



ANNUAL FINANCIAL REPORT

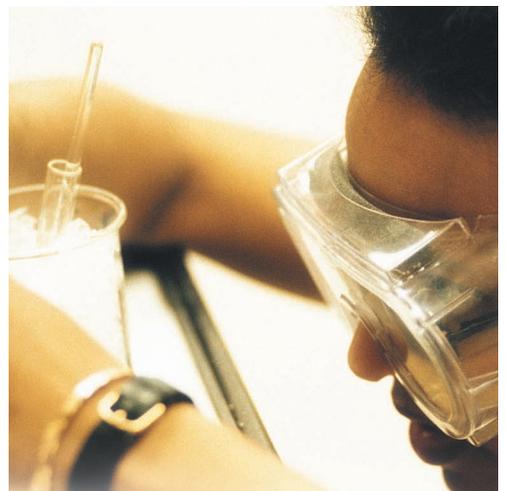
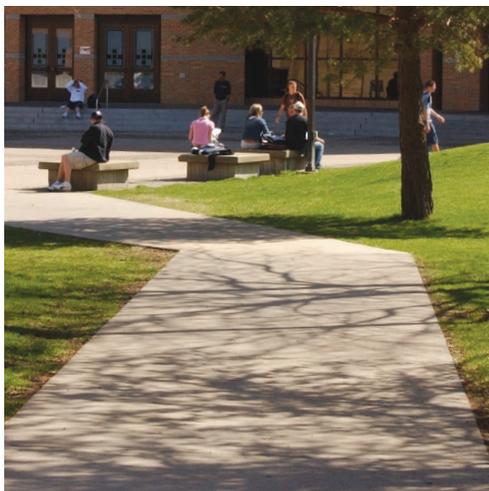
FOR THE YEARS ENDED
JUNE 30, 2004 AND 2003



ST. CLOUD STATE
UNIVERSITY
A tradition of excellence and opportunity



A Member of the Minnesota
State Colleges and Universities System



ST. CLOUD STATE UNIVERSITY

**A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM**

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2004 and 2003

Prepared by:

Chief Financial Officer
St. Cloud State University
720 4th Avenue South, AS 124
St. Cloud, Minnesota 56301

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

Upon request, this publication is available in alternate formats by calling one of the following:
General number: (651) 296-8012
Toll-free: 1-888-MNSCU-4-U
TTY: (651) 282-2660

ST. CLOUD STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

TABLE OF CONTENTS

INTRODUCTION

	Page
Transmittal Letter.....	4
Organization Chart.....	7

FINANCIAL SECTION

Independent Auditors' Report.....	10
Management's Discussion and Analysis.....	12
Basic Financial Statements:	
Statements of Net Assets.....	16
Statements of Financial Position	17
Statements of Revenues, Expenses, and Changes in Net Assets	18
Statements of Activities	19
Statements of Cash Flows	20
Notes to the Financial Statements	22

This page intentionally left blank.

INTRODUCTION

November 1, 2004

Minnesota State Colleges and Universities Board of Trustees
James H. McCormick, Chancellor

To Chancellor McCormick and Minnesota State Colleges and Universities Board of Trustees:

I am pleased to submit to you the audited financial statements for St. Cloud State University for the fiscal year ending June 30, 2004. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of our financial activities for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

St. Cloud State University is one of thirty-two colleges and universities in the Minnesota State Colleges and Universities system. The university is governed by the Board of Trustees, which is comprised of community and business leaders and students. The Minnesota State Colleges and Universities system is led by Chancellor James McCormick, who is appointed by the Board of Trustees and who in turn appoints the President to oversee the operations of the university.

St. Cloud State University is the largest of the seven state universities in the Minnesota State Colleges and Universities system. The university is a regional comprehensive university with a high number of prestigious accreditations such as the Colleges of Education and Business, Aviation, Mass Communications, Manufacturing and Electrical Engineering and a wide variety of others. In response to the educational needs of the community, state and nation, the university is offering new graduate programs in Behavioral Analysis, Environmental and Technological Studies and Teaching English as a Second Language. The mission of St. Cloud State University is that we are committed to excellence in teaching, learning, service, fostering scholarship and enhancing collaborative relationships in a global community. In fiscal year 2004, the university served 17,135 students through our credit-based instruction with a full year equivalent of 14,037, an enrollment decrease of 1 percent. The university is home to 915 international students from 84 countries and has 22 study-abroad programs in 15 countries.

The university continues to serve additional students through distance learning technologies and non-traditional means. 3,401 students were enrolled in 130 internet courses and interactive television projects served 348 students at 80 sites. Collaboration with business partnerships and development of other relationships continues to be one of the top university priorities. The university, Student Government and the St. Cloud Metropolitan Transit Commission combined resources to implement the Free Ride

A college sponsor of the National Merit Scholarship Program.

oud State University values diversity of all kinds, including but not limited to race, religion and ethnicity (full statement at bulletin.StCloudState.edu/generalinfo/nondiscrimination.html)

TTY: 1-800-627-3529 *SCSU is an affirmative action/equal opportunity educator and employer.*

This material can be made available in an alternative format. Contact the department/agency listed above.

Member of Minnesota State Colleges & Universities

Program. Students, faculty and staff can utilize the Metro bus service on any of the routes it provides within St. Cloud, Sauk Rapids, Waite Park and Sartell free of charge through the use of our campus identification card. As a result of this agreement, ridership on bus routes increased by 58%. The university transitioned to a new telephone operating system with improved features with a savings of over \$175,000 and collaborated with the St. Cloud Technical College to share services with them. The university worked closely with Minnesota Department of Administration, Travel Management Division to obtain grant funding for the installation of a fuel tank so university vehicles could operate on E85, a fuel that is 85% alcohol and 15% gasoline. The university expanded its Masters of Business Administration program to include a Maple Grove, MN site. The nursing program has established an internship network with collaborative internship and capstone experiences for nursing students with 52 health care industry partners. The nursing program which was implemented in spring semester, 2002 had its first graduating class of twenty students and sees continuing growth. The university is collaborating with Camp Ripley on five projects related to plant species, vertebrate animals and water quality. Career Services hosted three networking programs in communication, business and science, engineering and health care careers. The university has entered into 29 articulation agreements with 22 community and technical colleges covering a broad spectrum of academic programs.

