Minnesota State Colleges & Universities

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2011 and 2010

Prepared by:

Minnesota State Colleges and Universities
30 7th St. E., Suite 350
St. Paul, MN 55101-7804

MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2011 and 2010

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INTRODUCTION

Minnesota
STATE COLLEGES
& UNIVERSITIES

FINANCE DIVISION
30 7TH ST. E., SUITE 350
ST. PAUL, MN 55101-7804

ph 651.201.1800
fx 651.297.5550
www.mnscu.edu

November 7, 2011

Members of the Board of Trustees
Chancellor Steven J. Rosenstone

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, 2011 and 2010. 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.

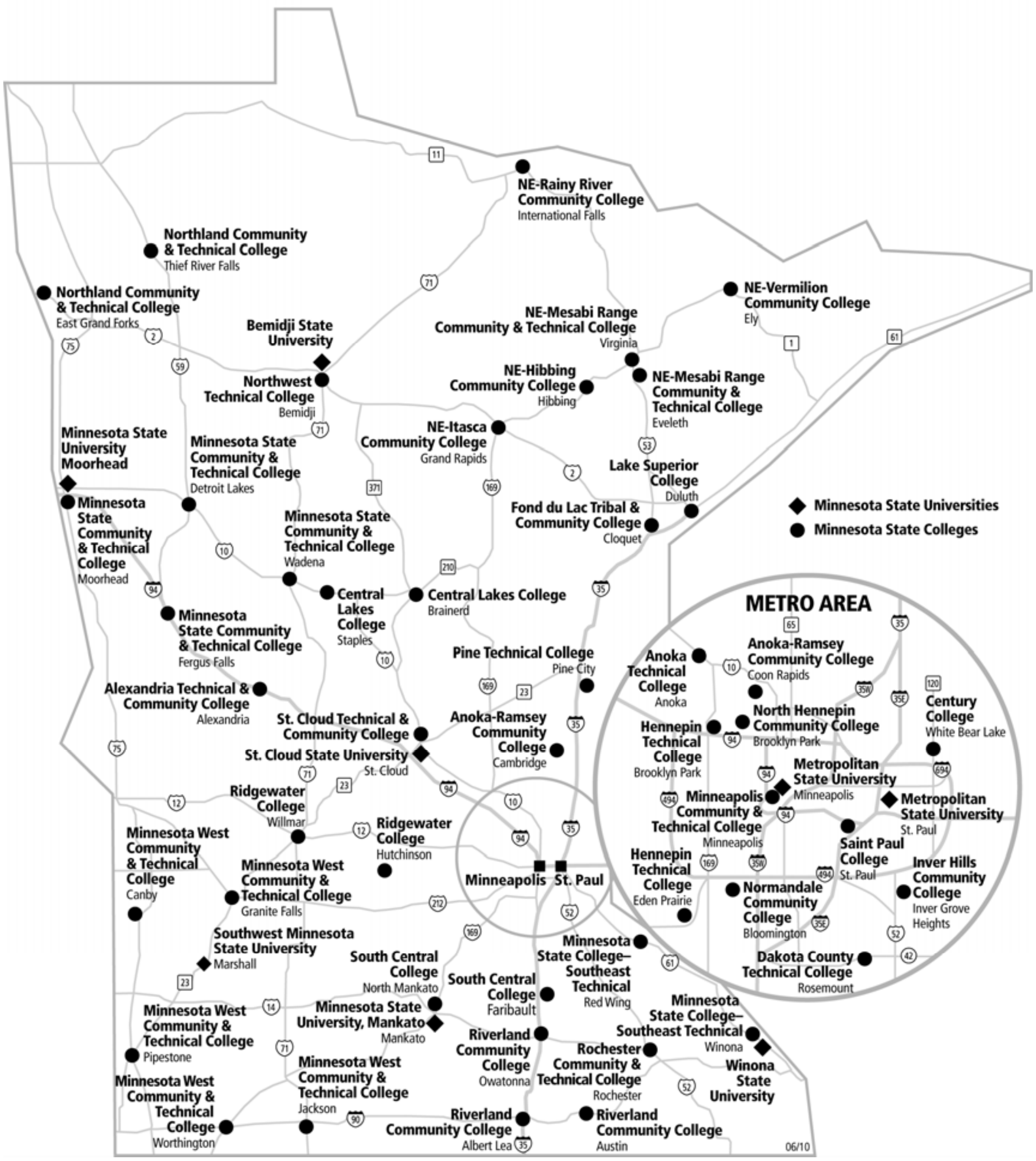
For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of the report. The Finance Division and the finance staff at every college and university are responsible for assuring the accuracy, reliability, fairness and completeness of 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,

LMKing

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 and 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
Jessica Stumpf, 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
Ron Anderson, President
1-800-228-1978
www.century.edu

DAKOTA COUNTY TECHNICAL COLLEGE
Rosemount
Ronald 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) 450-3000
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
Jim Johnson, President
1-877-853-8324
www.southeastmn.edu

MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
Detroit Lakes, Fergus Falls, Moorhead, Wadena
Peggy Kennedy, Interim President
1-877-450-3322
www.minnesota.edu

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

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

MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
Richard Shrubb, President
1-800-658-2330
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
Rassoul Dastmozd, President
1-800-227-6029
www.saintpaul.edu

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

SOUTHWEST MINNESOTA STATE UNIVERSITY
Marshall
Ron Wood, Interim 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

* Bemidji State University and Northwest Technical College are aligned.
**The Northeast Higher Education District is a consortium of five state colleges: Hibbing, Itasca, Mesabi Range, Rainy River and Vermillion.

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

INDEPENDENT AUDITORS' REPORT

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 years ended June 30, 2011 and 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.

We did not audit the financial statements of Minnesota State University Mankato, 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 52% of the consolidated assets and 50% of the consolidated revenues of MnSCU for fiscal year 2011. 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 audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aforementioned Foundations were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits 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, 2011 and 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 7, 2011 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.

The accompanying *Management Discussion and Analysis* and the *Schedule of Funding Progress for Net Other Postemployment Benefits*, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
November 7, 2011

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, 2011, 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 279,000 students annually in credit-based courses, as measured by unduplicated headcount enrollment. An additional 156,000 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs about 18,400 full time and part time faculty and staff.

FINANCIAL HIGHLIGHTS

The system's financial position improved during fiscal year 2011 with net assets increasing by $146.3 million, or 8.5 percent, on total revenues of $2.05 billion. This follows a $179.6 million, or 11.6 percent increase during fiscal year 2010 on total revenues of $2.05 billion. The system's unrestricted net assets increased by $93.1 million, or 28.3 percent and $76.4 million, or 30.3 percent, in fiscal years 2011 and 2010 respectively.

