Minnesota State Colleges & Universities

Revenue Fund Annual Financial Report

For the years ended June 30, 2012 and 2011

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

Prepared by:

System Office
Minnesota State Colleges and Universities
30 East 7th Street, Suite 350
St. Paul, Minnesota 55101-7804

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REVENUE FUND

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

December 21, 2012

Members of the Board of Trustees
Chancellor Steven J. Rosenstone

I am pleased to submit to you the audited financial statements for the Minnesota State Colleges and Universities Revenue Fund for the fiscal years ended June 30, 2012 and 2011. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The System Office is responsible for preparation of the statements. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report.

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

Within the financial statements, which were audited by CliftonLarsonAllen LLP, and received an unqualified opinion, you will find statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. The Revenue Fund ended fiscal year 2012 with total net assets of $211.6 million. Reserve balances, including requirements mandated by bond covenants, are invested with the Minnesota State Board of Investment or a Trustee. Investment earnings are used to keep student costs in the residence halls and student unions among the lowest in the region.

Residence hall and student union directors are responsible for designing programs and services that meet the needs of students at their individual universities. All revenues and expenses are managed at each of the universities. The Revenue Fund provides about 11,600 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

Laura M. King
Vice Chancellor - Chief Financial Officer

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

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

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), as of and for the year ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Revenue Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State Colleges and Universities Revenue Fund as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the Revenue Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Minnesota State Colleges and Universities

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

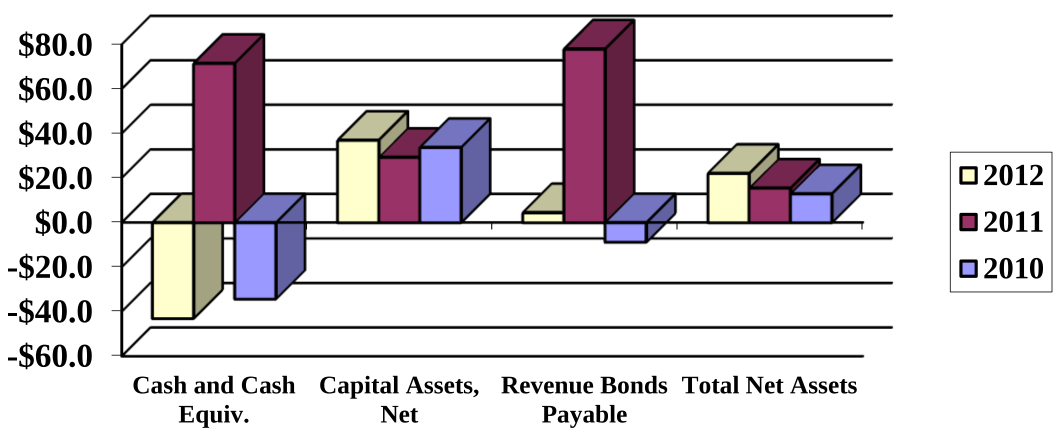
The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities, for the fiscal years ended June 30, 2012, 2011, and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

Minnesota State Colleges and Universities, a state supported system, is the largest single provider of higher education in the state of Minnesota and is comprised of 31 state-supported technical, community, and consolidated colleges, and universities. Historically, the Revenue Fund operated on only the seven state universities. Effective July 2008, the Revenue Fund was made available to all colleges in the system. It was created for purposes of financing residence halls, dining halls, student union buildings, parking facilities, wellness/athletic facilities and other revenue-producing buildings as deemed necessary for the benefit of the students.

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position improved during fiscal year 2012 with net assets increasing by $22.1 million totaling $211.6 million, an 11.7 percent increase over fiscal year 2011. This follows an increase of $15.5 million totaling $189.5 million, an 8.9 percent increase over fiscal year 2010. Cash and cash equivalents at year-end totaled $160.1 million, a decrease of $43.0 million over fiscal year 2011 at year-end. Capital assets, net, excluding restricted construction in progress, increased $37.0 million due to the continuation of construction projects started in prior fiscal years. In August 2011, the Revenue Fund issued bonds totaling $12.0 million, with maturity dates of 20 years.