The university understands it must be good stewards of its resources, including the facilities. The university has one of the lowest deferred maintenance levels in the Minnesota State Colleges and Universities system. The university completed the improvements in the infrastructure of the electrical distribution system which will enhance services in the future while reducing expenses. The university substantially completed the Atwood addition which includes the new Multicultural Student Center and improved locations for many of the university's student organizations. The university has substantially completed the multi-purpose stadium and the addition to the student recreation center is well under way. The university's planning is underway for the renovation of Centennial Hall, the former library, for use as a combined academic student services location and relocation of the G.R. Herberger College of Business and other academic programs, with construction beginning in the fall, 2005. The university has selected an architect to begin preparing schematic drawings for the renovation of Brown Hall, to be updated for use by nursing and science programs. The university will begin planning for Riverview Hall, a building on the National Register of Historic Places, to be updated for academic use.

This past year, the university Foundation and the Alumni Association have had a major focus on providing scholarship dollars aimed at attracting high potential students. As a result of that, 21 new scholarships were established and 13 additional ones are pending. The university exceeded its goal for endowment fundraising by 19.7%. \$565,000 in federal funding was received to support the nursing program. This was part of the 576 grants worth \$7.6 million dollars generated in external grants and research to enhance classroom, studio, lab and online experiences for students.

Within the financial statements, which were audited by the firm of Larson, Allen, Weishair & Co., LLP, you will find a statement of net assets, a statement, of revenue, expense and changes in net assets and a statement of cash flows. You will see that the university ended fiscal year 2004 with total net assets of \$104.8 million. The change in net assets during fiscal year 2004 was an increase of \$13.6 million. For a summary review and explanation of the financial statements please review the Management Discussion and Analysis section of this report.

St. Cloud State University has a very stable faculty and staff workforce. Many employees are reaching retirement age and in the next several years, anticipated turnover will be higher. The university is also facing stronger competition to recruit qualified faculty for its programs. Organized bargaining units represent the majority of employees. All bargaining units are statewide in scope and all negotiations happen at the state level, either through the Chancellor's office within Minnesota State Colleges and Universities or through the Minnesota Department of Employee Relations. The faculty and staff roster is comprised of 1,796 full and part-time employees.

The management of the university is responsible for assuring the accuracy, reliability, fairness and completeness of the information present in this report. The university President relies upon the financial division of the organization for that assurance.

As a state institution, the people of Minnesota have put their trust in the university to answer the higher education needs of this fine State. University staff are honored and humbled by this awesome responsibility. Staff understands that it is our duty to be good stewards of their resources and to educate a workforce and a citizenry that will enhance Minnesota's community now and in the future.

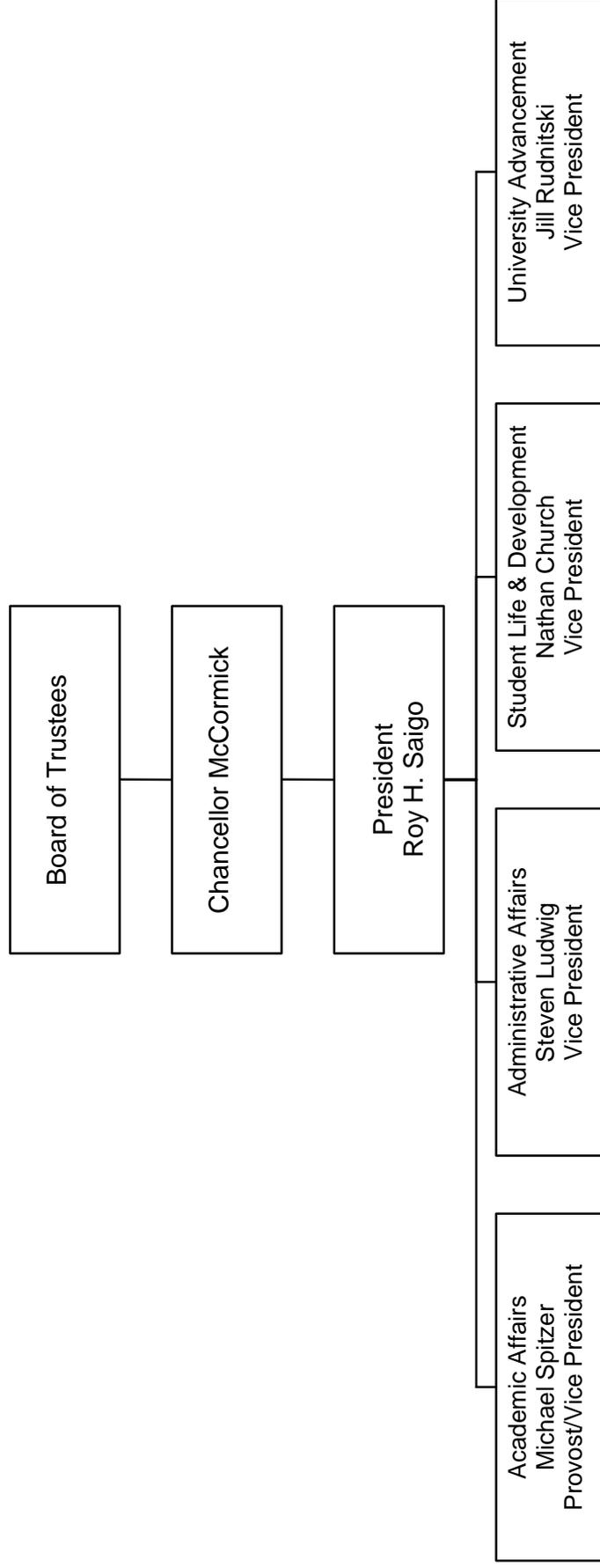
Sincerely,

[the original letter was signed by President Saigo]

Roy H. Saigo
President

MINNESOTA STATE COLLEGES AND UNIVERSITIES

ST. CLOUD STATE UNIVERSITY



The financial activity of St. Cloud State University is included in this report. The University is one of 32 colleges and universities included in the Minnesota State Colleges and Universities' annual financial report which is issued separately.