- Income (Loss) before other revenues, expenses, gains or losses, described further below as the system's net operating revenue, experienced a gain of $75.6 million in fiscal year 2011. This compares to a gain of $68.4 million and loss of ($5.5) million in fiscal years 2010 and 2009, respectively.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation decreased by $12.1 million, or 1.9 percent in fiscal year 2011 after decreasing 6.12 percent in fiscal year 2010 and decreasing 0.5 percent in fiscal year 2009. Gross tuition revenue increased $48.0 million or 6.1 percent, $85.5 million or 12.2 percent, and $39.3 million or 6 percent in fiscal years, 2011, 2010, and 2009, respectively. Tuition rate increases averaged 4.8 percent, 3.0 percent, and 2.2 percent in fiscal years 2011, 2010, and 2009, respectively.

- Federal grants increased by $59.7 million or 16.6 percent, and $144 million or 66 percent, and $27 million or 14 percent in fiscal years 2011, 2010, and 2009 respectively. Of this increase $38.1 and $39.3 million in fiscal years 2011 and 2010, 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, $13.8 and $11.9 million respectively, 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 increased in fiscal year 2011 by $117.6 million to a total of $574.0 million, a 25.8 percent increase. This increase was mainly due to the issuance of new revenue bonds.

- Salaries and benefits, the largest cost category in the system, increased by $11.6 million, or 0.9 percent in fiscal year 2011 and increased $12.9 million, or 1.1 percent, in fiscal year 2010. This cost constitutes 66.9 percent of the system's fiscal year 2011 total operating expenses, compared to 67.4 percent for fiscal year 2010.

- 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 2011, 2010 and 2009 totaled 158,060, 155,601, and 143,924, respectively. Enrollment in 2011 increased 12.9 percent over 2010 and 8.1 percent over 2009.

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 2010 values in the Financial Performance Measure Values table that follows is taken from *Moody's Fiscal Year 2010 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 2011 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 in the table.

Calculations in the table on the next page 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* (7th 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 on the next page 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	FY11 System* & Revenue Fund		Moody's 2010 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	0.83	2.33	1.10	2.09	1.66	1.34	1.20	1.03	0.83	0.41
Viability	0.84	0.26	0.65	1.55	1.16	0.91	0.70	0.55	0.31	0.22
Net Operating Revenue	0.32	1.00	0.28	0.42	0.35	0.29	0.20	0.34	0.34	(0.18)
Return on Net Assets	0.92	0.89	0.78	1.01	0.85	0.75	0.69	0.80	0.81	(0.67)
CFI	2.91	4.48	2.81	5.07	4.02	3.29	2.78	2.72	2.29	1.13
	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 2.70 to 2.91 due primarily to the foundations' collective realized and unrealized losses 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 "Aa1" rated institutions while placing the system's Revenue Fund composite value above the median values for "Aa1" rated institutions. It is important to note that the Moody's national data is 2010, 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 2011, 2010, and 2009 follow (in thousands):

ASSETS, LIABILITIES AND NET ASSETS

	2011	2010	2009
Current assets	$ 922,356	$ 799,657	$ 692,514
Current restricted assets	149,906	109,994	138,846
Noncurrent restricted assets	29,847	36,313	15,256
Noncurrent assets	26,405	27,069	28,092
Capital assets, net	1,754,840	1,651,294	1,546,273
Total assets	2,883,354	2,624,327	2,420,981
Current liabilities	299,404	300,181	277,557
Noncurrent liabilities	713,843	600,380	599,299
Total liabilities	1,013,247	900,561	876,856
Invested in capital assets, net of related debt	1,322,661	1,280,955	1,182,239
Restricted	126,058	114,495	109,980
Unrestricted	421,388	328,316	251,906
Total Net assets	$ 1,870,107	$ 1,723,766	$ 1,544,125

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $115.4 million to a total of $770.8 million at June 30, 2011. This $770.8 million of cash and cash equivalents plus investments of $27.7 million represent approximately 5.4 months of fiscal year 2011 operating expenses (excluding depreciation), a increase of 0.7 months from fiscal year 2010. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues.

Current liabilities consist primarily of salaries and benefits, accounts payable and the current portion of long term debt. Salaries and benefits payable at June 30, 2011 increased from the prior year by 4.3 percent or $5.3 million to a total of $128.2 million. Accounts payable, including payables from restricted assets, increased $7.4 million due to normal timing differences. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 - August 31 year. The current portion of long term debt increased $5.2 million to $32.1 million at June 30, 2011 due to increases over the past few years in both general obligation and revenue bonds. Unearned revenue had a decrease of $21.2 million which was primarily due to $19 million in unspent bond proceeds in fiscal year 2010, that were spent in fiscal year 2011.

The noncurrent liabilities increased in fiscal year 2011 compared to fiscal year 2010. The June 30, 2011 balance for the noncurrent portion of the other compensation benefits liability increased $1.4 million to $141.8 million. This noncurrent liability consists primarily of $115.6 million for compensated absences, vacation and sick leave balances earned by employees, as well as other benefits. This was offset with a $112.4 million increase 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 debt service of $42.3 million, and restrictions imposed by bond covenants of $66.4 million, a $9.2 million increase from fiscal year 2010, 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 16 to the financial statements.

Fiscal year 2011 capital outlays totaled $194.5 million, including $140.6 million of new construction in progress, and fiscal year 2010 capital outlays totaled $215.0 million, including $192.0 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 $241.0 million at June 30, 2011, a net increase of $4.0 million during the fiscal year. Revenue bonds payable at June 30, 2011 totaled $262.8 million, a net increase of $77.9 million from June 30, 2010.

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 $52.1 million in fiscal year 2011.

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 2011, 2010, and 2009 follow (in thousands):

REVENUES, EXPENSES AND NET ASSETS

	2011	2010	2009
Operating revenue:			
Tuition, auxiliary and sales, net	$ 731,890	$ 724,282	$ 701,285
Restricted student payments, net	103,368	96,797	89,720
Other	16,496	14,813	17,115
Total operating revenue	851,754	835,892	808,120
Nonoperating and other revenue:			
State appropriation	613,382	625,485	666,289
Capital appropriation	65,480	108,458	102,861
Grants	508,588	468,757	319,161
Miscellaneous nonoperating and other revenue	11,122	9,041	14,981
Total nonoperating and other revenue	1,198,572	1,211,741	1,103,292
Total revenues	2,050,326	2,047,633	1,911,412
Operating expense:			
Salaries and benefits	1,249,299	1,237,709	1,224,801
Other operating expenses	618,137	597,390	553,504
Total operating expense	1,867,436	1,835,099	1,778,305
Interest and other nonoperating expense	36,549	32,893	26,261
Total expenses	1,903,985	1,867,992	1,804,566
Increase in net assets	146,341	179,641	106,846
Net assets, beginning of year	1,723,766	1,544,125	1,437,279
Net assets, end of year	$ 1,870,107	$ 1,723,766	$ 1,544,125

Fiscal year 2011 total revenue remained flat at $2.0 billion from fiscal year 2010.