Statements of Net Asset Changes (in Millions)



USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET ASSETS

The statements of net assets present the financial position of the Revenue Fund at the end of the fiscal year and include all assets and liabilities of the Revenue Fund. The difference between total assets and total liabilities (i.e., the point-in-time difference in value of what is owned compared to the value of what is owed) is net assets, one indicator of the current financial condition of the Revenue Fund. The change in net assets is an indicator of whether the overall financial condition has improved or declined during the fiscal year (i.e., has the value of the difference between what is owned and owed increased or decreased over the past fiscal year). Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Condensed statements of net assets for fiscal years ended June 30, 2012, 2011, and 2010 follows:

(In Thousands)	2012	2011	2010
Current assets	$ 80,419	$ 75,206	$ 65,732
Current restricted assets	84,240	133,116	71,203
Noncurrent restricted assets	65,328	29,847	36,316
Noncurrent assets	1,200	1,800	2,400
Capital assets, net	277,628	240,629	204,855
Total assets	508,815	480,598	380,506
Current liabilities	33,979	27,972	21,157
Noncurrent liabilities	263,186	263,120	185,327
Total liabilities	297,165	291,092	206,484
Net assets	$ 211,650	$ 189,506	$ 174,022

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by $5.8 million to total $75.8 million at June 30, 2012. This is compared to the increase of $9.6 million to total $70.0 million at June 30, 2011.

Current restricted assets — consist of unspent bond proceeds and debt service monies at June 30, 2012, which decreased $48.9 million over June 30, 2011. The decrease is primarily due to $70.5 million of construction expenditures combined with $12.0 million of bonds sold during fiscal year 2012. This is compared to the fiscal year 2011 increase of $62.0 million from June 30, 2010.

Noncurrent restricted assets — consist primarily of construction in progress, which increased $35.5 million at June 20, 2012, as construction on bond projects continued. This is compared to a decrease of $6.5 million from June 30, 2010.

Noncurrent assets — consist of $1.2 million of a note receivable at June 30, 2012. This is compared to $1.8 million of a note receivable at June 30, 2011.

Capital assets, net — increased $37.0 million to total $277.6 million at June 30, 2012. This is compared to an increase of $35.8 million to total $240.6 million at June 30, 2011. This activity represents the portion of bonding projects completed and repairs and renovations of facilities within current operations.

Current liabilities — consist primarily of accounts payable, interest payable and unearned revenue. Total accounts payable, including restricted accounts payable, increased by $3.1 million to total $15.6 million at

June 30, 2012. This is compared to the increase in total accounts payable of $5.0 million to total $12.5 million at June 30, 2011.

Noncurrent liabilities — At June 30, 2012 noncurrent liabilities consisted primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable increased by $0.4 million to total $253.4 million over June 30, 2011. This is compared to the increase of $77.2 million to total $253.0 million at June 30, 2011 due to revenue bonds issued during that fiscal year.

Net assets — represent the residual interest in the Revenue Fund's assets after deducting liabilities. The Revenue Fund's net assets at June 30, 2012, 2011, and 2010 are summarized as follows:

(In Thousands)

	2012	2011	2010
Invested in capital assets, net of related debt	$ 109,444	$ 105,825	$ 99,772
Restricted expendable	29,954	17,673	17,404
Unrestricted	72,252	66,008	56,846
Total net assets	$ 211,650	$ 189,506	$174,022

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

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

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in improving the quality of services provided at the colleges and universities is the development and renewal of the physical assets used to provide housing, dining, and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress increased in fiscal year 2012 as a result of continued work on construction projects. These completed construction projects were for major repair and replacement projects financed through fiscal year 2008, 2009, and 2011 bond proceeds and operating revenues. See comments in the section titled "Economic Factors That Will Affect the Future."

Capital outlays, including $86.0 million in expenditures for construction in progress, totaled $86.5 million in fiscal year 2012, compared to $41.5 million in fiscal year 2011. Capital expenses are primarily composed of replacement and renovation of dormitories, student unions, wellness centers, and parking facilities At June 30, 2012, the noncurrent portion of revenue bonds payable totaled $253.4 million, with $11.6 million current portion payable. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 6 of the financial statements. Note 4 to the financial statements shows that buildings and improvements increased by $51.5 million due to the completion of prior years' construction in progress.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

A summarized statement for the fiscal years ended June 30, 2012, 2011, and 2010 follows:

(In Thousands)