The University's portion of the Revenue Fund is also included in this report. The Revenue Fund activity is included both in the Minnesota State Colleges and Universities' annual financial report and in a separately issued Revenue Fund 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

LarsonAllen™

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of St. Cloud State University, a campus of Minnesota State College and Universities, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the University'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 audit provides 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 St. Cloud State University as of June 30, 2004 and 2003, 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.

As described in Note 1, St. Cloud State University has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amended the requirements for reporting discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004, on our consideration of the University'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.

The accompanying *Management Discussion and Analysis*, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 an opinion on the basic financial statements. The accompanying introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
October 8, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of St. Cloud State University, a member of the Minnesota State Colleges and Universities System at June 30, 2004 and 2003, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

St. Cloud State University is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees – one from a state University, one from a community college and one from a technical college – serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public institution of higher learning, with approximately 15,500 students including 1,400 graduate and professional students. Approximately 1,400 faculty and staff members are employed by the University. The University offers 175 majors, minors, and pre-professional programs in business, education, fine arts and humanities, science and engineering and social sciences, and 50 master degrees through the School of Graduate Studies. Our largest programs are elementary education, communications, psychology, business computer information systems and biology. Our most unique programs are meteorology, aviation, aviation maintenance management and nuclear medical technology. Professors, rather than graduate assistants, teach University classes and students work side-by-side with our professors on research projects.

The University has nearly 250 student organizations in areas such as the arts, communication, fraternities and sororities, honorary, language and culture, political and social concerns, recreational sports and student government. We offer intercollegiate sports such as men's hockey, tennis, basketball, football, track, swimming and diving, cross country, golf, baseball and wrestling; women's hockey, volleyball, tennis, basketball, soccer, track, Nordic skiing, swimming and diving, cross country, golf and softball.

FINANCIAL HIGHLIGHTS

The University's financial position improved, during fiscal year 2004. Assets totaled \$172.2 million compared to liabilities of \$67.4 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt, of \$81.1 million, restricted assets of \$13.8 million, and unrestricted assets of \$9.9 million. The fiscal year 2004 net assets total of \$104.8 million represents an increase of \$13.6 million over fiscal year 2003 and \$19.3 million over fiscal year 2002. The University's combined fiscal year 2004 appropriation revenue of \$59.9 million represents a 4.2 and 1.5 percent drop compared to fiscal years 2003 and 2002, respectively.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net assets, the statements of revenues, expenses and changes in net assets, and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements, including GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into three net asset categories.

The St. Cloud State University Foundation is a component unit of St. Cloud State University. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39.

STATEMENTS OF NET ASSETS

The statements of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net assets.

A summary of assets, liabilities and net assets as of June 30, 2004, 2003 and 2002, respectively, follows:

	(In Thousands)		
	2004	2003	2002
Current assets	\$ 56,342	\$ 43,311	\$ 41,853
Restricted assets	7,627	9,601	7,699
Noncurrent assets			
Student loans receivable	5,264	4,898	4,936
Capital assets, net	102,923	90,958	88,075
Total assets	<u>172,156</u>	<u>148,768</u>	<u>142,563</u>
Current liabilities	26,287	22,389	22,822
Noncurrent liabilities	41,107	35,218	34,266
Total liabilities	<u>67,394</u>	<u>57,607</u>	<u>57,088</u>
Net assets	<u>\$ 104,762</u>	<u>\$ 91,161</u>	<u>\$ 85,475</u>

Current unrestricted assets consist primarily of cash, cash equivalents and investments totaling \$46.1 million at June 30, 2004. This is an increase of \$11.8 million over the prior year and represents approximately 4.2 months of operating expenses (excluding depreciation), an increase of 1.2 months over fiscal year 2003.

Total current assets increased by \$13 million, in part, as a result of fees held in reserve for the student bonding initiative in the amount of \$1 million, and \$1.4 million collected through implementation of revised accounts receivable policies and procedures. Other additions were made to insure the reserve balances set by board policy were met.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$10.5 million at June 30, 2004, an increase of \$1.1 million over the prior year caused primarily by increased retirements and collective bargaining agreement settlements. Included within the salary payable accrual is \$9.3 million representing approximately two months of earned salary for faculty who have elected to receive salaries over twelve months on a September 1 through August 31 year.

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets as of June 30, 2004, 2003 and 2002, respectively, are summarized as follows:

	(In Thousands)		
	2004	2003	2002
Invested in capital assets, net of related debt	\$ 81,078	\$ 76,170	\$ 73,217
Restricted	13,815	14,343	12,886
Unrestricted	9,869	648	(628)
Total net assets	<u>\$ 104,762</u>	<u>\$ 91,161</u>	<u>\$ 85,475</u>

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

Restricted net assets primarily includes donations received for specific purposes, bond covenants, debt service, faculty contracts, capital projects and funds reserved for legislatively mandated purposes. The significant improvement, in fiscal year 2004 unrestricted net assets, reflects the overall improvement in the University's financial position.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities, balanced with new construction. Capital assets as of June 30, 2004, totaled \$105.4 million, an increase of \$12 million over fiscal year 2003.

Capital outlay totaled \$18.5 million in 2004, an increase of \$6.7 million from the prior year. Capital expenses are primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment. The completion of Lawrence Hall, a shared residential life, academic building, the renovation of Atwood Center, the student union, and the infrastructure improvements in the electrical systems all contributed to this increase. Current year capital asset additions were funded, in part, through capital appropriations of \$5.7 million, and increases of \$7.4 million in long-term debt and capital leases.

Construction in progress at June 30, 2004, totaled \$7.9 million and is primarily comprised of construction costs associated with the new addition to Atwood Center, the upgrade to our electrical infrastructure and the final renovation to Lawrence Hall that reopened for fall semester 2003.