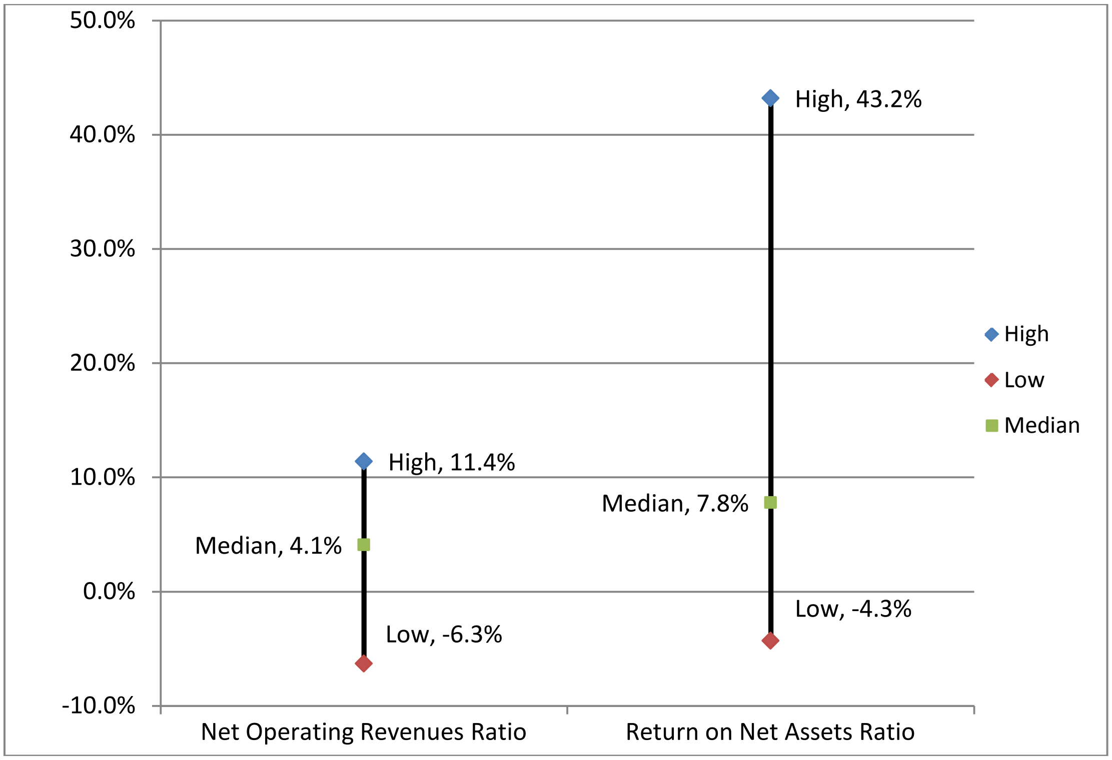
Compensation is the system's single largest expense component. In absolute dollars, compensation expense increased $11.6 million, or 0.9 percent, in fiscal year 2011 and represented 66.9 percent of total operating expense. The fiscal year 2010 increase of $12.9 million, or 1.1 percent, represented 67.4 percent of total operating expense. Total compensation expense included fringe benefit costs of $297.0 million and $293.8 million in fiscal years 2011 and 2010, respectively.

All other operating expenses for fiscal years 2011 and 2010 increased about 3.5 percent and 7.9 percent, respectively. The most significant increase by percentage in fiscal years 2011 and 2010 was an $8.9 million or 10.0 percent and $5.5 million or 6.6 percent increase, respectively, 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 2011 COLLEGE AND UNIVERSITY FINANCIAL RESULTS



FOUNDATIONS

The system's annual financial report for the years ended June 30, 2011 and 2010, 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 18.

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 allocated to schools by the System Office. 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 2011 despite receiving a $12.1 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 2011. 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 12.9 percent, 8.1 percent, and 2.9 percent year over year in 2011, 2010 and 2009. 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 2012 and 2013 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 years 2009, 2010 and 2011 although reductions were 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. 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 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
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, 2011 AND 2010
(IN THOUSANDS)

Assets	2011	2010
Current Assets		
Cash and cash equivalents	$ 770,820	$ 655,380
Investments	27,725	31,123
Grants receivable	16,420	19,382
Accounts receivable, net	60,500	48,109
Prepaid expense	27,913	26,107
Inventory	12,626	13,411
Student loans, net	4,080	3,889
Other assets	2,272	2,256
Total current assets	922,356	799,657
Current Restricted Assets		
Cash and cash equivalents	149,906	109,994
Total current restricted assets	149,906	109,994
Noncurrent Restricted Assets		
Other assets	69	71
Construction in progress	29,778	36,242
Total noncurrent restricted assets	29,847	36,313
Total restricted assets	179,753	146,307
Noncurrent Assets		
Student loans, net	26,405	27,069
Capital assets, net	1,754,840	1,651,294
Total noncurrent assets	1,781,245	1,678,363
Total Assets	2,883,354	2,624,327
Liabilities		
Current Liabilities		
Salaries and benefits payable	128,189	122,922
Accounts payable	41,510	35,775
Unearned revenue	41,188	62,377
Payable from restricted assets	21,435	19,739
Interest payable	3,089	2,102
Funds held for others	9,735	9,397
Current portion of long-term debt	32,118	26,934
Other compensation benefits	21,931	20,450
Other liabilities	209	485
Total current liabilities	299,404	300,181
Noncurrent Liabilities		
Noncurrent portion of long-term debt	541,863	429,419
Other compensation benefits	141,811	140,436
Capital contributions payable	30,169	30,525
Total noncurrent liabilities	713,843	600,380
Total Liabilities	1,013,247	900,561
Net Assets		
Invested in capital assets, net of related debt	1,322,661	1,280,955
Restricted expendable, bond covenants	66,364	57,183
Restricted expendable, other	59,694	57,312
Unrestricted	421,388	328,316
Total Net Assets	$ 1,870,107	$ 1,723,766

