal year, has the organization's financial position improved or deteriorated as measured by the change in net assets line on the statements of revenues, expenses, and changes in net assets?

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

VARIABILITY IN FISCAL YEAR 2010 COLLEGE AND UNIVERSITY FINANCIAL RESULTS



FOUNDATIONS

The System's annual financial report for the years ended June 30, 2010 and 2009, 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, but are included in the summary financial information presented above. The relationships between the Foundations and the related colleges and universities are described in Note 17.

INVESTMENTS

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Minnesota State Colleges and Universities System maintained a relatively strong financial position in fiscal year 2010 despite receiving a $48.2 million state appropriation reduction. The System continues to rely heavily on state operating appropriation support to implement new programs tailored to the needs of the state's workforce, to maintain ongoing operations, and to devise the innovative strategies necessary to successfully manage the future challenges presented by a weak economy and a constantly evolving higher education marketplace.

The state, national and global economies have experienced the impacts of a significant recession throughout fiscal year 2010. As on the occasion of past increases in the general unemployment rate, the System experienced corresponding increases in enrollment. Enrollment levels at both the two-year colleges and the universities have increased 8.1 percent, 2.9 percent, and 3.0 percent year over year in 2010, 2009 and 2008. The System's colleges and universities have aggressively managed class sizes, course offerings, and hours of operations in order to serve as many students as possible. Enrollment increase forecasts in 2011 and 2012 are well below recent annual experience. It is expected that enrollment will once again moderate as the state's unemployment rate declines.

This recession is reducing state tax revenue, which in turn has already had a negative impact on the System's appropriation revenue. State appropriation revenue was reduced in the fiscal 2009, 2010 and 2011 although reductions will be somewhat offset with one-time federal stimulus funds totaling $79.2 million in fiscal 2010 and 2011. The fiscal years 2012 and 2013 biennium is expected to continue showing a significant gap between state revenue and collective appropriation requests. Near and mid term financial planning has been undertaken with provision for substantial uncertainty in the state's 2012 and 2013 level of support for public higher education. System leadership has worked tirelessly to minimize tuition increases and the detrimental impact of cost cutting on the System's approximately 3,800 educational programs; both efforts are aimed squarely at limiting negative impacts on students.

Federal law changes in fiscal 2009 included a historic federal investment in community colleges and community college infrastructure. The law changes also included guaranteed increases in the Pell Grant maximum and changes in financial aid, including the simplification of the FAFSA form. Funding is available for these initiatives and others in the bill, by requiring that all institutions begin participating in the Direct Loan program by July 1, 2010. The changes in the federal financial aid program, in concert with the state and national economic conditions, resulted in a substantial increase in federal financial aid participation by the System's students. Reliance on state and federal financial assistance by current and future students is a state and national concern as affordability competes with the withdrawal of state support for public higher education. Further, the increased personal debt burden of today's students threatens participation and completion rates.

The continuing success of the System depends in part on a partnership with the state of Minnesota and its citizens. Preservation of the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The System will maintain its aggressive management of costs and services to ensure efficient, effective operations on behalf of current and future students. The partnership enables the provision of accessible, high value, affordable higher education in accord with the economic and intellectual needs of the state. The state's continued support is critical to maintaining both affordability and access for 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 System Director
Minnesota State Colleges and Universities
Wells Fargo Place
30 7th St. E., Suite 350
St Paul, MN 55101-7804

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009
(IN THOUSANDS)

Assets	2010	2009
Current Assets		
Cash and cash equivalents	$ 655,380	$ 544,952
Investments	31,123	27,341
Grants receivable	19,382	13,629
Accounts receivable, net	48,109	62,957
Prepaid expense	26,107	22,329
Inventory	13,411	14,326
Student loans and other assets, net	5,880	6,622
Securities lending collateral	265	358
Total current assets	799,657	692,514
Current Restricted Assets		
Cash and cash equivalents	109,994	138,846
Total current restricted assets	109,994	138,846
Noncurrent Restricted Assets		
Other assets	71	82
Construction in progress	36,242	15,174
Total noncurrent restricted assets	36,313	15,256
Total restricted assets	146,307	154,102
Noncurrent Assets		
Student loans and other assets, net	27,069	28,092
Capital assets, net	1,651,294	1,546,273
Total noncurrent assets	1,678,363	1,574,365
Total Assets	2,624,327	2,420,981
Liabilities		
Current Liabilities		
Salaries and benefits payable	122,922	121,061
Accounts payable	35,775	32,384
Unearned revenue	62,377	38,874
Payable from restricted assets	19,739	28,043
Interest payable	2,102	2,044
Funds held for others	9,397	9,815
Current portion of long-term debt	26,934	26,126
Other compensation benefits	20,450	18,570
Other liabilities	220	282
Securities lending collateral	265	358
Total current liabilities	300,181	277,557
Noncurrent Liabilities		
Noncurrent portion of long-term debt	429,419	433,590
Other compensation benefits	140,436	134,904
Capital contributions payable	30,525	30,805
Total noncurrent liabilities	600,380	599,299
Total Liabilities	900,561	876,856
Net Assets		
Invested in capital assets, net of related debt	1,272,489	1,181,908
Restricted expendable, bond covenants	57,183	51,881
Restricted expendable, other	65,778	58,430
Unrestricted	328,316	251,906
Total Net Assets	$ 1,723,766	$ 1,544,125

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, 2010 AND 2009
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Assets				
Current Assets				
Cash and cash equivalents	$ 60	$ 102	$ 59	$ 2,044
Investments	12,896	1,442	2,700	7
Restricted cash and cash equivalents	-	-	-	-
Pledges and contributions receivable, net	752	16	-	155
Other receivables and Other assets	29	1	6	2
Annuities/Remainder interests/Trusts	-	-	-	-
Finance lease receivable	-	-	-	-
Total current assets	13,737	1,561	2,765	2,208
Noncurrent Assets				
Annuities/Remainder interests/Trusts	108	-	-	-
Long-term pledges receivable	689	-	-	-
Finance lease receivable, net	-	-	-	-
Investment property	-	-	-	-
Restricted investments	-	-	-	2,340
Assets held for endowment	-	-	-	139
Buildings, property and equipment, net	307	-	-	-
Other assets	35	-	-	-
Total noncurrent assets	1,139	-	-	2,479
Total Assets	$ 14,876	$ 1,561	$ 2,765	$ 4,687
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 24	$ 98	$ -	$ 255
Interest payable	3	-	-	-
Annuities payable	20	-	-	-
Notes payable	2	-	-	-
Bonds payable	-	-	-	-
Scholarships payable and Other liabilities	-	-	-	39
Total current liabilities	49	98	-	294
Noncurrent Liabilities				
Annuities payable and Unitrust liabilities	212	-	-	-
Notes payable	732	-	-	-
Bonds payable	-	-	-	-
Other Non-current Liabilities	-	-	-	-
Total noncurrent liabilities	944	-	-	-
Total Liabilities	993	98	-	294
Net Assets				
Unrestricted	395	(19)	95	343
Temporarily restricted	2,874	516	201	1,694
Permanently restricted	10,614	966	2,469	2,356
Total Net Assets	13,883	1,463	2,765	4,393
Total Liabilities and Net Assets	$ 14,876	$ 1,561	$ 2,765	$ 4,687