Operating revenue:	2012	2011	2010
Room and board	$ 81,508	$ 80,262	$ 75,326
Fees	20,921	19,236	18,268
Sales and services	6,604	6,042	5,904
Other	2,135	2,562	1,813
Total operating revenue	111,168	108,102	101,311
Nonoperating revenue and other gains:			
Interest and other nonoperating revenue	9,823	1,951	1,522
Total revenues	120,991	110,053	102,833
Operating expense:			
Salaries and benefits	24,693	24,352	24,223
Supplies and services	41,148	41,240	39,991
Repairs and maintenance	3,816	2,523	2,599
Depreciation and amortization	13,925	12,424	10,755
Other	4,775	4,276	4,613
Total operating expenses	88,357	84,815	82,181
Nonoperating expense:			
Interest and other nonoperating expense	10,490	9,754	7,736
Total expenses	98,847	94,569	89,917
Increase in net assets	22,144	15,484	12,916
Net assets, beginning of year	189,506	174,022	161,106
Net assets, end of year	$ 211,650	$ 189,506	$ 174,022

The $1.2 million increase in room and board revenue resulted from rate increases to cover operating expense increases and to fund the reinvestment program. Nonoperating revenue increased in fiscal year 2012 by $7.9 million primarily due to a private grant of $8.2 million received by St. Cloud State University to be used towards the renovation of the National Hockey Center. Minnesota State University Moorhead also received $882.0 thousand from its foundation to be used towards future betterments to the Gerdin Wellness Center. Interest income in fiscal year 2012 compared to fiscal year 2011 increased by $91.6 thousand.

CASH AND CASH EQUIVALENTS

The fiscal year 2008, 2009, 2011 and 2012 bond proceeds, along with all debt service reserve accounts, and the debt service accounts are deposited with a Trustee (US Bank) which is managing the cash. The Trustee also manages all unspent bond sale proceeds, along with the related debt service reserve cash balances and debt service cash balances. The debt service accounts for all bond sales, along with all operating funds, are on interest bearing deposit in the State Treasury.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

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

The Minnesota State Colleges and Universities obtained an increase in bonding authority from $300,000,000 to $405,000,000 from the state legislature during the 2012 session. The current bonding debt outstanding is $264,985,000 after a $12,000,000 bond sale in August 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2012 financial position and results for all those with an interest in the Revenue Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 75,824	$ 69,977
Accounts receivable, net	3,995	4,629
Notes receivable	600	600
Total current assets	80,419	75,206
Current Restricted Assets		
Cash and cash equivalents	84,240	133,116
Total current restricted assets	84,240	133,116
Noncurrent Restricted Assets		
Other restricted assets	62	69
Construction in progress	65,266	29,778
Total noncurrent restricted assets	65,328	29,847
Total restricted assets	149,568	162,963
Noncurrent Assets		
Notes receivable	1,200	1,800
Capital assets, net	277,628	240,629
Total noncurrent assets	278,828	242,429
Total Assets	508,815	480,598
Liabilities		
Current Liabilities		
Salaries and benefits payable	511	1,249
Accounts payable	3,000	1,731
Unearned revenue	2,782	2,982
Payable from restricted assets	12,576	10,737
Interest payable	2,925	3,087
Current portion of long-term debt	11,931	7,878
Other compensation benefits	254	308
Total current liabilities	33,979	27,972
Noncurrent Liabilities		
Other liabilities	196	-
Noncurrent portion of long-term debt	261,153	261,445
Other compensation benefits	1,837	1,675
Total noncurrent liabilities	263,186	263,120
Total Liabilities	297,165	291,092
Net Assets		
Invested in capital assets, net of related debt	109,444	105,825
Restricted expendable	29,954	17,673
Unrestricted	72,252	66,008
Total Net Assets	$ 211,650	$ 189,506

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Operating Revenues		
Room and board	$ 81,508	$ 80,262
Fees	20,921	19,236
Sales and services	6,604	6,042
Other income	2,135	2,562
Total operating revenues	111,168	108,102
Operating Expenses		
Salaries and benefits	24,693	24,352
Food service	25,504	25,004
Other purchased services	11,666	12,189
Supplies	3,978	4,047
Repairs and maintenance	3,816	2,523
Depreciation	13,925	12,424
Other expense	4,775	4,276
Total operating expenses	88,357	84,815
Operating income	22,811	23,287
Nonoperating Revenues (Expenses)		
Private grants	9,082	1,260
Interest income	741	650
Scholarships	-	(873)
Interest expense	(10,412)	(8,881)
Total nonoperating revenues (expenses)	(589)	(7,844)
Income Before Other Revenues, Expenses, Gains, or Losses	22,222	15,443
Gain (Loss) on disposal of capital assets	(78)	41
Change in net assets	22,144	15,484
Total Net Assets, Beginning of Year	189,506	174,022
Total Net Assets, End of Year	$ 211,650	$ 189,506