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 9,516	$ 5,571
Investments	119,682	98,318
Restricted cash and cash equivalents	1,379	1,379
Pledges and contributions receivable, net	4,560	5,134
Other receivables and other assets	780	625
Annuities/remainder interests/trusts	1,742	1,473
Finance lease receivable	750	725
Total current assets	138,409	113,225
Noncurrent Assets		
Annuities/remainder interests/trusts	399	361
Long-term pledges receivable	6,057	8,621
Finance lease receivable, net	9,808	10,558
Investment property	738	1,013
Restricted investments	5,323	4,819
Assets held for endowment	55	139
Buildings, property and equipment, net	21,103	21,781
Other assets	1,230	1,671
Total noncurrent assets	44,713	48,963
Total Assets	$ 183,122	$ 162,188
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 653	$ 1,368
Interest payable	152	166
Unearned revenue	603	-
Annuities payable	163	90
Notes payable	323	309
Bonds payable	1,674	1,640
Scholarships payable and other liabilities	146	371
Total current liabilities	3,714	3,944
Noncurrent Liabilities		
Annuities payable and unitrust liabilities	1,837	2,044
Notes payable	8,188	8,512
Bonds payable	20,848	22,748
Total noncurrent liabilities	30,873	33,304
Total Liabilities	34,587	37,248
Net Assets		
Unrestricted	15,518	6,472
Temporarily restricted	42,179	33,356
Permanently restricted	90,838	85,112
Total Net Assets	148,535	124,940
Total Liabilities and Net Assets	$ 183,122	$ 162,188

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Operating Revenues		
Tuition, net	$ 539,018	$ 529,073
Fees, net	71,784	71,149
Sales and room and board, net	121,088	124,060
Restricted student payments, net	103,368	96,797
Other income	16,496	14,813
Total operating revenues	851,754	835,892
Operating Expenses		
Salaries and benefits	1,249,299	1,237,709
Purchased services	218,838	207,292
Supplies	164,292	156,990
Repairs and maintenance	34,606	34,811
Depreciation	97,297	88,440
Financial aid, net	56,887	65,313
Other expense	46,217	44,544
Total operating expenses	1,867,436	1,835,099
Operating loss	(1,015,682)	(999,207)
Nonoperating Revenues (Expenses)		
Appropriations	613,382	625,485
Federal grants	420,175	360,482
State grants	65,481	87,266
Private grants	22,377	19,096
Interest income	6,418	7,487
Interest expense	(20,862)	(20,142)
Grants to other organizations	(15,687)	(12,074)
Total nonoperating revenues (expenses)	1,091,284	1,067,600
Income Before Other Revenues, Expenses, Gains, or Losses	75,602	68,393
Capital appropriations	65,480	108,458
Capital grants	555	1,913
Donated assets and supplies	1,515	1,554
Gain (loss) on disposal of capital assets	3,189	(677)
Change in net assets	146,341	179,641
Total Net Assets, Beginning of Year	1,723,766	1,544,125
Total Net Assets, End of Year	$ 1,870,107	$ 1,723,766

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Support and Revenue				
Contributions	$ 4,042	$ 9,648	$ 3,294	$ 16,984
Endowment gifts	-	-	1,115	1,115
In-kind contributions	4,093	932	12	5,037
Investment income	2,402	3,269	3	5,674
Realized gains	6,029	816	43	6,888
Unrealized gains	1,502	5,996	363	7,861
Program income	1,976	848	-	2,824
Special events	35	-	-	35
Fundraising income	62	152	-	214
Other income	132	147	-	279
Reclassification of net assets	28	72	(100)	-
Net assets released from restrictions	12,061	(13,057)	996	-
Total support and revenue	32,362	8,823	5,726	46,911
Expenses				
Program services				
Program services	3,205	-	-	3,205
Scholarships	7,765	-	-	7,765
Institutional activites	2,719	-	-	2,719
Special projects	2,253	-	-	2,253
Total program services	15,942	-	-	15,942
Supporting services				
Interest expense	821	-	-	821
Management and general	2,580	-	-	2,580
Fundraising	3,752	-	-	3,752
Depreciation and amortization	161	-	-	161
Other expense	60	-	-	60
Total supporting services	7,374	-	-	7,374
Total expenses	23,316	-	-	23,316
Change in Net Assets	9,046	8,823	5,726	23,595
Net Assets, Beginning of Year	6,472	33,356	85,112	124,940
Net Assets, End of Year	$ 15,518	$ 42,179	$ 90,838	$ 148,535

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
Support and Revenue				
Contributions	$ 3,635	$ 13,208	$ 4,683	$ 21,526
Endowment gifts	-	-	947	947
In-kind contributions	4,443	640	9	5,092
Investment income (loss)	2,642	1,886	(5)	4,523
Realized gains (losses)	2,017	33	(34)	2,016
Unrealized gains (losses)	908	3,473	(252)	4,129
Program income	1,227	1,070	-	2,297
Special events	22	-	-	22
Fundraising income	52	176	-	228
Other income	845	101	-	946
Reclassification of net assets	53	331	(384)	-
Net assets released from restrictions	11,813	(11,997)	184	-
Total support and revenue	27,657	8,921	5,148	41,726
Expenses				
Program services				
Program services	3,985	-	-	3,985
Scholarships	7,478	-	-	7,478
Institutional activites	3,081	-	-	3,081
Special projects	2,670	-	-	2,670
Total program services	17,214	-	-	17,214
Supporting services				
Interest expense	889	-	-	889
Management and general	2,523	-	-	2,523
Fundraising	3,742	-	-	3,742
Depreciation and amortization	174	-	-	174
Other expense	69	-	-	69
Total supporting services	7,397	-	-	7,397
Total expenses	24,611	-	-	24,611
Change in Net Assets	3,046	8,921	5,148	17,115
Net Assets, Beginning of Year	3,426	24,435	79,964	107,825
Net Assets, End of Year	$ 6,472	$ 33,356	$ 85,112	$ 124,940

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, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Cash Flows from Operating Activities		
Cash received from customers	$ 841,237	$ 851,332
Cash repayment of program loans	3,803	3,572
Cash paid to suppliers for goods or services	(457,514)	(436,472)
Cash payments for employees	(1,240,782)	(1,228,897)
Financial aid disbursements	(57,246)	(65,635)
Cash payments for program loans	(3,935)	(3,254)
Net cash flows used in operating activities	(914,437)	(879,354)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	613,382	625,485
Federal grants	422,482	357,915
State grants	65,481	87,266
Private grants	22,377	19,096
Agency activity	342	(419)
Grants to other organizations	(15,687)	(12,450)
Net cash flows from noncapital financing activities	1,108,377	1,076,893
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(159,430)	(223,012)
Capital appropriation	43,074	125,554
Capital grants	555	4,543
Proceeds from sale of capital assets and insurance proceeds	4,905	334
Proceeds from borrowing	107,304	24,371
Proceeds from bond premiums and discounts	9,403	2,315
Interest paid	(20,151)	(21,348)
Repayment of lease principal	(4,977)	(2,484)
Repayment of note principal	(826)	(1,355)
Repayment of bond principal	(26,340)	(27,804)
Net cash flows used in capital and related financing activities	(46,483)	(118,886)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	7,543	10,978
Purchase of Investments	(4,396)	(14,024)
Investment earnings	4,748	5,969
Net cash flows from investing activities	7,895	2,923
Net Increase in Cash and Cash Equivalents	155,352	81,576
Cash and Cash Equivalents, Beginning of Year	765,374	683,798
Cash and Cash Equivalents, End of Year	$ 920,726	$ 765,374