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	2010 Total	2009 Total
$ 108	$ 1,192	$ 265	$ 58	$ 1,683	$ 5,571	$ 11,401
34,062	6,684	23,953	2,878	13,696	98,318	81,341
-	-	1,379	-	-	1,379	1,378
2,514	391	560	472	274	5,134	5,374
45	1	119	57	365	625	554
-	1,353	-	-	120	1,473	1,284
-	-	725	-	-	725	700
36,729	9,621	27,001	3,465	16,138	113,225	102,032
-	-	253	-	-	361	400
1,716	2,688	1,922	650	956	8,621	5,026
-	-	10,558	-	-	10,558	11,283
-	865	148	-	-	1,013	1,314
-	-	-	2,479	-	4,819	4,414
-	-	-	-	-	139	223
957	3,492	187	7,281	9,557	21,781	22,568
-	-	265	493	878	1,671	1,676
2,673	7,045	13,333	10,903	11,391	48,963	46,904
$ 39,402	$ 16,666	$ 40,334	$ 14,368	$ 27,529	$162,188	$148,936
$ 112	$ 16	$ 130	$ 40	$ 693	$ 1,368	$ 3,318
-	16	105	9	33	166	194
-	17	18	-	35	90	114
-	-	-	-	307	309	300
245	155	725	515	-	1,640	1,734
-	-	161	171	-	371	152
357	204	1,139	735	1,068	3,944	5,812
1,168	399	265	-	-	2,044	1,902
	-	-	-	7,780	8,512	8,087
471	3,388	12,095	6,794	-	22,748	24,372
-	-	-	-	-	-	938
1,639	3,787	12,360	6,794	7,780	33,304	35,299
1,996	3,991	13,499	7,529	8,848	37,248	41,111
4,269	337	7	584	461	6,472	3,426
2,364	5,781	11,423	3,503	5,000	33,356	24,435
30,773	6,557	15,405	2,752	13,220	85,112	79,964
37,406	12,675	26,835	6,839	18,681	124,940	107,825
$ 39,402	$ 16,666	$ 40,334	$ 14,368	$ 27,529	$162,188	$148,936

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Revenues		
Tuition,net	$ 529,073	$ 507,596
Fees, net	71,149	76,251
Sales and room and board, net	59,374	56,572
Restricted student payments, net	96,695	89,629
Other income	14,813	17,115
Total operating revenues	771,104	747,163
Operating Expenses		
Salaries and benefits	1,237,709	1,224,801
Purchased services	207,292	220,513
Supplies	92,202	89,593
Repairs and maintenance	34,811	28,093
Depreciation	88,440	82,982
Financial aid, net	65,313	33,506
Other expense	44,544	37,860
Total operating expenses	1,770,311	1,717,348
Operating loss	(999,207)	(970,185)
Nonoperating Revenues (Expenses)		
Appropriations	614,169	662,417
Federal grants	360,482	216,482
State grants	87,266	80,834
Private grants	19,096	17,301
Interest income	7,487	10,066
Interest expense	(20,142)	(17,155)
Grants to other organizations	(12,074)	(9,106)
Total nonoperating revenues (expenses)	1,056,284	960,839
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	57,077	(9,346)
Capital appropriations	119,774	106,733
Capital grants	1,913	4,544
Donated assets and supplies	1,554	4,262
Gain (loss) on disposal of capital assets	(677)	653
Change in net assets	179,641	106,846
Total Net Assets, Beginning of Year	1,544,125	1,437,279
Total Net Assets, End of Year	$ 1,723,766	$ 1,544,125

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, 2010 AND 2009
(IN THOUSANDS)

	Bemidji State University Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State University Foundation
Support and Revenue				
Contributions	$ 2,444	$ 472	$ -	$ 861
Endowment gifts	891	-	56	-
In-kind contributions	-	307	-	-
Investment income	1,410	(2)	114	155
Realized gains and losses	-	(34)		-
Unrealized gains and losses	(15)	177	215	69
Program income	67	-	87	-
Special events	-	12	-	-
Fundraising income	-	-	48	-
Other income	30	-	-	-
Total support and revenue	4,827	932	520	1,085
Expenses				
Program services				
Program services	-	-	-	759
Scholarships	680	167	147	-
University activities	-	437	-	-
Special projects	1,452	-	-	-
Total program services	2,132	604	147	759
Supporting services				
Interest expense	-	-	-	-
Management and general	136	112	64	41
Fundraising expenses	305	23	1	188
Depreciation and amortization	-	-	-	-
Other expense	-	-	-	-
Total supporting services	441	135	65	229
Total expenses	2,573	739	212	988
Change in Net Assets	2,254	193	308	97
Net Assets, Beginning of Year	11,629	1,270	2,457	4,296
Net Assets, End of Year	$ 13,883	$ 1,463	$ 2,765	$ 4,393

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	2010 Total	2009 Total
	$ 6,155	$ 4,153	$ 4,329	$ 1,477	$ 1,635	$ 21,526	$ 16,714
	-	-	-	-	-	947	598
	2,289	-	2,109	387	-	5,092	3,951
	947	332	1,237	95	235	4,523	4,003
	2,127	146	(62)	(117)	(44)	2,016	(10,732)
	(5)	324	1,713	525	1,126	4,129	(8,911)
	-	407	-	368	1,368	2,297	2,000
	-	10	-	-	-	22	132
	-	-	-	50	130	228	156
	160	-	-	756	-	946	938
	11,673	5,372	9,326	3,541	4,450	41,726	8,849
	-	40	2,231	241	714	3,985	4,944
	3,401	551	899	730	903	7,478	7,727
	-	954	-	450	1,240	3,081	4,602
	-	-	-	1,173	45	2,670	5,132
	3,401	1,545	3,130	2,594	2,902	17,214	22,405
	46	192	651	-	-	889	946
	540	337	951	296	46	2,523	2,381
	1,661	78	950	494	42	3,742	3,753
	25	149	-	-	-	174	178
	11	58	-	-	-	69	53
	2,283	814	2,552	790	88	7,397	7,311
	5,684	2,359	5,682	3,384	2,990	24,611	29,716
	5,989	3,013	3,644	157	1,460	17,115	(20,867)
	31,417	9,662	23,191	6,682	17,221	107,825	128,692
	$ 37,406	$ 12,675	$ 26,835	$ 6,839	$ 18,681	$124,940	$107,825

MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	$ 851,332	$ 805,740
Cash repayment of program loans	3,572	3,453
Cash paid to suppliers for goods or services	(436,472)	(450,607)
Cash payments to employees	(1,228,897)	(1,209,167)
Financial aid disbursements	(65,635)	(34,673)
Cash payments of program loans	(3,254)	(3,647)
Net cash flows used in operating activities	(879,354)	(888,901)
Cash Flows from Noncapital Financing Activities		
Appropriations	614,169	642,417
Federal grants	357,915	216,759
State grants	87,266	80,834
Private grants	19,096	17,301
Agency activity	(419)	2,057
Grants to other organizations	(12,450)	(9,106)
Net cash flows from noncapital financing activities	1,065,577	950,262
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(223,012)	(201,008)
Capital appropriation	136,870	106,733
Capital grants	4,543	2,801
Proceeds from sale of capital assets	334	1,441
Proceeds from borrowing	24,371	68,500
Proceeds from bond premiums and discounts	2,315	1,875
Interest paid	(21,348)	(17,909)
Repayment of lease principal	(2,484)	(2,328)
Repayment of note principal	(1,355)	(703)
Repayment of bond principal	(27,804)	(19,764)
Net cash flows used in capital and related financing activities	(107,570)	(60,362)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	10,978	9,093
Purchase of investments	(14,024)	(8,397)
Investment earnings	5,969	11,523
Net cash flows from investing activities	2,923	12,219
Net Increase in Cash and Cash Equivalents	81,576	13,218
Cash and Cash Equivalents, Beginning of Year	683,798	670,580
Cash and Cash Equivalents, End of Year	$ 765,374	$ 683,798

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Loss	$ (999,207)	$ (970,185)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	88,440	82,982
Provision for loan defaults	(50)	(57)
Loan principal repayments	3,572	3,453
Loans issued	(3,254)	(3,647)
Forgiven loans	638	575
Donated and lease equipment not capitalized	812	1,593
Change in assets and liabilities		
Inventory	915	(1,251)
Accounts receivable	11,366	(3,569)
Accounts payable	5,058	(12,758)
Salaries and benefits payable	1,861	5,166
Other compensation benefits	7,412	9,753
Capital contributions payable	(280)	232
Unearned revenue	4,072	1,189
Other	(709)	(2,377)
Net reconciling items to be added to operating income	119,853	81,284
Net cash flows used in operating activities	$ (879,354)	$ (888,901)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 22,520	$ 32,353
Equipment on account	314	76
Donated equipment	742	3,251
Change in fair marker value of investment	735	(1,861)
Investment earnings on account	321	806
Amortization of bond premium/discount	1,267	1,084

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, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Assets		
Mutual Funds	$ 886,399	$ 763,897
Total Assets	886,399	763,897
Liabilities		
Total Liabilities	-	-
Net Assets Held in Trust for Pension Benefits	$ 886,399	$ 763,897

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, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Additions:		
Contributions		
Employer	$ 40,341	$ 39,032
Member	34,047	33,060
Contributions from roll overs and other sources	1,201	1,337
Total Contributions	75,589	73,429
Net Investment Gain (Loss)	80,566	(130,382)
Total Additions	156,155	(56,952)
Deductions:		
Benefits and refunds paid to plan members	33,330	29,127
Administrative fees	323	309
Total Deductions	33,653	29,436
Net Increase (Decrease)	122,502	(86,388)
Net Assets Held in Trust for Pension Benefits, Beginning of Year	763,897	850,285
Net Assets Held in Trust for Pension Benefits, End of Year	$ 886,399	$ 763,897

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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, a legally separate entity are also included here. 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.

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

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

Bemidji State University Foundation
1500 Birchmont Dr. NE #17
Bemidji, MN 56601-2699

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

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

Metropolitan State University Foundation
700 East Seventh Street
St. Paul, MN 55106

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

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

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

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

Winona State University Foundation
P.O. Box 5838
Winona, MN 55987-5838

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

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

Minnesota State Colleges and Universities is the fiscal agent for the Project for Automated Library Services (PALS). PALS is a consortium of over 125 libraries and branches. Services are provided on a contractual basis to private college, state agency, public school and special libraries as well as the University of Minnesota and all Minnesota State Colleges and Universities' libraries. During fiscal years 2010 and 2009, PALS received revenues of $1,964,905 and $1,930,932, respectively, and incurred expenses of $2,484,523 and $2,249,825, 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 2010 and 2009, Minnesota State Colleges and Universities appropriated for ISEEK $300,000 and $307,000, respectively, which were recorded as expenses within the System wide activity.

There are six higher education telecommunication networks that comprise the Learning Network of Minnesota. These networks are separated by geographical region. Each region receives their core funding from the Minnesota Office of Higher Education. The funding is spent on network infrastructure and on supporting instructional technology services in each region. Of the six regions, three are managed by agencies other than Minnesota State Colleges and Universities. The University of Minnesota is the fiscal agent for the Metropolitan Educational Telecommunications Network (METNET) and the Consortium of Minnesota Educational Tele-communities (COMET). 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 2010 and 2009, the NETS consortium received revenues of $887,547 and $891,961, respectively, with the primary sources being a Higher Education Services Office grant and membership dues. During fiscal years 2010 and 2009, Minnesota State Colleges and Universities incurred expenses for NETS of $1,071,025 and $834,390, 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 2010 and 2009, NEAT received revenues of $238,755 and $224,182, respectively. During fiscal years 2010 and 2009, NEAT incurred expenses of $264,980 and $226,869, respectively.

Minnesota State Colleges and Universities is the fiscal agent for the Applied Learning Institute (ALI). ALI was formed as an attempt by the legislature to provide support for vocational and technical education in secondary and post-secondary schools in northeast Minnesota. The partnership includes northeastern Minnesota school districts, colleges of the Northeast Higher Education District (NHED), Iron Range Resources, Range Association of Municipalities and Schools and the Minnesota Center for Engineering and Manufacturing Excellence. NHED consists of the following colleges: Vermillion Community College, Mesabi Technical & Community College, Hibbing Community & Technical College, Itasca Community College, and Fond du Lac Tribal & Community College. ALI is funded through a legislative appropriation to NHED, funds from Iron Range Resources and membership dues from partner institutions. Each secondary school must partner with a post-secondary institution in the programs offered to their students. A Leadership Council made up of high school superintendents and college provosts, along with the NHED president and Applied Learning director, meet to approve programs and budgets. Funds are paid out to participants on a reimbursement basis; by EFT transaction to high schools and through the system's appropriation process to NHED colleges. During fiscal year 2010, ALI received revenues of $1,099,229 and incurred expenses of $ 1,143,115.