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	$ 112,888	$ 107,148
Cash paid to suppliers for goods or services	(50,368)	(48,177)
Cash payments to employees	(25,328)	(24,215)
Net cash flows from operating activities	37,192	34,756
Cash Flows from Noncapital and Related Financing Activities		
Private grants	9,082	1,260
Scholarsips	-	(873)
Net cash flows from noncapital financing activities	9,082	387
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(83,194)	(34,981)
Proceeds from sale of capital assets	8	32
Proceeds from borrowing	12,000	85,800
Proceeds from bond premium	-	1,055
Bond discount paid	(65)	(49)
Interest paid	(10,574)	(7,896)
Repayment of lease principal	(528)	(320)
Repayment of bond principal	(7,545)	(7,870)
Net cash flows from (used in) capital and related financing activities	(89,898)	35,771
Cash Flows from Investing Activities		
Investment earnings	595	561
Net cash flows from investing activities	595	561
Net Increase (Decrease) in Cash and Cash Equivalents	(43,029)	71,475
Cash and Cash Equivalents, Beginning of Year	203,093	131,618
Cash and Cash Equivalents, End of Year	$ 160,064	$ 203,093

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Operating Income	$ 22,811	$ 23,287
Adjustment to Reconcile Operating Income to		
Net Cash Flows from Operating Activities		
Depreciation	13,925	12,424
Change in assets and liabilities		
Accounts receivable	1,916	(890)
Accounts payable	(830)	(145)
Salaries payable	(739)	72
Compensated absences payable	107	67
Unearned revenue	(200)	(67)
Other	202	8
Net reconciling items to be added to operating income	14,381	11,469
Net cash flows from operating activities	$ 37,192	$ 34,756
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 14,650	$ 11,348
Gain (Loss) on retirement of capital assets	(86)	9
Investment earnings on account	254	209
Amortization of bond premium	142	142
Amortization of bond discount	(41)	(38)

MINNESOTA STATE COLLEGES AND UNIVERSITIES, REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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

Authorizing Legislation — The 1955 Minnesota State Legislature established the Revenue Fund for the purpose of operating self-supporting residence halls, food services, and student union programs. In the enabling legislation, the Board of Trustees was authorized to acquire, construct, remodel, equip, operate, control, and manage residence halls, dining halls, student union buildings, and any other similar revenue-producing buildings as deemed necessary for the good and benefit of the universities. The Board is authorized to issue bonds and other obligations, upon approval by the state legislature, to fulfill its corporate purposes. During the 2012 legislative session, the state legislature increased the Board's authority to issue revenue bonds to $405,000,000, effective August 1, 2012.

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

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

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

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

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

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

Notes Receivable — The notes receivable balances are a loan to St. Cloud State University in the amount of $1,800,000 with principal amounts of $600,000 payable through fiscal year 2015. The interest rate charged on the loan is one percent.

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:

Asset Type	Useful Life
Buildings	30-40 years
Building Improvements	20 years
Equipment	3-20 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 and building improvements 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 purchases are capitalized regardless of amount spent.

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

Bonds Payable (In Thousands)

Bond Series	Interest Rate	2012	2011	Maturity Date
Series 2002A	4.8398	$ 15,615	$ 16,665	October 1, 2022
Series 2002B	6.4557	8,890	9,430	October 1, 2022
Series 2005A	4.9233	36,230	37,545	October 1, 2032
Series 2005B	5.0000	1,535	1,875	October 1, 2015
Series 2007A	4.1566	29,615	31,050	October 1, 2026
Series 2007B	4.2670	2,060	2,060	October 1, 2019
Series 2007C	5.6409	2,860	2,985	October 1, 2026
Series 2008A	4.5338	35,620	37,085	October 1, 2028
Series 2008B	5.1057	850	950	October 1, 2018
Series 2009A	4.2106	30,060	31,140	October 1, 2029
Series 2009B	4.3682	3,850	3,945	October 1, 2019
Series 2011A	4.2659	82,400	82,400	October 1, 2031
Series 2011B	3.4801	3,400	3,400	October 1, 2021
Series 2011C	3.4492	12,000	—	October 1, 2032
	Total	$ 264,985	$ 260,530	

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 20.94 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $383,458,277. Revenue bond principal and interest paid for the current fiscal year was $19,271,563 and total customer net revenues were $111,171,271. See Note 6 for additional information.