Bonds payable totaled \$19.7 million at June 30, 2004. These bonds were issued to finance construction of buildings and repairs. Additional information on capital and debt activities can be found in notes 6 and 7 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statements of revenues, expenses and changes in net assets presents the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue.

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Tuition revenue increased in fiscal year 2004 as a result of a 13 percent increase in tuition. Total state appropriations decreased by \$2.6 million in 2004 to \$59.9 million; with \$5.7 million of this total coming in the form of capital appropriations.

The resources expended for compensation and benefits increased \$0.2 million to \$101.5 million in fiscal year 2004. Compensation and employee benefits related to salary were held constant between years.

A summary table of the information contained in the statements of revenues, expenses and changes in net assets follows:

Summarized Statement for the Years Ended June 30, 2004, 2003, and 2002
(In Thousands)

	2004	2003	2002
Operating Revenue:			
Tuition, auxiliary and sales, net	\$ 61,088	\$ 53,771	\$ 51,929
Restricted student payments, net	13,136	12,514	8,791
Grants	15,580	15,239	20,348
Other revenue	3,397	3,539	3,322
Total operating revenue	93,201	85,063	84,390
Nonoperating revenue:			
State appropriations	54,150	57,394	57,479
Private grants	1,399	1,249	1,741
Capital appropriations	5,721	5,092	3,308
Other	145	713	350
Total nonoperating revenue	61,415	64,448	62,878
Total revenue	154,616	149,511	147,268
Operating expense:			
Salaries and benefits	101,460	101,328	94,690
Supplies and services	26,069	27,109	26,983
Depreciation	6,243	6,052	6,400
Financial aid	5,236	8,318	8,042
Total operating expense	139,008	142,807	136,115
Nonoperating expense:			
Loss on disposal of capital assets	298	237	14
Grants to other organizations	803	72	47
Interest expense	906	709	612
Total nonoperating expense	2,007	1,018	673
Total expense	141,015	143,825	136,788
Increase in net assets	13,601	5,686	10,480
Net assets, beginning of year, as restated	91,161	85,475	74,995
Net assets, end of year	\$ 104,762	\$ 91,161	\$ 85,475

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue its strong financial condition and level of excellence. However, the University may face challenges in maintaining adequate state appropriation support. The recent economic downturn in the state of Minnesota has resulted in actual state revenues not keeping up with inflationary pressures. This factor, coupled with student enrollment that has increased by more than 19 percent during the past 5 years, may result in a serious financial challenge for the University in fiscal years 2005, 2006 and beyond.

REQUESTS FOR INFORMATION

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

Director, Business Services
St. Cloud State University
720 Fourth Avenue South, AS124
St. Cloud, MN 56301-4498

ST. CLOUD STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2004 AND 2003
(IN THOUSANDS)