Minnesota State Colleges and Universities is the fiscal agent for the Arrowhead University (AU). AU was established as a distance campus of Bemidji State University. A decade ago the Northeast Higher Education District assumed governing and fiscal control. AU partners with four-year colleges and universities to provide upper division and graduate education to the communities of rural NE MN that are not being served by existing institutions. Current partners include Bemidji State University, Minnesota State University, Mankato, the University of Minnesota-Duluth and the College of St. Scholastica, offering 22 academic programs. AU is funded with state appropriation dollars. During fiscal year 2010, AU received revenues of $219,515 and incurred expenses of $266,101.

Minnesota State Colleges and Universities is the fiscal agent for the Iron Range Engineering (IRE) and the Arrowhead University / Masters in Engineering (AUME) grants. IRE is a state grant awarded by Iron Range Resources (IRR) to the NHED for the development and implementation of an Engineering Program within the Taconite Assistance Area that, in collaboration private industry, will allow students to earn a Bachelor of Science degree in engineering from Minnesota State University at Mankato. AUME is a state grant awarded in Fiscal year 2010 by Iron Range Resources and the Iron Range Higher Education Committee to allow the Arrowhead University to develop and implement a Masters of Engineering Program within the Taconite Assistance Area that will allow graduate students to earn masters degrees in engineering from the University of Minnesota Duluth in collaboration with private industry and the NHED. All funds are paid directly to UMD. During fiscal year 2010, IRE and AUME grants received revenues of $1,492,098 and incurred expenses of $1,050,188.

Minnesota State Colleges and Universities is the fiscal agent for the Southwest/West Central Higher Education Organization (SHOT). 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 2010 and 2009, SHOT received revenues of $1,344,354 and $669,162, respectively. During fiscal years 2010 and 2009, SHOT incurred expenses of $1,100,871 and $923,512, 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 $400,629 and $426,707, for fiscal years 2010 and 2009, respectively. In fiscal years 2010 and 2009, the total revenue offsetting these expenses was $138,169 and $225,179, respectively. In fiscal years 2010 and 2009, the revenue generated during the city portion of the time in the facility was $121,712 and $126,640, 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 or Chief Financial Officer.

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

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

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

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

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

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

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for unspent bond proceeds, 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 sell revenue bonds and may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, early retirement benefits, net other postemployment benefits, workers' compensation claims, notes payable, and capital contributions associated with Perkins Loan agreements with the United States Department of Education.

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, federal, state and private grants, and investment income.

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of $290,610,581 and $212,951,296 for fiscal years 2010 and 2009, respectively. Sales are also net of cost of goods sold of $64,685,543 and $60,865,687 for fiscal years 2010 and 2009, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances of $3,429,284 and $2,324,426 for fiscal years 2010 and 2009, respectively. Sales are also net of cost of goods sold of $102,011 and $91,088 for fiscal years 2010 and 2009, respectively.

Federal Grants —The Minnesota State Colleges and Universities participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, and TRIO. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* During fiscal year 2010, $39,340,393 of federal aid was recognized as revenue related to the American Recovery and Reinvestment Act of 2009. Of this amount, $11,888,314 was used to mitigate tuition increases that would have otherwise been necessary. 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 System will record such disallowance at the time the determination is made.

Capital Grants — The Minnesota State Colleges and Universities receive federal, state, and private grants which are restricted for the acquisition or construction of capital assets.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2009 federal and state grant revenue, in the amount of $216,481,881 and $80,833,775, respectively, have been reclassified from operating to nonoperating revenue. This reclassification increases the total operating loss by $297,315,655 while increasing total nonoperating revenue by the same amount.

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 compensated absences, workers' compensation claims, allowances for uncollectible accounts, and scholarship allowances. For fiscal year 2010, the estimate used to calculate the allowance for uncollectible accounts was changed to more closely align with historical receivable collections.

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)

	2010	2009
Capital projects	$ 25,854	$ 22,355
Debt service	25,382	22,016
Donations	4,182	4,232
Faculty contract obligations	6,409	5,846
Loans	3,951	3,981
Total	$ 65,778	$ 58,430

- *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.

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, 2010 and 2009, the local bank balances were $61,807,381 and $63,554,399, 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	2010	2009
Cash, in bank	$ 46,487	$ 42,229
Money markets	4,508	5,510
Repurchase agreements	7,736	11,444
Restricted local cash	414	264
Cash, trustee account (US Bank)	47,705	83,251
Total local cash and cash equivalents	106,850	142,698
Total treasury cash accounts	658,524	541,100
Grand Total	$ 765,374	$ 683,798

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.

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

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has a foreign checking account, denominated in both the European Euro and the British Pound. For fiscal year 2010 the fair value is $322,001 in U.S. dollars, of which $46,486 is represented in Euros, and $275,515 is represented in British Pounds. The fair value of this account for fiscal year 2009 was $255,331 in U.S. dollars, of which $52,428 is represented in Euros and $202,903 is represented in British Pounds.

Investments — The Minnesota State Board of Investment manages the majority of the state's investments. All investments managed by the State Board of Investment 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.

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

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

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

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Minnesota State Colleges and Universities' policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Minnesota State Colleges and Universities complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term debt investments. As of June 30, 2010, the Minnesota State Colleges and Universities had the following investments and maturities:

Investment Type	2010 Fair Value	Weighted Maturity (Years)	2009 Fair Value	Weighted Maturity (Years)
	Year Ended June 30 (In Thousands)			
Corporate/municipal bonds	$ 1,129	5.70	$ 1,789	3.94
U.S. agencies	16,419	9.89	12,221	13.63
Asset backed security	1	23.25	1	24.25
State investment pool cash equivalents	607	.29	823	0.17
U.S. treasuries	42	.25	500	0.04
Total	18,198		15,334	
Portfolio weighted average maturity		9.55		11.33
Certificates of deposit	9,466		8,683	
Money market mutual funds	113		—	
Mutual stock funds	875		749	
Stock	2,439		1,709	
Repurchase agreements	—		850	
Real estate	32		16	
Total	$ 31,123		$ 27,341	

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 2010 and 2009, 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. The securities lending activity for Wells Fargo ceased in May 2009. 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 2010 or 2009. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo.