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

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

Room and Board, Fees, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of $2,037,354 and $2,877,919 for fiscal years ended June 30, 2012 and 2011, respectively, are reported on the Minnesota State Colleges and Universities' system financial statements, but are not reflected in these statements.

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

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

- *Invested in capital assets, net of related debt*: — capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: — net assets subject to externally imposed stipulations. Net asset restrictions for the Revenue Fund are as follows:

  Restricted for debt service — restricted for repayment of bond debt.
  Restricted for capital projects — restricted for completion of capital projects.

Restricted Expendable
(In Thousands)

	2012	2011
Debt service	$ 20,634	$ 15,693
Capital projects	9,320	1,980
Total restricted expendable	$ 29,954	$ 17,673

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

As of June 30 (In Thousands)		
Carrying Amount	2012	2011
Cash, treasury account	$ 128,821	$ 116,837
Cash, trustee account (US Bank)	31,243	86,256
Total	$ 160,064	$ 203,093

Restricted cash of $84,239,547 and $133,116,164 as of June 30, 2012 and 2011, respectively, represents unexpended bond proceeds, debt service monies and debt service reserve balances. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

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 the United States and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally, when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

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.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Revenue Fund will not be able to recover the value of the investments that are in the possession of an outside party. 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 Revenue Fund's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Chapter 118A.03. This statute limits investments to the top quality rating categories of a nationally recognized rating agency.

At June 30, 2012 and June 30, 2011, the Revenue Fund had no debt securities.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Revenue Fund's policy for reducing this risk of loss is to comply with Board Procedure 7.5.1 which 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 Revenue Fund's policy for reducing this risk is to comply with Board Procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments.

At June 30, 2012 and June 30, 2011 the Revenue Fund had no investments.

3. ACCOUNTS RECEIVABLE

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

Summary of Accounts Receivable at June 30
(In Thousands)

	2012	2011
Room and board	$ 4,335	$ 5,140
Fees	1,466	1,110
Sales and service	233	176
Other income	75	65
Total accounts receivable	6,109	6,491
Allowance for uncollectible	(2,114)	(1,862)
Total	$ 3,995	$ 4,629

The allowance for uncollectible accounts for fiscal year 2012 and 2011 are computed based on the following aging schedule:

Age	Allowance Percentage
Less than 1 year	15
1 to 3 years	45
3 to 5 years	70
Over 5 years	95

4. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 2,173	$ —	$ —	$ —	$ 2,173
Construction in progress	36,232	85,976	—	(51,491)	70,717
Total capital assets, not depreciated	38,405	85,976	—	(51,491)	72,890
Capital assets, depreciated:					
Buildings	232,198	—	—	23,345	255,543
Building improvements	177,493	—	—	28,146	205,639
Equipment	2,738	520	232	—	3,026
Total capital assets, depreciated	412,429	520	232	51,491	464,208
Less accumulated depreciation:					
Buildings	100,367	4,465	—	—	104,832
Building improvements	77,898	9,288	—	—	87,186
Equipment	2,162	172	148	—	2,186
Total accumulated depreciation	180,427	13,925	148	—	194,204
Total capital assets depreciated, net	232,002	(13,405)	84	51,491	270,004
Total capital assets, net	$ 270,407	$ 72,571	$ 84	$ —	$ 342,894

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 2,127	$ 46	$ —	$ —	$ 2,173
Construction in progress	46,009	41,447	—	(51,224)	36,232
Total capital assets, not depreciated	48,136	41,493	—	(51,224)	38,405
Capital assets, depreciated:					
Buildings	198,661	—	—	33,537	232,198
Building improvements	159,806	—	—	17,687	177,493
Equipment	2,662	242	166	—	2,738
Total capital assets, depreciated	361,129	242	166	51,224	412,429
Less accumulated depreciation:					
Buildings	96,191	4,176	—	—	100,367
Building improvements	69,837	8,061	—	—	77,898
Equipment	2,141	187	166	—	2,162
Total accumulated depreciation	168,169	12,424	166	—	180,427
Total capital assets depreciated, net	192,960	(12,182)	—	51,224	232,002
Total capital assets, net	$ 241,096	$ 29,311	$ —	$ —	$ 270,407