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, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Operating Loss	$ (1,015,682)	$ (999,207)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	97,297	88,440
Provision for loan defaults	35	(50)
Loan principal repayments	3,803	3,572
Loans issued	(3,935)	(3,254)
Forgiven loans	568	638
Donated and lease equipment not capitalized	944	812
Change in assets and liabilities		
Inventory	785	915
Accounts receivable	(9,868)	11,366
Accounts payable	7,000	5,058
Salaries and benefits payable	5,269	1,861
Other compensation benefits	2,855	7,412
Capital contributions payable	(358)	(280)
Unearned revenues	(649)	4,072
Other	(2,501)	(709)
Net reconciling items to be added to operating income	101,245	119,853
Net cash flow used in operating activities	$ (914,437)	$ (879,354)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 23,197	$ 22,520
Capital projects financed with a capital lease	32,406	-
Capital projects financed with a note payable	1,700	-
Equipment on account	70	314
Donated equipment	573	742
Change in fair market value of investments	251	735
Investment earnings on account	280	321
Amortization of bond premium/discount	1,962	1,267

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, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Additions:		
Contributions		
Employer	$ 41,307	$ 40,341
Member	34,853	34,047
Contributions from roll overs and other sources	1,900	1,201
Total Contributions	78,060	75,589
Net Investment Gain	178,092	80,566
Total Additions	256,152	156,155
Deductions:		
Benefits and refunds paid to plan members	48,536	33,330
Administrative fees	324	323
Total Deductions	48,860	33,653
Net Increase	207,292	122,502
Net Assets Held in Trust for Pension Benefits, Beginning of Year	886,399	763,897
Net Assets Held in Trust for Pension Benefits, End of Year	$ 1,093,691	$ 886,399

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

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, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Assets		
Mutual Funds	$ 1,093,691	$ 886,399
Total Assets	1,093,691	886,399
Liabilities		
Total Liabilities	-	-
Net Assets Held in Trust for Pension Benefits	$ 1,093,691	$ 886,399

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Minnesota State Colleges and Universities' financial statements include 32 member colleges and universities, the System Office, 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 18. 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. During fiscal year 2011, joint ventures received revenues of $6,712,830 and incurred expenses of $7,595,060. In fiscal year 2010 the amounts for revenues and expenses were $7,384,572 and $8,081,432, 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.

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 allowance. See Note 12 for additional information.

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 allowance. See Note 12 for additional information.

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 years 2011 and 2010, $38,128,866 and $39,340,393 of federal aid was recognized as revenue related to the American Recovery and Reinvestment Act of 2009, respectively. Of this amount, $13,842,885 and $11,888,314, respectively, 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 reclassifications had no effect on net assets previously reported. Cost of goods sold in the amount of $64,788,856, reported in fiscal year 2010 as a reduction to sales revenue, was reclassified to an operating expense. In fiscal year 2010 capital appropriation revenue in the amount of $11,316,000 was reclassified as state appropriation revenue. Additionally, fiscal year 2010 restricted expendable net assets restriction in the amount of $8,466,145 was reclassified to invested in capital assets, net of related debt.

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.

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)

	2011	2010
Capital projects	$ 1,979	$ 3,676
Debt service	42,271	39,094
Donations	5,020	4,182
Faculty contract obligations	6,511	6,409
Loans	3,913	3,951
Total	$ 59,694	$ 57,312

- *Unrestricted:* net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the System Office, 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, 2011 and 2010, the local bank balances were $84,975,669 and $61,807,381, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

The following table summarizes cash and cash equivalents, including amounts reported as restricted cash.

Year Ended June 30 (In Thousands)		
Carrying Amount	2011	2010
Cash, in bank	$ 60,809	$ 46,487
Money markets	5,573	4,508
Repurchase agreements	13,501	7,736
Restricted local cash	434	414
Cash, trustee account (US Bank)	86,255	47,705
Total local cash and cash equivalents	166,572	106,850
Total treasury cash accounts	754,154	658,524
Grand Total	$ 920,726	$ 765,374

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 2011 the fair value is $120,000 in U.S. dollars, of which $13,345 is represented in Euros, and $106,655 is represented in British Pounds. The fair value of this account for fiscal year 2010 was $322,001 in U.S. dollars, of which $46,486 is represented in Euros and $275,515 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, 2011 and 2010, the Minnesota State Colleges and Universities had the following investments and maturities:

Year Ended June 30
(In Thousands)

Investment Type	2011 Fair Value	Weighted Maturity (Years)	2010 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	$ 1,730	3.53	$ 1,129	5.70
U.S. agencies	12,155	12.48	16,419	9.89
Asset backed security	9	1.16	1	23.25
State investment pool cash equivalents	484	0.24	607	0.29
U.S. treasuries	-		42	0.25
Total	14,378		18,198	
Portfolio weighted average maturity		10.98		9.55
Certificates of deposit	9,867		9,466	
Money market mutual funds	472		113	
Mutual stock funds	1,189		875	
Stock	1,819		2,439	
Real estate	-		32	
Total	$ 27,725		$ 31,123	

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2011 and 2010.

At June 30, 2011 and 2010, the total accounts receivable balances were $86,079,980 and $70,669,562, respectively, less an allowance for uncollectible receivables of $25,580,468 and $22,561,009, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2011	2010
Tuition	$ 47,907	$ 40,031
Fees	10,410	8,533
Sales and service	9,673	7,770
Room and board	3,614	3,045
Third party obligations	6,209	5,369
Other income	8,267	5,922
Total accounts receivable	86,080	70,670
Allowance for doubtful accounts	(25,580)	(22,561)
Total	$ 60,500	$ 48,109

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $25,783,579 and $25,382,044 for fiscal years 2011 and 2010, respectively. 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. Also, included in prepaid expenses for fiscal years 2011 and 2010 were $2,129,779 and $725,207, respectively, stemming from prepaid maintenance agreements and prepaid contractual support.