During fiscal years 2010 and 2009, 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, 2010 and 2009, 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 table provides information related to the securities invested by State Street:

Security Lending Analysis, State Street, at June 30
(In Thousands)

	2010	2009
Fair value of securities on loan	$3,720,274	$6,587,602
Collateral held	3,845,017	6,829,949
Average duration	8 days	37 days
Average weighted maturity	43 days	201 days

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2010. In fiscal year 2009 the balance included $20 million due from state which was collected in August 2009.

At June 30, 2010 and 2009, the total accounts receivable balances were $70,669,562 and $87,099,916, respectively, less an allowance for uncollectible receivables of $22,561,009 and $24,143,064, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2010	2009
Tuition	$ 40,031	$ 32,259
Fees	8,533	7,629
Sales and service	7,770	7,557
Room and board	3,045	2,814
Third party obligations	5,369	4,435
Grants	—	852
Capital projects	—	2,630
Other income	5,922	8,924
Due from the State of Minnesota	—	20,000
Total accounts receivable	70,670	87,100
Allowance for doubtful accounts	(22,561)	(24,143)
Total	$ 48,109	$ 62,957

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

Fiscal Year 2010

Age	Allowance Percentage
Less than 1 year	10-25%
1 to 3 years	45-80%
3 to 5 years	70-100%
Over 5 years	95-100%

Fiscal Year 2009

Age	Allowance Percentage
Less than 1 year	2-25%
1 to 2 years	30-50%
Over 2 years	80-100%

4. PREPAID EXPENSE

Prepaid expense consists primarily of deposits in the state's Debt Service Fund for future general obligations bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. For fiscal years 2010 and 2009, Minnesota State Colleges and Universities' deposits were $25,382,044 and $22,016,221, respectively. In addition, as of June 30, 2010 and 2009, Minnesota State Colleges and Universities had prepaid expense of $725,207 and $312,735, respectively, primarily for software license fees.

5. LOANS RECEIVABLE

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

As of June 30, 2010 and 2009, the loans receivable for this program totaled $33,485,850 and $34,441,579, respectively, less an allowance for uncollectible loans of $2,528,367 and $2,578,823, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 80,197	$ 1,942	$ —	$ —	$ 82,139
Construction in progress	153,169	192,023	—	(178,931)	166,261
Total capital assets, not depreciated	233,366	193,965	—	(178,931)	248,400
Capital assets, depreciated:					
Buildings and improvements	2,242,887	1,201	—	178,931	2,423,019
Equipment	244,859	10,803	21,967	—	233,695
Internally developed software	9,688	2,707	—	—	12,395
Library collections	48,526	6,354	6,802	—	48,078
Total capital assets, depreciated	2,545,960	21,065	28,769	178,931	2,717,187
Less accumulated depreciation:					
Buildings and improvements	1,010,284	63,286	—	—	1,073,570
Equipment	176,283	16,276	21,466	—	171,093
Internally developed software	3,541	2,010	—	—	5,551
Library collections	27,771	6,868	6,802	—	27,837
Total accumulated depreciation	1,217,879	88,440	28,268	—	1,278,051
Total capital assets depreciated, net	1,328,081	(67,375)	501	178,931	1,439,136
Total capital assets, net	$ 1,561,447	$ 126,590	$ 501	$ —	$ 1,687,536

Year Ended June 30, 2009
(In Thousands)

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

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2010	2009
Purchased services	$ 11,448	$ 10,177
Other payables	7,295	6,773
Supplies	6,353	4,652
Repairs and maintenance	4,428	2,713
Capital projects	2,781	4,310
Employee benefits	2,037	2,498
Financial aid	133	175
Grants to other	136	512
Inventory	850	498
Equipment	314	76
Total	$ 35,775	$ 32,384

In addition, as of June 30, 2010 and 2009, Minnesota State Colleges and Universities had payable from restricted assets in the amounts of $19,739,165 and $28,043,293, respectively, which was related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets.

The changes in long-term debt for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 11,133	$ 2,315	$ 1,267	$ 12,181	$ —
Capital leases	19,714	759	2,484	17,989	1,617
General obligation bonds	229,433	24,371	16,786	237,018	17,495
Notes payable	5,582	—	1,355	4,227	827
Revenue bonds	193,854	—	8,916	184,938	6,995
Total long term debt	$ 459,716	$ 27,445	$ 30,808	$ 456,353	$ 26,934

Year Ended June 30, 2009
(In Thousands)

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

The changes in other compensation benefits for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 131,962	$ 19,349	$ 18,093	$ 133,218	$ 13,173
Early termination benefits	5,886	4,330	3,397	6,819	4,538
Net other postemployment benefits	10,462	8,731	4,862	14,331	—
Workers' compensation	5,164	4,051	2,697	6,518	2,739
Total other compensation benefits	$ 153,474	$ 36,461	$ 29,049	$ 160,886	$ 20,450

Year Ended June 30, 2009
(In Thousands)

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

Bond Premium/Discount — Bonds were issued in fiscal years 2010 and 2009, resulting in net premiums of $2,314,985 and $1,875,012, 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 are generally defined as one that transfers benefits and risk of ownership to the lessee. See Note 11 for additional information.

General Obligation Bonds — 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 2.0 to 5.5 percent. Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded.

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

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $300,000,000 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 2 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 15.6 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $269,854,477. Principal and interest paid for the current year and total customer net revenues were $16,941,133 and $101,310,959, 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 51.87 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,491,637. For the current year, principal and interest paid and total customer net revenues were $203,755 and $399,939, 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 39.19 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $252,600. For the current year, principal and interest paid and total customer net revenues were $82,400 and $228,024, respectively. These revenue bonds have a fixed interest rate of 6 percent.

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

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

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

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $6,518,526 and $5,163,944 at June 30, 2010 and 2009, 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 $30,525,260 and $30,805,156 at June 30, 2010 and 2009, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program. The net increase/(decrease) is ($279,896) and $231,635 for the fiscal years 2010 and 2009, respectively.

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

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

Long Term Debt Repayment Schedule
(In Thousands)

	General Obligation Bonds Payable		Revenue Bonds Payable	
Fiscal Years	Principal	Interest	Principal	Interest
2011	$ 17,495	$ 11,150	$ 6,995	$ 8,226
2012	17,506	10,322	7,710	7,937
2013	16,683	9,493	8,460	7,618
2014	16,584	8,681	8,700	7,272
2015	16,151	7,875	9,055	6,902
2016-2020	73,685	28,065	48,620	28,198
2021-2025	55,752	11,765	51,315	16,357
2026-2030	23,162	1,897	37,690	5,504
2031-2035	—	—	6,540	501
Less: Issuance costs	—	—	(147)	—
Total	$ 237,018	$ 89,248	$ 184,938	$ 88,515

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases Principal	Capital Leases Interest	Notes Payable Principal	Notes Payable Interest
2011	$ 1,617	$ 881	$ 827	$ 205
2012	1,569	820	576	161
2013	1,211	756	454	125
2014	1,240	707	404	99
2015	1,228	649	323	83
2016-2020	6,641	2,361	1,214	226
2021-2025	3,043	781	429	29
2026-2030	1,079	246	—	—
2031-2035	361	14	—	—
Total	$ 17,989	$ 7,215	$ 4,227	$ 928

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned.