5. ACCOUNTS PAYABLE AND PAYABLE FROM RESTRICTED ASSETS

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

Summary of Accounts Payable and
Payable From Restricted Assets at June 30
(In Thousands)

	2012	2011
Repairs and maintenance	$ 2,071	$ 836
Purchased services and other payables	598	575
Supplies	331	320
Total accounts payable	3,000	1,731
Restricted purchased services payables	12,576	10,737
Total	$ 15,576	$ 12,468

6. 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 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 260,530	$ 12,000	$ 7,545	$ 264,985	$ 11,575
Revenue bond premium/discount	2,101	—	165	1,936	—
Capital leases	6,692	—	529	6,163	356
Totals	$ 269,323	$ 12,000	$ 8,239	$ 273,084	$ 11,931

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 182,600	$ 85,800	$ 7,870	$ 260,530	$ 7,545
Revenue bond premium/discount	1,198	1,006	103	2,101	—
Capital leases	7,012	—	320	6,692	333
Totals	$ 190,810	$ 86,806	$ 8,293	$ 269,323	$ 7,878

The changes in other compensation benefits for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 1,789	$ 253	$ 270	$ 1,772	$ 254
Early termination benefits	111	—	111	—	—
Net other post employment benefits	83	288	52	319	—
Totals	$ 1,983	$ 541	$ 433	$ 2,091	$ 254

Year Ended June 30, 2011
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 1,917	$ 113	$ 241	$ 1,789	$ 197
Early termination benefits	—	111	—	111	111
Net other post employment benefits	—	83	—	83	—
Totals	$ 1,917	$ 307	$ 241	$ 1,983	$ 308

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, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 1.0 to 6.5 percent. On August 25, 2011, revenue bonds were issued totaling $12,000,000.

Revenue Bond Premium/Discount — Bonds were issued in fiscal year 2012 resulting in a discount of $61,536. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds. Bond discounts and premiums are combined on the statements of net assets.

Capital Leases — In November 2001, the Revenue Fund guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation in the amount of $3,940,000. The Foundation used the proceeds to construct John Neumaier Hall Apartments. The Revenue Fund entered into an operating agreement with the Foundation. The lease term is for 30 years and $3,217,676 was outstanding at June 30, 2012.

In March of 2002, the Revenue Fund guaranteed the repayment of the Series 2002 revenue bonds issued by the Housing and Redevelopment Authority of the City of St. Cloud to the St. Cloud State University Foundation in the amount of $16,515,000. The bond proceeds were used to construct and equip a stadium, a fitness center and an addition to the Atwood Memorial Center. The Atwood Memorial Center was completed in the spring of 2004, at which time the Revenue Fund began repayment of $4,796,524 in bond debt attributed to the Atwood Memorial Center, as specified in the operating agreement. In June of 2012, the Revenue Fund guaranteed the refunding of the Series 2002 revenue bonds. The refunding resulted in a total savings of $195,511. The lease is payable through fiscal year 2023 and $2,945,199 was outstanding at June 30, 2012.

Both agreements contain lease terms meeting the criteria of a capital lease, as defined by the FASB Accounting Standards Codification 840 (previously FAS 13), *Accounting for Leases,* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The gross amount of the leased assets was $8,842,267 and related depreciation as of June 30, 2012 and 2011, was $3,230,178 and $2,855,494, respectively, and is included within buildings and improvements.

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

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned.

Net Other Post Employment Benefits — Net other post employment 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.

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

Long-Term Debt Repayment Schedule
(In Thousands)

	Revenue Bonds		Capital Leases	
Fiscal Years	Principal	Interest	Principal	Interest
2013	$ 11,575	11,315	$ 356	264
2014	12,390	10,880	374	263
2015	12,870	10,408	387	252
2016	13,315	9,899	398	241
2017	13,180	9,376	412	225
2018-2022	72,605	38,010	2,272	868
2023-2027	72,985	21,982	922	403
2028-2032	52,940	6,530	1,042	128
2033-2037	3,125	73	—	—
Total	$ 264,985	$ 118,473	$ 6,163	$ 2,644

7. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from 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. The Revenue Fund, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal year 2010 the funding requirement for both employer and employee was 4.75 percent. For fiscal year 2011 and 2012 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund 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.