Assets	2004	2003
Current Assets		
Cash and cash equivalents	\$ 43,757	\$ 32,449
Investments	2,387	1,949
Grants receivable	725	482
Accounts receivable, net	3,232	3,421
Prepaid expense	1,140	1,379
Inventory	49	49
Student loans and other assets, net	1,803	2,235
Securities lending collateral	3,249	1,347
Total current assets	<u>56,342</u>	<u>43,311</u>
Current Restricted Assets		
Cash and cash equivalents	3,799	6,028
Investments	1,302	1,047
Total current restricted assets	<u>5,101</u>	<u>7,075</u>
Noncurrent Restricted Assets		
Other assets	28	22
Construction in progress	2,498	2,504
Total noncurrent restricted assets	<u>2,526</u>	<u>2,526</u>
Total restricted assets	<u>7,627</u>	<u>9,601</u>
Noncurrent Assets		
Student loans and other assets, net	5,264	4,898
Capital assets, net	102,923	90,958
Total noncurrent assets	<u>108,187</u>	<u>95,856</u>
Total Assets	<u>172,156</u>	<u>148,768</u>
Liabilities		
Current Liabilities		
Salaries payable	10,466	9,360
Accounts payable	4,326	4,824
Deferred revenue	3,752	2,904
Funds held for others	1,641	1,621
Current portion of long-term debt	1,720	1,485
Compensated absences payable/Workers' compensation	883	773
Other liabilities	250	75
Securities lending collateral	3,249	1,347
Total current liabilities	<u>26,287</u>	<u>22,389</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	23,534	17,761
Compensated absences payable/Workers' compensation	11,161	10,858
Capital contributions payable	6,412	6,599
Total noncurrent liabilities	<u>41,107</u>	<u>35,218</u>
Total Liabilities	<u>67,394</u>	<u>57,607</u>
Net Assets		
Invested in capital assets, net of related debt	81,078	76,170
Restricted expendable, bond covenants	7,028	5,891
Restricted expendable, other	6,787	8,452
Unrestricted	9,869	648
Total Net Assets	<u>\$ 104,762</u>	<u>\$ 91,161</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Assets		
Cash and cash equivalents	\$ 136	\$ 2,070
Mutual fund investments	10,298	8,377
Stock and bond investments	6,143	3,035
Bond fund accounts	8,107	15,583
Total cash and investments	<u>24,684</u>	<u>29,065</u>
Unconditional pledges receivable	1,099	3,736
Bond fund interest receivable	34	52
Receivable from CMCF	-	103
Miscellaneous receivables	9	467
Current portion of finance lease receivable	156	-
Total receivables	<u>1,298</u>	<u>4,358</u>
Fixed Assets		
Real estate	45	44
Equipment and fixtures	208	208
Construction in progress	5,842	-
Accumulated depreciation	(198)	(184)
Net fixed assets	<u>5,897</u>	<u>68</u>
Other Assets		
Finance lease receivable, net of current	3,768	-
Pledges receivable, net of current	2,312	-
Unitrusts	796	847
Bond issuance costs, net of amortization	398	426
Prepaid expense	-	15
Capitalized bond project costs	-	328
Total other assets	<u>7,274</u>	<u>1,616</u>
Total assets	<u>\$ 39,153</u>	<u>\$ 35,107</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,693	\$ 126
Revenue bonds payable	16,370	16,515
Revenue bonds interest payable	126	126
Funds held for others	40	37
Notes payable	152	295
Annuities payable	330	323
Total liabilities	<u>18,711</u>	<u>17,422</u>
Net Assets		
Unrestricted	193	75
Temporarily restricted	9,067	7,102
Permanently restricted	11,182	10,508
Total net assets	<u>20,442</u>	<u>17,685</u>
Total Liabilities and Net Assets	<u>\$ 39,153</u>	<u>\$ 35,107</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Operating Revenues		
Tuition, auxiliary and sales, net	\$ 61,088	\$ 53,771
Restricted student payments, net	13,136	12,514
Federal grants	9,958	10,269
State grants	5,622	4,970
Other income	3,397	3,539
Total operating revenues	<u>93,201</u>	<u>85,063</u>
Operating Expenses		
Salaries	101,460	101,328
Purchased services	13,301	13,855
Supplies	5,336	5,637
Repairs and maintenance	1,956	2,196
Depreciation	6,243	6,052
Financial aid, net	5,236	8,318
Other expense	5,476	5,421
Total operating expenses	<u>139,008</u>	<u>142,807</u>
Operating loss	<u>(45,807)</u>	<u>(57,744)</u>
Nonoperating Revenues (Expenses)		
Appropriations	54,150	57,394
Private grants	1,399	1,249
Interest income	145	713
Interest expense	(906)	(709)
Grants to other organizations	(803)	(72)
Total nonoperating revenue	<u>53,985</u>	<u>58,575</u>
Income Before Other Revenues, Expenses, Gains, or Losses	8,178	831
Capital appropriations	5,721	5,092
Loss on disposal of capital assets	(298)	(237)
Change in net assets	<u>13,601</u>	<u>5,686</u>
Total Net Assets - Beginning of Year	<u>91,161</u>	<u>85,475</u>
Total Net Assets - End of Year	<u>\$ 104,762</u>	<u>\$ 91,161</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004			2004 Total	2003 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue					
Contributions	\$ 435	\$ 2,501	\$ 824	\$ 3,760	\$ 2,655
In-kind contributions	792	-	-	792	470
Asset earnings	148	1,438	-	1,586	391
Asset earnings - bond accounts	486	-	-	486	555
Reduction for bad debts	(50)	(516)	(62)	(628)	(186)
Bond repayment income	398	-	-	398	200
Net assets released from restrictions					
Restrictions satisfied by payment	1,747	(1,747)	-	-	-
Restrictions satisfied by transfer internally	(201)	289	(88)	-	-
Total support and revenue	3,755	1,965	674	6,394	4,085
Expenses and Losses					
Gifts and scholarships					
Unrestricted	-	-	-	-	78
Restricted	1,508	-	-	1,508	1,125
Endowment	239	-	-	239	205
University support	74	-	-	74	75
Fund raising	419	-	-	419	412
Administrative and general	597	-	-	597	694
Interest expense	759	-	-	759	759
Property expense	41	-	-	41	34
Total expenses	3,637	-	-	3,637	3,382
Actuarial loss on annuity obligations	-	-	-	-	1
Total expenses and losses	3,637	-	-	3,637	3,383
Change in net assets	118	1,965	674	2,757	702
Net Assets, Beginning of Year	75	7,102	10,508	17,685	16,983
Net Assets, End of Year	\$ 193	\$ 9,067	\$ 11,182	\$ 20,442	\$ 17,685

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 78,650	\$ 69,209
Cash repayment of program loans	2,160	2,143
State grants	5,622	4,970
Federal grants	9,715	10,746
Cash paid to suppliers for goods or services	(27,765)	(28,011)
Cash payments to employees	(99,700)	(100,621)
Financial aid disbursements	(5,424)	(8,406)
Cash payments of program loans	(2,131)	(2,423)
Net cash used in operating activities	<u>(38,873)</u>	<u>(52,393)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	54,150	57,394
Agency activity	345	-
Private grants	1,369	1,235
Grants to other organizations	(803)	(72)
Net cash flows from noncapital financing activities	<u>55,061</u>	<u>58,557</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(13,465)	(9,941)
Capital appropriation	5,721	5,092
Proceeds from sale of capital assets	23	32
Proceeds from borrowing	3,512	1,030
Interest paid	(878)	(709)
Proceeds from bond premium	130	-
Repayment of lease principal	(307)	(162)
Repayment of note principal	(306)	(305)
Repayment of bond principal	(1,002)	(665)
Net cash flows used in capital and related financing activities	<u>(6,572)</u>	<u>(5,628)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	495	1,136
Purchase of investments	(1,244)	-
Investment earnings	212	597
Net cash flows from investing activities	<u>(537)</u>	<u>1,733</u>
Net Increase in Cash and Cash Equivalents	9,079	2,269
Cash and Cash Equivalents, Beginning of Year	<u>38,477</u>	<u> </u>
Cash and Cash Equivalents, End of Year	<u>\$ 47,556</u>	<u>\$ 38,477</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Operating Loss	\$ (45,807)	\$ (57,744)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	6,243	6,052
Provision for loan defaults	(43)	165
Loan principal repayments	2,160	2,143
Loans issued	(2,131)	(2,423)
Forgiven loans	133	136
Change in assets and liabilities		
Inventory	-	(12)
Accounts receivable	233	(1,586)
Grants receivable	(243)	477
Accounts payable	(840)	388
Salaries payable	1,106	(516)
Compensated absences payable	716	1,213
Workers' compensation payable	(60)	10
Funds held for others	-	(1,021)
Capital contributions payable	(187)	(87)
Deferred revenues	446	54
Other assets and liabilities	(599)	358
Net reconciling items to be added to operating loss	<u>6,934</u>	<u>5,351</u>
Net cash flow used in operating activities	<u>\$ (38,873)</u>	<u>\$ (52,393)</u>
Non-Cash Transactions Investing, Capital, and Financing Activities:		
Donated equipment	\$ -	\$ 15
Change in fair market value of investment	(57)	-
Capital projects on account	597	560
Fixed assets acquired through a capital lease	3,925	-

**ST. CLOUD STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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. St. Cloud State University receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The St. Cloud State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in note 18. Complete financial statements may be obtained from the St. Cloud State University Foundation, 720 Fourth Avenue South, St. Cloud, MN 56301-4498.