Minnesota Statutes section 136F.481 authorized the Minnesota State Colleges and Universities Board of Trustees to implement an early separation incentive program (BESI) in fiscal year 2010. Additionally, 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 2010 and 2009.

MNSCU Board Early Separation Incentive Program — Employees of the University accepted incentives in the form of contributions to a health care savings plan and cash payments in return for voluntarily separating from employment by the University.

The number of employees who received this benefit and the amount of future liability for those employees as of June 30, 2010 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2010	22	$ 964

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 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2010	21	$ 642
2009	51	1,447

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

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	149	$ 3,681
2009	111	2,814

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 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	36	$ 1,031
2009	45	1,543

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 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	10	$ 501
2009	4	82

10. NET OTHER POSTEMPLOYMENT BENEFITS

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

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

The following table shows the components of the annual OPEB cost for fiscal years 2010 and 2009, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2010	2009
Annual required contribution (ARC)	$ 8,641	$ 8,439
Interest on net OPEB obligation	497	285
Adjustment to ARC	(407)	(232)
Annual OPEB cost	8,731	8,492
Contributions during the year	(4,862)	(4,038)
Increase in net OPEB obligation	3,869	4,454
Net OPEB obligation, beginning of year	10,462	6,008
Net OPEB obligation, end of year	$ 14,331	$ 10,462

Minnesota State Colleges and Universities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2010 and 2009 were as follows:

For the Year Ended, June 30
(In Thousands)

	2010	2009
Beginning of year net OPEB obligation	$ 10,462	$ 6,008
Annual OPEB cost	8,731	8,492
Employer contribution	(4,862)	(4,038)
End of year net OPEB obligation	$ 14,331	$ 10,462
Percentage contributed	55.69%	47.55 %

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2008	$ —	$ 92,551	$ 92,551	0.00%	$ 939,968	9.85%

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

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

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

11. LEASE AGREEMENTS

Operating Leases — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2010 and 2009, totaled $15,401,737 and $16,235,807, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net assets.

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

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

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2011	$ 13,580
2012	9,991
2013	5,905
2014	3,221
2015	2,593
2016-2020	4,736
2021-2025	4,810
2026-2030	3,150
2031-2035	86
Total	$ 48,072

Capital Leases — Minnesota State Colleges and Universities has entered into several capital lease agreements. Current and noncurrent portions of the capital leases are reported separately.

- In fiscal year 2006, the Minnesota State University, Mankato entered into a five year $1,346,582 capital lease (principal and interest) for a telecommunication system. In fiscal year 2005, the University entered into a 15 year, $3,281,428 (principal and interest) capital lease for an emergency generator.

- In fiscal year 2003, Minnesota State University Moorhead entered into a lease agreement with Minnesota State University Moorhead Alumni Foundation Inc for $3,940,000, 30 year capital lease for John Neumaier Hall Apartments. Also, in fiscal year 2003, the Foundation constructed the Hendrix Health Center on land owned by the University, while entering into a ten year capital lease for $525,000.

- In fiscal year 2002, Winona State University leased a generator in the amount of $2,240,835, with a final payment occurring in fiscal year 2012.

- In fiscal year 2004, St. Cloud State University entered into a lease agreement with the St. Cloud State University Foundation for Atwood Memorial Center in the amount of $3,924,434 for construction costs. In fiscal year 2005, an additional $779,910 was added to the lease agreement. Also in 2005, a second lease agreement was signed for a newly completed stadium and recreation center in the amount of $10,084,954.

- In fiscal year 2010, Rochester Community & Technical College entered into a capital lease with Rochester Community and Technical College Foundation. The Foundation installed a fabric bubble over the artificial turf field of the Regional Stadium and will lease back the facilities to the College for operation. The lease is for five years with lease payments totaling $759,202 with a bargain purchase option at the end of the lease.

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, 2010 and 2009 totaled $2,023,065 and $2,002,177, 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
2011	$ 1,690
2012	786
2013	350
2014	298
2015	103
2016-2020	407
Total	$ 3,634

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2010
(In Thousands)

Description	Salaries/ Benefits	Other	Total
Academic support	$ 157,395	$ 56,383	$ 213,778
Institutional support	149,478	52,958	202,436
Instruction	635,631	59,556	695,187
Operation & maintenance of plant	60,650	78,117	138,767
Public service	11,680	7,241	18,921
Research	6,474	4,513	10,987
Student services	166,046	49,430	215,476
Auxiliary enterprises	50,355	70,651	121,006
Depreciation	—	88,440	88,440
Scholarships & fellowships	—	65,313	65,313
Total operating expenses	$ 1,237,709	$ 532,602	$ 1,770,311

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

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

13. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Minnesota State Retirement

System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000. The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, are liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. Beginning July 1, 2007 the funding requirement for both employer and employee was 4.25 percent. The funding contribution rate increases 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. For the period July 1, 2009 to June 30, 2010, the funding requirement is 4.75 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 9,792
2009	9,705
2008	8,502

Teachers Retirement Fund (TRF)

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

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

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

The statutory authority for TRF is Minnesota Statutes, Chapter 354. Effective July 1, 2007, the funding requirement is 5.5 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases will be phased in with a 0.5 percent increase, occurring every July 1 over four years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 10,235
2009	10,440
2008	9,833

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, 2008, the funding requirement for employees was 6 percent and 6.5 percent for employers. Effective January 1, 2009 and again January 1, 2010, employer contributions increased 0.25 percent respectively. Beginning January 1, 2011 contribution rates for both employees and employers will increase 0.25 percent. Actual contributions were 100 percent of required contributions.

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year	Employer	Employee
2010	$ 1,277	$ 1,086
2009	1,305	1,139
2008	1,306	1,158

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
2010	$ 26,072	$ 19,505
2009	25,407	19,022
2008	22,147	16,569

Supplemental Retirement Plan (SRP)

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

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	$ 6,000 to $ 60,000	$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State College Faculty Association	6,000 to 56,000	2,500
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 14,974
2009	14,716
2008	12,288

14. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance university dormitories and student unions. The Minnesota Higher Education Facilities Authority sold bonds to finance Vermilion Community

College dormitories and modular housing. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory. Also see Note 8, Long Term Obligations, for additional information on the pledging of the revenues.