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Minnesota State University Association of Administrative and Service Faculty	$6,000 to $50,000	$2,200
Administrators	6,000 to 60,000	2,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Other Unclassified Members	6,000 to 40,000	1,700

The Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2012, 2011, and 2010 were equal to the required contributions for each year, which were $1,087,255, $1,067,417, and $999,357, respectively.

8. UNRESTRICTED NET ASSETS

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

Net Assets
(In Thousands)

	2012	2011
Maintenance and operations	$ 57,121	$ 50,832
Repairs and replacements	15,131	15,176
Total	$ 72,252	$ 66,008

9. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State Colleges and Universities. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were $4,735,433 and $5,255,922 for the years ended June 30, 2012 and 2011, respectively.

Within the accounts receivable balance, $2,397,254 and $2,622,026 is due from other funds as of June 30, 2012 and 2011, respectively, which is cash held in a local account outside of the Revenue Fund.

During 2002, the Revenue Fund leased a parcel of land to the Minnesota State University Moorhead Alumni Foundation to construct a student housing apartment building. The duration of the lease is for 30 years. In consideration of the lease agreement, the Foundation is to pay total lease payments of one dollar. The Revenue Fund has guaranteed the $3,940,000 Clay County note payable amount issued to the Foundation. See Note 6 for details.

In 2002, the Revenue Fund entered into an agreement with the St. Cloud State University Foundation to guarantee the repayment of revenue bonds in the amount of $4,796,524 issued to construct an addition to the Atwood Memorial Center, which would be maintained and operated by the University. See Note 6 for details.

10. 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 manage these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Risk Management Fund. Some 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 2012 and 2011.

Coverage	Amount
Institution deductible	\$2,500 to \$250,000
Fund responsibility	\$1,000,000
Primary reinsurer coverage	\$1,000,001 to \$25,000,000
Multiple reinsurer 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	\$2,000,000
Maintenance deductible for additional claims	\$25,000

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

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

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

11. COMMITMENTS AND CONTINGENCIES

During fiscal year 2012, the Revenue Fund activities included commitments for the following projects:

- Anoka Ramsey Community College expended $4,662,586 to date for a new wellness center and field house. Total project cost is estimated at $6,000,000 with completion expected in September 2012.

- Minnesota State University, Mankato expended $22,928,199 to date for a new residence hall. Total project cost is estimated at $29,956,000 with completion expected in September 2012.

- Minnesota State University Moorhead expended $6,958,894 to date for a renovation of Dahl Hall. Total project cost is estimated at $8,615,000 with completion expected in November 2012.

- Normandale Community College expended $7,430,114 to date for a new parking ramp. Total project cost is estimated at $9,900,000 with completion in November 2012.

- St. Cloud State University expended $8,014,370 to date for a renovation to Case/Hill Hall. Total project cost is estimated at $10,000,000 with completion expected in November 2012.

Minnesota State Colleges and Universities are in negotiations with the faculty bargaining units for the 2011-2013 contract period. Further, the legislative sub-committee on employee relations rejected the settlements reached by the State with MAPE and AFSCME for the same period. As a result, these contracts have not been implemented. It is possible that the full legislature will consider and approve the settlements, during the regular legislative session. Whether there will be retroactive pay owed to state employees as a result of negotiated settlements, and the impact of such settlement may have on the fiscal year 2012 financials, remains unknown. Therefore, no provision for related expense or liability, if any, has been reflected in these financial statements.

12. SUBSEQUENT EVENTS

On July 11, 2012, $15,615,000 of 2002 Series A revenue bonds were refunded at an interest rate of 1.84 percent and $8,890,000 of the 2002 Series B revenue bonds were refunded at an interest rate of 2.03 percent. The refunding resulted in a total principal reduction of $4,120,000. The total interest savings is $1,504,213 for the Series A bonds and $2,610,762 savings for the Series B bonds. The remaining life of the refunded bonds is through fiscal year 2023.

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 Revenue Fund (the Revenue Fund) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Revenue Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

Board of Trustees
Minnesota State Colleges and Universities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Revenue Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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 the Revenue Fund and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 21, 2012

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