The University financial statements include \$207,532 and \$200,000 of expenses in fiscal years 2004 and 2003, respectively, for the Harold E. Anderson Entrepreneurial Center. The purpose of the Center is to promote ethical entrepreneurial behavior for St. Cloud State University and the business community. The Center offers outreach programs and services to the community that enhances economic development and growth while helping create entrepreneurs. The University provides financial assistance to the Center and rents space from the Center. The Anderson Entrepreneurial Center audited financial statements may be obtained directly from the Center.

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 — University budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, differs from GAAP. University 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, 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 University biennial budget request and allocation as part of the Minnesota State Colleges and Universities' total budget.

Budgetary control is maintained at the University. The University President has the authority and responsibility to administer the budget and can transfer money between programs within the University without Board approval. The budget of the University can be legally amended by the authority of the Vice Chancellor/CFO.

The state appropriations do not lapse at year-end. Any unexpended appropriation from the first year of a biennium is available for the second 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 bond sale proceeds are received. Individual colleges and universities are allocated cash, capital appropriation revenue and debt based on management estimates of the timing of specific projects funded.

In fiscal year 2004, management re-allocated certain capital appropriation funds from previous years which increased the 2004 capital appropriation revenue by \$2,842,967.

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 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. The University also has two accounts 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 the University's 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. Interest income earned on pooled investments is retained by the Office of the Chancellor and allocated to the colleges and universities as part of the appropriation allocation process. Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment for investment management services.

Investments are reported at fair value. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

Receivables — Receivables are shown net of an allowance for uncollectibles.

Inventories — Inventories are valued at cost using the first-in first-out method.

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	35-40 years
Building improvements	15-20 years
Equipment	3-20 years
Library collections	7 years

Equipment includes all items with an original cost of over \$5,000 for items purchased in fiscal year 2004 and \$2,000 for items purchased prior to July 1, 2003. Buildings and building improvements over \$100,000 as well as all land and library collection acquisitions are capitalized.

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

Long-Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The University is responsible for a portion of the debt service on the bonds sold for some University projects. The University may also enter into capital lease agreements for certain capital assets. Other long-term liabilities include compensated absences, workers' compensation claims, notes payable for energy loans and capital contributions.

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund, included herein. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund annual financial report. Copies are available from the financial reporting director, Minnesota State Colleges and Universities, Suite 300 1450 Energy Park Drive, St. Paul, MN 55108.

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 University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private grants and investment income.

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

Tuition, Auxiliary and Sales — Tuition, auxiliary and sales are presented net of scholarships. Sales are net of cost of goods sold of \$1,813,878 and \$1,937,551 for fiscal years 2004 and 2003, respectively.

Federal Grants — St. Cloud State University participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant and Federal Work Study. 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 University will record such disallowance at the time the determination is made.

Restricted Student Payments — Restricted student payments consists of room, board and fee revenue restricted for payment of revenue bonds.

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

Reclassifications — Certain prior year amounts have been reclassified to conform to current year's presentation. These reclassifications had no effect on net assets previously reported.

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 St. Cloud State University are as follows:
 - Restricted for bond covenants* — revenue bond restrictions.
 - Restricted for other* — includes restrictions for the following:
 - donations* — restricted per donor requests.
 - capital projects* — restricted for completion of capital projects.
 - faculty contract obligations* — faculty development and travel required.
 - loans* — University capital contribution for Perkins loans.
 - debt service* — legally restricted for bond debt repayment.
 - legislatively mandated programs* — appropriation law restricts the use of funds.

Net Assets Restricted for Other (In Thousands)		
	2004	2003
Donations	\$ 479	\$ 479
Loans	766	782
Capital projects	3,256	4,816
Debt service	1,140	1,101
Faculty contract obligations	979	1,079
Legislatively mandated programs	167	195
Total	<u>\$ 6,787</u>	<u>\$ 8,452</u>

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

New Accounting Pronouncements — In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, is effective for Minnesota State Colleges and Universities for the year ending June 30, 2005. Minnesota State Colleges and Universities will be required to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This statement also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Minnesota State Colleges and Universities will also be required to disclose its deposit and investment policies. Minnesota State Colleges and Universities has not yet determined the full impact of GASB Statement No. 40 on its fiscal year 2005 basic financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2006. The effect GASB Statement No. 42 will have on the fiscal year 2006 basic financial statements has not yet been determined.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employees for Postretirement Benefits Other than Pensions*. This statement is effective for the Minnesota State Colleges and Universities for the year ending June 30, 2008. The effect GASB Statement No. 45 will have on the fiscal year 2008 basic financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition and most fees are in the state treasury. In addition, the University has two accounts in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary and student activities.

Minnesota Statute, Section 9.031, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral. The University had sufficient collateral throughout the fiscal years.

At June 30, 2004 and 2003, all cash and cash equivalents were fully insured or collateralized with securities held by the state or its agent in the state's or University's name.

(In Thousands)		
Carrying Amount	2004	2003
Cash - in bank	\$ 1,630	\$ 1,075
Repurchase agreements	4,005	3,829
Change fund	15	18
Cash - treasury account	41,906	33,555
Total	<u>\$ 47,556</u>	<u>\$ 38,477</u>

At June 30, 2004 and 2003, the University's bank balance was \$5,304,313 and \$5,061,445, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

The University's excess cash in the local bank is swept nightly to purchase interest bearing cash equivalents. As of June 30, 2004 and 2003, the University had \$4,004,564 and \$3,828,774, respectively, in repurchase agreements.