Summary financial information for Revenue Fund for the fiscal years ended June 30, 2010 and 2009 follows.

Summary Information for Revenue Fund
(In Thousands)

	2010	2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 65,732	$ 62,038
Restricted assets	107,519	122,997
Noncurrent assets	2,400	—
Capital assets, net	204,855	192,177
Total assets	380,506	377,212
Liabilities		
Current liabilities	21,157	20,912
Noncurrent liabilities	185,327	195,194
Total liabilities	206,484	216,106
Net assets		
Invested in capital assets, net of related debt	91,306	87,118
Restricted	82,716	73,988
Total net assets	$ 174,022	$ 161,106
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 101,311	$ 93,781
Depreciation expense	(10,755)	(10,043)
Other operating expenses	(71,426)	(69,867)
Net operating income	19,130	13,871
Nonoperating revenues (expenses)		
Interest income	865	2,467
Interest expense	(7,723)	(7,091)
Private grants	657	—
Capital grants	—	100
Gain (loss) on disposal of capital assets	(13)	8
Total nonoperating revenues (expenses)	(6,214)	(4,516)
Change in net assets	12,916	9,355
Net assets, beginning of year	161,106	151,751
Net assets, end of year	$ 174,022	$ 161,106
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 25,845	$ 22,605
Noncapital financing activities	657	—
Capital and related financing activities	(62,092)	(9,389)
Investing activities	1,276	3,079
Net increase (decrease)	(34,314)	16,295
Cash, beginning of year	165,932	149,637
Cash, end of year	$ 131,618	$ 165,932

Summary financial information for Vermilion Community College's Modular Housing (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2010 and 2009, respectively, follows.

Summary Information for Vermillion Community College
(In Thousands)

	2010	2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 153	$ 34
Restricted assets	141	140
Capital assets, net	830	866
Total assets	1,124	1,040
Liabilities		
Current liabilities	187	86
Noncurrent liabilities	155	225
Total liabilities	342	311
Net Assets		
Invested in capital assets, net of related debt	675	641
Restricted	64	66
Unrestricted	43	22
Total net assets	$ 782	$ 729
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 228	$ 214
Depreciation expense	(36)	(36)
Other operating expenses	(123)	(119)
Net operating income	69	59
Nonoperating revenues (expenses)		
Interest income	—	1
Interest expense	(16)	(19)
Total nonoperating revenues (expenses)	(16)	(18)
Change in net assets	53	41
Net assets, beginning of year	729	688
Net assets, end of year	$ 782	$ 729
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 101	$ 82
Capital and related financing activities	(82)	(86)
Investing activities	—	1
Net increase (decrease) in cash	19	(3)
Cash, beginning of year	140	143
Cash, end of year	$ 159	$ 140

Summary financial information for Itasca Community College's Residence Halls (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2010 and 2009, respectively, follows.

Summary Information for Itasca Community College
(In Thousands)

	2010	2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ (4)	$ 52
Restricted assets	273	264
Capital assets, net	3,546	3,664
Total assets	3,815	3,980
Liabilities		
Current liabilities	101	141
Noncurrent liabilities	2,027	2,103
Total liabilities	2,128	2,244
Net Assets		
Invested in capital assets, net of related debt	1,433	1,481
Restricted	273	264
Unrestricted	(19)	(9)
Total net assets	$ 1,687	$ 1,736
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 400	$ 394
Depreciation expense	(119)	(119)
Other operating expenses	(215)	(227)
Net operating income	66	48
Nonoperating revenues (expenses)		
Interest income	9	9
Interest expense	(124)	(127)
Total nonoperating revenues (expenses)	(115)	(118)
Change in net assets	(49)	(70)
Net assets, beginning of year	1,736	1,806
Net assets, end of year	$ 1,687	$ 1,736
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 147	$ 184
Investing activities	9	9
Capital and related financing activities	(204)	(207)
Net decrease in cash	(48)	(14)
Cash, beginning of year	291	305
Cash, end of year	$ 243	$ 291

15. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2010
(In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Anoka Ramsey	Classrooms	$ 3,800	$ 3,155	$ 645	Aug 2010
Century	Classroom Renovation	7,900	5,922	1,978	Dec 2010
Lake Superior	Health Science Center	12,098	406	11,692	June 2012
Metropolitan	Law Enforcement Center	15,600	13,200	2,400	Aug 2010
Metropolitan	Smart Classrooms	6,600	600	6,000	June 2011
Minneapolis	Student Center	11,500	347	11,153	July 2011
Mesabi	Shop Space Addition	5,477	113	5,364	Nov 2011
MSU, Mankato	Trafton Science Center	25,800	22,700	3,100	Oct 2010
MSU, Mankato	Outdoor Recreation Renovation	6,312	5,567	745	Oct 2010
MSU, Mankato	McElroy Residence Hall	5,700	4,800	900	Aug 2010
MSU Moorhead	Lommen Hall	15,200	9,390	5,810	Jan 2011
Normandale	Student Center	14,500	962	13,538	Aug 2011
North Hennepin	Center for Business & Technology	14,782	62	14,720	Feb 2012
Ridgewater	Smart Classrooms	3,500	3,012	488	Dec 2010
Southwest	Science and Hospital/Culinary Labs	9,200	6,600	2,600	May 2012
SCSU	National Hockey Center	29,300	1,141	28,159	July 2013
St. Cloud College	Allied Health Center Renovation	5,421	36	5,385	Dec 2011
Winona	Residence Hall	29,636	23,066	6,570	Aug 2010
Winona	Wellness Center	18,791	15,900	2,891	Aug 2010

* Anoka-Ramsey Community College; Century College; Lake Superior College; Metropolitan State University; Minneapolis Community & Technical College; Mesabi Technical and Community College; Minnesota State University, Mankato; Minnesota State University Moorhead; Normandale Community College; North Hennepin Community College; Ridgewater Community & Technical College; Southwest Minnesota State University; St. Cloud State University; St. Cloud Technical & Community College; and Winona State University.

16. RISK MANAGEMENT

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

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

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2010 and 2009.

Coverage Type	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	$1,000,000
Primary re-insurer coverage	$1,000,001 to $25,000,000
Multiple re-insurers' coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
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, 2010 and 2009.

	(In Thousands)			
	Beginning Liability	Net Additions & Changes	Payments	Ending Liabilities
Fiscal Year Ended 6/30/10	$ 5,164	$ 2,486	$ 1,131	$ 6,519
Fiscal Year Ended 6/30/09	5,412	2,517	2,765	5,164

17. COMPONENT UNITS

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

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

Minnesota State Colleges and Universities received $13,586,397 and $16,085,950 in fiscal years 2010 and 2009, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State Colleges and Universities and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

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

The foundations financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements* (previously FAS 117).