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, 2011 and 2010, the loans receivable for this program totaled $33,049,983 and $33,485,850, respectively, less an allowance for uncollectible loans of $2,564,012 and $2,528,367, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 82,139	$ 1,346	$ 463	$ -	$ 83,022
Construction in progress	166,261	140,563	-	(212,014)	94,810
Total capital assets, not depreciated	248,400	141,909	463	(212,014)	177,832
Capital assets, depreciated:					
Buildings and improvements	2,423,019	31,926	185	212,014	2,666,774
Equipment	233,695	12,565	15,430	-	230,830
Internally developed software	12,395	2,109	1,307	-	13,197
Library collections	48,078	6,034	6,945	-	47,167
Total capital assets, depreciated	2,717,187	52,634	23,867	212,014	2,957,968
Less accumulated depreciation:					
Buildings and improvements	1,073,570	73,827	596	-	1,146,801
Equipment	171,093	15,041	15,295	-	170,839
Internally developed software	5,551	1,666	1,305	-	5,912
Library collections	27,837	6,763	6,970	-	27,630
Total accumulated depreciation	1,278,051	97,297	24,166	-	1,351,182
Total capital assets depreciated, net	1,439,136	(44,663)	(299)	212,014	1,606,786
Total capital assets, net	$ 1,687,536	$ 97,246	$ 164	$ -	$ 1,784,618

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

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)

	2011	2010
Purchased services	$ 13,591	$ 11,448
Other payables	7,988	7,295
Supplies	8,215	6,353
Repairs and maintenance	4,019	4,428
Capital projects	1,761	2,781
Employee benefits	2,430	2,037
Financial aid	134	133
Grants to others	1,588	136
Inventory	1,714	850
Equipment	70	314
Total	$ 41,510	$ 35,775

In addition, as of June 30, 2011 and 2010, Minnesota State Colleges and Universities had payable from restricted assets in the amounts of $21,435,803 and $19,739,165, respectively, which were 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 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 12,181	$ 9,403	$ 1,962	$ 19,622	$ -
Capital leases	17,989	32,406	4,977	45,418	5,248
General obligation bonds	237,018	21,504	17,495	241,027	18,583
Notes payable	4,227	1,700	826	5,101	577
Revenue bonds	184,938	85,800	7,925	262,813	7,710
Total long term debt	$ 456,353	$ 150,813	$ 33,185	$ 573,981	$ 32,118

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

The changes in other compensation benefits for fiscal years 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 133,218	$ 10,115	$ 13,425	$ 129,908	$ 14,290
Early termination benefits	6,819	3,838	4,331	6,326	4,245
Net other postemployment benefits	14,331	10,921	5,461	19,791	-
Workers' compensation	6,518	4,961	3,762	7,717	3,396
Total other compensation benefits	$ 160,886	$ 29,835	$ 26,979	$ 163,742	$ 21,931

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

Bond Premium/Discount — Bonds were issued in fiscal years 2011 and 2010, resulting in net premiums of $9,402,540 and $2,314,985, 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 1 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 20.8 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $385,542,031. Principal and interest paid for the current year and total customer net revenues were $15,940,089 and $110,054,937, 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 50.08 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $3,286,267. For the current year, principal and interest paid and total customer net revenues were $205,370 and $414,185, 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 33.49 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $169,100. For the current year, principal and interest paid and total customer net revenues were $83,500 and $253,238, 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 Management and Budget manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $7,716,824 and $6,518,526 at June 30, 2011 and 2010, 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 $30,167,541 and $30,525,260 at June 30, 2011 and 2010, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program. The net decrease was $357,719 and $279,896 for fiscal years 2011 and 2010, respectively.

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

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

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2012	$ 18,583	$ 11,110	$ 7,710	$ 11,785
2013	17,758	10,305	11,750	11,048
2014	17,659	9,450	12,045	10,608
2015	17,226	8,603	12,515	10,142
2016	16,753	7,775	12,950	9,638
2017-2021	76,550	27,244	68,585	39,836
2022-2026	56,119	10,769	71,475	24,015
2027-2031	20,379	1,479	55,430	8,691
2032-2036	-	-	10,400	374
Less: Issuance costs	-	-	(47)	-
Total	$ 241,027	$ 86,735	$ 262,813	$ 126,137

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases Principal	Capital Leases Interest	Notes Payable Principal	Notes Payable Interest
2012	$ 5,248	$ 1,015	$ 577	$ 252
2013	4,584	1,084	502	208
2014	4,548	1,170	470	179
2015	4,472	1,246	396	159
2016	4,332	1,861	378	143
2017-2021	19,091	6,411	1,635	465
2022-2026	1,898	362	1,083	130
2027-2031	1,137	14	60	1
2032-2036	108	-	-	-
Total	$ 45,418	$ 13,163	$ 5,101	$ 1,537

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 years 2011 and 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 2011 and 2010.

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, 2011 and 2010 follow:

Fiscal Year	Number of Employees	Future Liability (In Thousands)
2011	19	$ 913
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 2011 and 2010 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2011	30	$ 1,004
2010	21	642

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 2011 and 2010 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2011	131	$ 3,111
2010	149	3,681

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 2011 and 2010 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2011	55	$ 1,154
2010	36	1,031

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 2011 and 2010 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2011	7	$ 144
2010	10	501

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, 2010 there were approximately 667 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 2011 and 2010, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2011	2010
Annual required contribution (ARC)	$ 10,794	$ 8,641
Interest on net OPEB obligation	681	497
Adjustment to ARC	(554)	(407)
Annual OPEB cost	10,921	8,731
Contributions during the year	(5,461)	(4,862)
Increase in net OPEB obligation	5,460	3,869
Net OPEB obligation, beginning of year	14,331	10,462
Net OPEB obligation, end of year	$ 19,791	$ 14,331

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 2011 and 2010 were as follows:

Year Ended June 30
(In Thousands)

	2011	2010
Beginning of year net OPEB obligation	$ 14,331	$ 10,462
Annual OPEB cost	10,921	8,731
Employer contribution	(5,461)	(4,862)
End of year net OPEB obligation	$ 19,791	$ 14,331
Percentage contributed	50.00%	55.69%

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, 2010	-	$ 108,409	$ 108,409	0%	$ 978,480	11.08%

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, 2010 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, 2011 and 2010, totaled $15,066,859 and $15,401,737, 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 System Office 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 System Office'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
2012	$	14,878
2013		12,145
2014		5,545
2015		4,412
2016		3,656
2017-2021		12,319
2022-2026		6,461
2027-2031		2,248
Total	$	61,664

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 2005, the Minnesota State University, Mankato 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 30 year lease agreement with Minnesota State University Moorhead Alumni Foundation Inc for $3,940,000 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 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.

- In fiscal year 2011, St. Cloud State University entered into lease agreements with Wedum St. Cloud Housing LLLC for the Coborn Plaza residence hall and Welcome Center space for a term of ten years with two successive options for five year extensions. The annual rent ranges from $3,579,960 to $4,165,032. In fiscal year 2004, the University entered into a lease agreement with the St. Cloud State University Foundation for Atwood Memorial Center in the amount of $3,924,434 for construction costs. In fiscal year 2005, an additional $779,910 was added to the lease agreement. Also in 2005, a second lease agreement was signed for a newly completed stadium and recreation center in the amount of $10,084,954.