Investments — Minnesota Statute, Section 11A.24 broadly restricts investments to obligations and stocks of 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. In accordance with Minnesota Statutes, Minnesota State Board of Investment has the authority to enter into, and has entered into, derivative transactions including investment in derivatives of asset-backed and mortgage-backed securities, put and call options, and futures contracts traded on a market or exchange regulated by a governmental agency or by a financial institution regulated by a governmental agency. Investments in asset-backed and mortgage-backed derivatives are made to improve yield. They receive investment cash flows from interest and principal payments on underlying mortgages, and therefore the prices of mortgage derivatives are sensitive to mortgage prepayments caused by changing market conditions. Put options and index futures were used during the year to reduce risk. Any agreements for put and call options or futures contracts may only be entered into with a fully offsetting amount of cash or securities. Investments of cash in local bank accounts are limited by the same statute.

Investments are categorized to give an indication of the level of credit risk. Category 1 includes securities insured or registered or held by the University or its agent in the University's name. Risk category 2 investments include uninsured and unregistered securities held by the pledging institution's trust department or agent in the University's name. Investments in risk category 3 include uninsured and unregistered securities held by the pledging institution's trust department or agent, but not in the University's name. All of the University's investments are in risk category 1.

Fair Value at June 30		
(In Thousands)		
Investment Type	2004	2003
Commercial paper	\$1,246	\$ 748
U.S. treasury security	959	681
Federal agency securities	1,484	1,567
Total	<u>\$3,689</u>	<u>\$2,996</u>

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

During fiscal years 2004 and 2003, State Street and Wells Fargo lent, on behalf of the state of Minnesota, certain securities held by State Street or Wells Fargo as custodian, and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo. The state of Minnesota had no credit risk from borrowers on June 30, 2004 and 2003.

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

Security Lending Analysis, June 30, 2004
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$636,644	\$4,552,158
Collateral held	\$663,622	\$4,668,704
Average duration	24 days	52 days
Average weighted maturity	24 days	344 days

Security Lending Analysis, June 30, 2003
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$256,858	\$3,275,226
Collateral held	\$261,731	\$3,387,546
Average duration	21 days	70 days
Average weighted maturity	9 days	493 days

During fiscal years 2004 and 2003, the state of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004 and 2003, the state of Minnesota had no credit risk exposure to borrowers.

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the colleges and universities. St. Cloud State University's portion of the allocation was \$3,248,814 and \$1,346,878 as of June 30, 2004 and 2003, respectively.

3. LOANS RECEIVABLE

Loans receivable balances consist primarily of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The University is responsible for loan collections. As of June 30, 2004 and 2003, the loans receivable for this program totaled \$7,061,014 and \$7,223,066, respectively, less an allowance for uncollectible loans of \$122,566 and \$165,364, respectively.

4. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2004 and 2003, the total accounts receivable balances for the University were \$5,913,285 and \$5,584,076, respectively, less an allowance for uncollectible receivables of \$2,681,156 and \$2,162,802, respectively.

	2004	2003
Tuition	\$ 3,299	\$ 3,003
Fees	718	613
Room and board	619	562
Other income	657	451
Due from the Office of the Chancellor	—	402
Interest Income	97	—
Sales and services	323	338
Contractual services	200	215
Total accounts receivable	5,913	5,584
Less allowance for uncollectible accounts	(2,681)	(2,163)
Net accounts receivable	<u>\$ 3,232</u>	<u>\$ 3,421</u>

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

Fiscal Year 2004 (In Thousands)			Fiscal Year 2003 (In Thousands)		
Year	Allowance Amount	Allowance Percentage	Year	Allowance Amount	Allowance Percentage
Summer 2004	\$ 7	10%	Summer 2003	\$ 6	10%
2004	632	25%	2003	533	25%
2003	412	50%	2002	476	50%
2002	552	80%	2001	371	80%
2001 and before	1,078	100%	2000 and before	777	100%
Total	<u>\$ 2,681</u>		Total	<u>\$ 2,163</u>	

5. PREPAID EXPENSE

Prepaid expense consists primarily of \$1,140,239 and \$1,100,958 for fiscal years 2004 and 2003, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statute, Section 16A.641, requires all state agencies to have on hand at December 1, of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year.

In fiscal year 2003, the remaining \$278,428 in prepaid assets represents the health insurance premium for faculty whose annual compensation is paid over the nine month academic year.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2004 and 2003 follow:

	Year Ended June 30, 2004 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 11,739	\$ 643	\$ —	\$ —	\$ 12,382
Construction in-progress	5,376	11,954	—	(9,442)	7,888
Total capital assets, not depreciated	<u>17,115</u>	<u>12,597</u>	<u>—</u>	<u>(9,442)</u>	<u>20,270</u>
Capital assets, depreciated:					
Buildings and improvements	128,441	4,329	—	9,442	142,212
Equipment	20,157	468	2,361	—	18,264
Library collections	6,713	1,142	921	—	6,934
Total capital assets, depreciated	<u>155,311</u>	<u>5,939</u>	<u>3,282</u>	<u>9,442</u>	<u>167,410</u>
Less accumulated depreciation:					
Buildings and improvements	62,081	3,716	—	—	65,797
Equipment	13,321	1,537	2,027	—	12,831
Library collections	3,562	990	921	—	3,631
Total accumulated depreciation	<u>78,964</u>	<u>6,243</u>	<u>2,948</u>	<u>—</u>	<u>82,259</u>
Total capital assets, depreciated, net	<u>76,347</u>	<u>(304)</u>	<u>334</u>	<u>9,442</u>	<u>85,151</u>
Total capital assets, net	<u>\$ 93,462</u>	<u>\$ 12,293</u>	<u>\$ 334</u>	<u>\$ —</u>	<u>\$ 105,421</u>