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 foundation's investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities* (previously FAS 124). Under ASC 958-320, 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, 2010
(In Thousands)

Investments	Bemidji State Univ. Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State Univ. Foundation	MSU, Mankato Foundation
Balanced mutual funds	$ —	$ —	$ 2,031	$ 612	$ 2,140
Equity based mutual funds	5,455	545	—	790	19,661
Equity securities	—	333	62	7	32
Fixed income/Bonds/U.S. treasuries	4,592	98	355	515	10,233
Money market/Certificate of deposit	260	466	—	369	1,679
Other investments	1,429	—	252	54	317
Real estate (held for investment)	1,160	—	—	—	—
Total	$ 12,896	$ 1,442	$ 2,700	$ 2,347	$ 34,062

	MSU Moorhead Foundation	St. Cloud State Univ. Foundation	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Balanced mutual funds	$ —	$ 11,096	$ —	$ —	$ 15,879
Equity based mutual funds	—	130	—	10,775	37,356
Equity securities	5,892	2,113	2,210	609	11,258
Fixed income/Bonds/U.S. treasuries	34	3,805	3,114	2,062	24,808
Money market/Certificate of deposit	253	6,809	33	250	10,119
Other investments	505	—	—	—	2,557
Real estate (held for investment)	865	148	—	—	2,173
Total	$ 7,549	$ 24,101	$ 5,357	$ 13,696	$ 104,150

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

Investments	Bemidji State Univ. Foundation	Century College Foundation	Fergus Area College Foundation	Metropolitan State Univ. Foundation	MSU, Mankato Foundation
Balanced mutual funds	$ —	$ —	$ 1,665	$ 830	$ 2,688
Equity based mutual funds	3,956	320	—	799	17,856
Equity securities	—	377	53	—	46
Fixed income/Bonds/U.S. treasuries	4,257	43	442	196	5,724
Money market/Certificate of deposit	21	526	—	269	2,132
Other investments	461	—	283	52	567
Real estate (held for investment)	1,992	—	—	—	42
Total	$ 10,687	$ 1,266	$ 2,443	$ 2,146	$ 29,055

Investments	MSU Moorhead Foundation	St Cloud State Univ. Foundation	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Balanced mutual funds	$ 404	$ 9,892	$ —	$ —	$ 15,479
Equity based mutual funds	—	109	—	—	23,040
Equity securities	4,795	1,748	2,424	5,320	14,763
Fixed income/Bonds/U.S. treasuries	477	3,641	2,279	2,458	19,517
Money market/Certificate of deposit	281	5,797	225	250	9,501
Other investments	58	—	—	—	1,421
Real estate (held for investment)	1,166	148	—	—	3,348
Total	$ 7,181	$ 21,187	$ 4,928	$ 8,028	$ 87,069

Capital Asset — Summaries of the foundations' capital assets for fiscal years 2010 and 2009 follow:

Schedule of Capital Assets, June 30, 2010
(In Thousands)

	Bemidji State Univ. Foundation	MSU, Mankato Foundation	MSU Moorhead Foundation	St Cloud State Univ. Foundation
Capital assets, not depreciated:				
Land	$ —	$ 945	$ 425	$ 175
Total capital assets, not depreciated	—	945	425	175
Capital assets, depreciated:				
Buildings and improvements	532	—	4,667	—
Equipment	124	246	—	250
Total capital assets, depreciated	656	246	4,667	250
Total accumulated depreciation	(349)	(234)	(1,600)	(238)
Total capital assets depreciated, net	307	12	3,067	12
Total capital assets, net	$ 307	$ 957	$ 3,492	$ 187

	Southwest MSU Foundation	Winona State Univ. Foundation	Total
Capital assets, not depreciated:			
Land	$ 265	$ 552	$ 2,362
Total capital assets, not depreciated	265	552	2,362
Capital assets, depreciated:			
Buildings and improvements	8,126	10,745	24,070
Equipment	37	281	938
Total capital assets, depreciated	8,163	11,026	25,008
Total accumulated depreciation	(1,147)	(2,021)	(5,589)
Total capital assets depreciated, net	7,016	9,005	19,419
Total capital assets, net	$ 7,281	$ 9,557	$ 21,781

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

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

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

Summaries of the foundations' long term obligations follow:

Schedule of Long Term Obligations
(In Thousands)

Year	MSU, Mankato Foundation	MSU Moorhead Foundation	St Cloud State Univ. Foundation	Winona State Univ. Foundation	Southwest MSU Foundation	Bemidji State Univ. Foundation	Total
2011	$ 245	$ 155	$ 725	$ 307	$ 515	$ 2	$ 1,949
2012	245	164	750	323	694	—	2,176
2013	226	105	790	339	846	—	2,306
2014	—	103	830	356	794	732	2,815
2015	—	109	875	373	262	—	1,619
Thereafter	—	2	8,850	6,389	4,198	—	22,344
Total	$ 716	$ 3,691	$ 12,820	$ 8,087	$ 7,309	$ 734	$ 33,209

18. ACTIVITIES WITH THE STATE OF MINNESOTA

Lending Activity — The Minnesota State Colleges and Universities general operating fund is a part of the state's general treasury account. During fiscal year 2010 the state of Minnesota borrowed $475 million from Minnesota State Colleges and Universities general fund for cash flow purposes resulting from changes in the timing of the state tax revenue. The state of Minnesota repaid this with interest in full during fiscal year 2010.

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

General Obligation Bond Issuances — In August 2010 $62 million in general obligation state bonds were issued at a true interest rate of 3.17 percent. Minnesota State Colleges and Universities pays one third of the debt service on $54.5 million of the August issue, over the life of the bonds. The first debt service payment on these bonds will be November 2010.

SUPPLEMENTAL SECTION

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*

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

We have audited the financial statements of Minnesota State Colleges and Universities (MnSCU) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. We did not audit the financial statements of Mankato State University, Minnesota State University Moorhead, Normandale Community College, Winona State University, Hennepin Technical College, Bemidji State University, Century College, Saint Could State University, and Minnesota State Community and Technical College (collectively, the "Individual Colleges and Universities"), which represent 51% of the consolidated assets and 51% of the consolidated revenues of MnSCU for fiscal year 2010. These financial statements were audited by other auditors whose reports have 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 reports of the other auditors. We also did not audit the financial statements of Bemidji State University Foundation, Century College Foundation, Fergus Area College Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., St. Cloud State University Foundation, Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 100% of the total assets and 100% of the revenues of the total discretely presented component units. Those statements were also audited by other auditors whose reports have 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 reports of the other auditors. 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 Minnesota State Colleges and Universities Foundations 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Trustees and management of MnSCU and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
November 4, 2010

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