Income Leases — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2011 and 2010 totaled $3,044,339 and $2,023,065, 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
2012	$ 1,567
2013	628
2014	591
2015	244
2016	123
2017-2021	308
Total	$ 3,461

12. TUITION, FEES, SALES AND ROOM AND BOARD

The following table provides information related to tuition, fees, and sales revenue:

Year Ended June 30
(In Thousands)

	2011			2010		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 832,637	$ (293,619)	$ 539,018	$ 784,601	$ (255,528)	$ 529,073
Fees	95,052	(23,268)	71,784	92,521	(21,372)	71,149
Sales and room and board	135,871	(14,783)	121,088	137,771	(13,711)	124,060
Restricted student payments	106,308	(2,940)	103,368	100,226	(3,429)	96,797
Total	$ 1,169,868	$ (334,610)	$ 835,258	$ 1,115,119	$ (294,040)	$ 821,079

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The following tables provide information related to operating expenses by functional classification:

Year Ended June 30, 2011
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 125,179	$ 40,553	$ 88,194	$ 1,375	$ 255,301
Institutional support	118,019	41,773	68,669	2,060	230,521
Instruction	520,678	155,492	144,087	6,471	826,728
Public service	9,954	2,866	10,071	146	23,037
Research	5,471	1,226	5,662	46	12,405
Student services	133,522	40,996	75,922	1,653	252,093
Auxiliary enterprises	39,479	14,091	168,645	9,111	231,326
Scholarships & fellowships	-	-	56,887	-	56,887
Less interest expense	-	-	-	(20,862)	(20,862)
Total operating expenses	$ 952,302	$ 296,997	$ 618,137	$ -	$ 1,867,436

Year Ended June 30, 2010
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 125,467	$ 40,038	$ 78,937	$ 2,693	$ 247,135
Institutional support	116,110	41,070	74,199	2,558	233,937
Instruction	515,236	153,146	153,770	10,877	833,029
Public service	9,518	2,764	8,915	200	21,397
Research	5,528	1,280	5,430	111	12,349
Student services	134,304	40,298	73,622	2,841	251,065
Auxiliary enterprises	39,299	13,651	137,204	862	191,016
Scholarships & fellowships	-	-	65,313	-	65,313
Less interest expense	-	-		(20,142)	(20,142)
Total operating expenses	$ 945,462	$ 292,247	$ 597,390	$ -	$ 1,835,099

14. 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 General Employees Retirement Fund, administered by the Public Employees Retirement Association; and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund (SERF)

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

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal year 2009 the funding requirement for both employer and employee was 4.5 percent. For fiscal year 2010 the funding requirement was 4.75 percent for both employer and employee. For fiscal year 2011 the funding requirement was 5 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
2011	$	11,156
2010		9,792
2009		9,705

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. For fiscal years 2009, 2010 and 2011 the funding requirement was 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
2011	$	9,691
2010		10,235
2009		10,440

General Employees Retirement Fund (GERF)

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 Association of Minnesota at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103.

GERF 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 GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. For the period January 1, 2008 through December 31, 2008, employee and employer contribution rates were 6 percent and 6.5 percent, respectively. For the period January 1, 2009 through December 31, 2009, employee and employer contribution rates were 6 percent and 6.75 percent, respectively. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6 percent and 7 percent, respectively. For the period January 1, 2011 through December 31, 2011, employee and employer contribution rates are 6.25 percent and 7.25 percent, respectively. Actual contributions were 100 percent of required contributions.

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)				
Fiscal Year		Employer		Employee
2011	$	1,322	$	1,128
2010		1,277		1,086
2009		1,305		1,139

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
2011	$ 26,804	$ 20,062
2010	26,072	19,505
2009	25,407	19,022

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 and 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
2011	$ 15,139
2010	14,974
2009	14,716

15. 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 Revenue fund 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, 2011 and 2010 follows.

Summary Information for Revenue Fund
(In Thousands)

	2011	2010
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 75,206	$ 65,732
Restricted assets	162,963	107,519
Noncurrent assets	1,800	2,400
Capital assets, net	240,629	204,855
Total assets	480,598	380,506
Liabilities		
Current liabilities	27,972	21,157
Noncurrent liabilities	263,120	185,327
Total liabilities	291,092	206,484
Net Assets		
Invested in capital assets, net of related debt	105,825	99,772
Restricted	83,681	74,250
Total net assets	$ 189,506	$ 174,022
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 108,102	$ 101,413
Depreciation expense	(12,424)	(10,755)
Other operating expenses	(72,391)	(71,528)
Net operating income	23,287	19,130
Nonoperating revenues (expenses)		
Interest income	650	865
Interest expense	(8,881)	(7,723)
Private grants	1,260	657
Scholarships	(873)	-
Gain (loss) on disposal of capital assets	41	(13)
Total nonoperating revenues (expenses)	(7,803)	(6,214)
Change in net assets	15,484	12,916
Net assets, beginning of year	174,022	161,106
Net assets, end of year	$ 189,506	$ 174,022
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 34,756	$ 25,845
Noncapital financing activities	387	657
Capital and related financing activities	35,771	(62,092)
Investing activities	561	1,276
Net increase (decrease)	71,475	(34,314)
Cash, beginning of year	131,618	165,932
Cash, end of year	$ 203,093	$ 131,618

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, 2011 and 2010, respectively, follows.

Vermilion Community College Financial Summary
(In Thousands)

	2011	2010
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 85	$ 153
Restricted assets	142	141
Capital assets, net	794	830
Total assets	1,021	1,124
Liabilities		
Current liabilities	92	187
Noncurrent liabilities	80	155
Total liabilities	172	342
Net Assets		
Invested in capital assets, net of related debt	714	675
Restricted	62	64
Unrestricted	73	43
Total net assets	$ 849	$ 782
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 253	$ 228
Depreciation expense	(36)	(36)
Other operating expenses	(139)	(123)
Net operating income	78	69
Nonoperating revenues (expenses)		
Interest expense	(11)	(16)
Total nonoperating revenues (expenses)	(11)	(16)
Change in net assets	67	53
Net assets, beginning of year	782	729
Net assets, end of year	$ 849	$ 782
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 127	$ 101
Capital and related financing activities	(83)	(82)
Net increase	44	19
Cash, beginning of year	159	140
Cash, end of year	$ 203	$ 159

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, 2011 and 2010, respectively, follows.

Itasca Community College Financial Summary
(In Thousands)

	2011	2010
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ (3)	$ (4)
Restricted assets	383	273
Capital assets, net	3,427	3,546
Total assets	3,807	3,815
Liabilities		
Current liabilities	108	101
Noncurrent liabilities	2,038	2,027
Total liabilities	2,146	2,128
Net Assets		
Invested in capital assets, net of related debt	1,299	1,433
Restricted	292	273
Unrestricted	70	(19)
Total net assets	$ 1,661	$ 1,687
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 414	$ 400
Depreciation expense	(119)	(119)
Other operating expenses	(209)	(215)
Net operating income	86	66
Nonoperating revenues (expenses)		
Interest income	8	9
Interest expense	(120)	(124)
Total nonoperating revenues (expenses)	(112)	(115)
Change in net assets	(26)	(49)
Net assets, beginning of year	1,687	1,736
Net assets, end of year	$ 1,661	$ 1,687
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 218	$ 147
Investing activities	8	9
Capital and related financing activities	(205)	(204)
Net increase (decrease)	21	(48)
Cash, beginning of year	243	291
Cash, end of year	$ 264	$ 243

16. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2011
(In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Anoka Ramsey	Wellness Center	$ 9,900	$ 81	$ 9,819	Aug 2012
Bemidji State	Birch Hall Renovation	7,530	660	6,870	June 2012
Lake Superior	Health & Science Center	17,943	8,755	9,188	Aug 2013
Mesabi	Shop Space Addition	5,477	3,478	1,999	Aug 2011
Minneapolis	Helland Student Center	12,104	4,933	7,171	Dec 2011
Minneapolis	Workforce Center	17,920	372	17,548	Nov 2013
MSU, Mankato	New Residence Hall	32,595	5,688	26,907	Aug 2012
MSU Moorhead	Dahl Hall Renovation	8,615	2,348	6,267	Aug 2012
M State	Learning Resource Center Addition	5,448	2,884	2,564	Nov 2011
Normandale	New Student Center	14,500	11,599	2,901	Aug 2011
North Hennepin	Center for Business & Technology	16,904	6,594	10,310	Jan 2012
SCSU	Nat'l Hockey Center Renovation	6,500	1,726	4,774	Oct 2012
St. Cloud College	Allied Health Center Renovation	5,773	3,825	1,948	Aug 2012

* Anoka-Ramsey Community College; Bemidji State University; Lake Superior College; Mesabi Range Community & Technical College; Minneapolis Community & Technical College; Minnesota State University, Mankato; Minnesota State University Moorhead; Minnesota State Community & Technical College; Normandale Community College; North Hennepin Community College; St. Cloud State University; and St. Cloud Technical & Community College.

17. 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 2011 and 2010.

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, 2011 and 2010.

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/11	$ 6,518	$ 4,961	$ 3,762	$ 7,717
Fiscal Year Ended 6/30/10	5,164	4,051	2,697	6,518

18. COMPONENT UNITS

The following legally separate tax exempt foundations affiliated with Minnesota State Colleges and Universities are included as a major component unit of Minnesota State Colleges and Universities. 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 formed for the purpose of obtaining and disbursing funds for the sole benefit of their college or university.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, Minnesota State Colleges and Universities present the combined statement of financial position and the combined statement of activities of the foundations on separate pages of the financial statements.

Minnesota State Colleges and Universities received $11,176,478 and $13,586,397 in fiscal years 2011 and 2010, 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*.

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

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

Investments — The foundations' investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities*. 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 at June 30
(In Thousands)

Investments	2011	2010
Balanced mutual funds	$ 29,626	$ 15,879
Equity based mutual funds	47,532	37,356
Equity securities	16,870	11,258
Fixed income/Bonds/U.S. treasuries	18,178	24,808
Money market/Certificate of deposit	8,309	10,119
Other investments	2,666	2,557
Real estate (held for investment)	2,562	2,173
Total	$ 125,743	$ 104,150

Capital Asset — Summaries of the foundations' capital assets for fiscal years 2011 and 2010 follow:

Schedule of Capital Assets at June 30
(In Thousands)

	2011	2010
Capital assets, not depreciated		
Land	$ 2,421	$ 2,362
Total capital assets, not depreciated	2,421	2,362
Capital assets, depreciated:		
Buildings and improvements	24,095	24,070
Equipment	900	938
Total capital assets, depreciated	24,995	25,008
Total accumulated depreciation	(6,313)	(5,589)
Total capital assets depreciated, net	18,682	19,419
Total capital assets, net	$ 21,103	$ 21,781

Long Term Obligations— Payment schedule of the foundations' long term obligations follow:

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2012	$ 1,997
2013	3,499
2014	1,486
2015	1,560
2016	1,636
Thereafter	20,855
Total	$ 31,033

Endowment Funds— The Foundations' endowment includes both donor-restricted funds and funds designated by the Foundation Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets as of June 30, 2011 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2011
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Net Assets, Beginning of Year	$ (308)	$ 5,364	$ 84,813	$ 89,869
Change in value of trusts	703	4,291	441	5,435
Contributions	49	285	4,500	4,834
Investment income	148	3,943	695	4,786
Amounts appropriated for expenditures	(145)	(1,878)	264	(1,759)
Other transfers	17	(54)	(64)	(101)
Net Assets, End of Year	$ 464	$ 11,951	$ 90,649	$ 103,064

Changes in endowment net assets as of June 30, 2010 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2010
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Net Assets, Beginning of Year	$ (1,292)	$ 2,317	$ 79,149	$ 80,174
Change in value of trusts	760	1,499	266	2,525
Contributions	54	545	5,611	6,210
Investment income	242	2,334	274	2,850
Amounts appropriated for expenditures	(143)	(1,317)	(129)	(1,589)
Other transfers	71	(14)	(358)	(301)
Net Assets, End of Year	$ (308)	$ 5,364	$ 84,813	$ 89,869

19. 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 2011 and 2010 the state of Minnesota borrowed $470 million and $475 million respectively 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 years 2011 and 2010.

General Obligation Bond Issuances — In October 2011 $62 million in general obligation state bonds were issued at a true interest rate of 2.82 percent. Minnesota State Colleges and Universities pays one third of the debt service on $34.3 million of the October issue, over the life of the bonds. The first debt service payment on these bonds was in November 2011.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	—	$ 94,235	$ 94,235	0.00%	$ 876,585	10.75%
July 1, 2008	—	92,551	92,551	0.00	894,035	10.35
July 1, 2010	—	108,409	108,409	0.00	978,480	11.08

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SUPPLEMENTARY SECTION

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

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 years ended June 30, 2011 and June 30, 2010, and have issued our reports thereon dated November 7, 2011 and November 4, 2010. We did not audit the financial statements of Minnesota State University Mankato, 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 52% of the consolidated assets and 50% of the consolidated revenues of MnSCU for fiscal year 2011. 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*.

<u>Internal Control Over Financial Reporting</u>

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 7, 2011

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Minnesota
STATE COLLEGES
& UNIVERSITIES

30 7th St. E., Suite 350
St. Paul, MN 55101-7804

Phone: (651) 201-1800
Toll-free: (888) 667-2848

www.mnscu.edu