	Year Ended June 30, 2003 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 11,436	\$ 303	\$ —	\$ —	\$ 11,739
Construction in-progress	2,038	8,106	—	(4,768)	5,376
Total capital assets, not depreciated	<u>13,474</u>	<u>8,409</u>	<u>—</u>	<u>(4,768)</u>	<u>17,115</u>
Capital assets, depreciated:					
Buildings and improvements	123,446	227	—	4,768	128,441
Equipment	20,363	2,066	2,272	—	20,157
Library collections	9,467	1,068	3,822	—	6,713
Total capital assets, depreciated	<u>153,276</u>	<u>3,361</u>	<u>6,094</u>	<u>4,768</u>	<u>155,311</u>
Less accumulated depreciation:					
Buildings and improvements	58,641	3,440	—	—	62,081
Equipment	13,596	1,683	1,958	—	13,321
Library collections	6,425	959	3,822	—	3,562
Total accumulated depreciation	<u>78,662</u>	<u>6,082</u>	<u>5,780</u>	<u>—</u>	<u>78,964</u>
Total capital assets, depreciated, net	<u>74,614</u>	<u>(2,721)</u>	<u>314</u>	<u>4,768</u>	<u>76,347</u>
Total capital assets, net	<u>\$ 88,088</u>	<u>\$ 5,688</u>	<u>\$ 314</u>	<u>\$ —</u>	<u>\$ 93,462</u>

7. LONG-TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long-term obligations for fiscal years 2004 and 2003 follow:

Year Ended June 30, 2004 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 10,618	\$ 1,298	\$ 682	\$ 11,234	\$ 747
Revenue bonds	6,477	2,214	255	8,436	267
Bond premium payable	—	130	9	121	—
Compensated absences	11,218	473	—	11,691	793
Workers' compensation	413	127	187	353	90
Capital leases	1,180	3,925	307	4,798	438
Capital contributions	6,599	—	187	6,412	—
Notes payable	971	—	306	665	268
Totals	<u>\$ 37,476</u>	<u>\$ 8,167</u>	<u>\$ 1,933</u>	<u>\$ 43,710</u>	<u>\$ 2,603</u>

Year Ended June 30, 2003 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 10,967	\$ 316	\$ 665	\$ 10,618	\$ 682
Revenue bonds	6,477	—	—	6,477	202
Compensated absences	10,004	1,214	—	11,218	664
Workers' compensation	404	776	767	413	109
Capital leases	629	713	162	1,180	295
Capital contributions	6,686	—	87	6,599	—
Notes payable	1,276	—	305	971	306
Totals	<u>\$ 36,443</u>	<u>\$ 3,019</u>	<u>\$ 1,986</u>	<u>\$ 37,476</u>	<u>\$ 2,258</u>

General Obligation Bonds Liability — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.5 percent to 7 percent. Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based primarily upon the specific projects funded. The general obligation bond liability included in these financial statements represents the University's share.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statute, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at the state universities. Revenue bonds currently outstanding have interest rates of 4.8 and 6.5 percent.

Bond Premium — In fiscal year 2004 bonds were issued, resulting in a premium of \$129,684. Amortization will be calculated using the straight line method and amortized over the remaining life of the bonds.

Compensated Absences — University 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.

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of \$353,249 and \$413,086 at June 30, 2004 and 2003, 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 Leases — Leases meeting the criteria of FASB Statement No. 13, *Accounting for Leases*. See note 9 for details.

Capital Contributions — The liabilities of \$6,411,571 and \$6,599,061 at June 30, 2004 and 2003, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program.

Notes Payable — Notes payable consists of state energy efficiency program loans. Loans received under this program are interest free. The loans are granted by energy companies in order to improve energy efficiency in college and university buildings.

Principal and interest payment schedules are provided in the following table for revenue bonds, notes payable, general obligation bonds, and capital leases. There are no payment schedules for compensated absences, workers' compensation, capital contributions or bond premium.

Fiscal Years	Notes Payable	General Obligation Bonds		Capital Leases		Revenue Bonds Payable	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 268	\$ 747	\$ 596	\$ 438	\$ 265	\$ 267	\$ 443
2006	265	747	529	451	249	281	429
2007	132	776	492	328	234	294	415
2008	—	720	453	340	224	310	400
2009	—	720	416	206	213	327	385
2010-2014	—	3,536	1,522	1,187	932	1,911	1,648
2015-2019	—	3,062	634	1,515	620	2,492	1,069
2020-2024	—	926	77	333	195	2,554	294
Total	\$ 665	\$ 11,234	\$ 4,719	\$ 4,798	\$ 2,932	\$ 8,436	\$ 5,083

8. ACCOUNTS PAYABLE

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

	2004	2003
Capital projects	\$ 597	\$ 560
Financial aid	600	1,046
Purchased services	691	741
Supplies	183	309
Other	940	332
Inventory	—	289
Repairs and maintenance	1,315	1,547
Total	\$ 4,326	\$ 4,824

9. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the years ended June 30, 2004 and 2003, totaled \$176,525 and \$197,180, respectively.

Future minimum lease payments for existing lease agreements follow:

(In Thousands)	
<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 153
2006	129
2007	109
2008	45
2009	44
2010-14	65
Total	\$ <u>545</u>

Capital Leases — The University has entered into several capital lease agreements. The leases meet the criteria of a capital lease as defined by the Financial Accounting Standard's Board Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one that transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately. In June of 2003, the University entered into a five-year lease for a telephone system in the amount of \$712,840. In fiscal year 2004 the University entered into a lease agreement with the Foundation for the Atwood Memorial Center in the amount of \$3,924,434. See note 15 for additional information.

10. TUITION, AUXILIARY AND SALES

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

	For the Year Ended June 30	
	(In Thousands)	
	2004	2003
Tuition	\$ 55,263	\$ 49,574
Fees	7,109	8,491
Sales, net	6,272	6,490
Restricted student payments	14,380	10,159
Subtotal	83,024	74,714
Less scholarship allowance	(8,800)	(8,429)
Total	\$ <u>74,224</u>	\$ <u>66,285</u>

11. CONTINGENT LIABILITIES — LITIGATION

Lawsuits furnish a basis for potential liability. The following cases, or categories of cases, in which St. Cloud State University, its officers or employees are defendants have been noted because an adverse decision in each case or category of cases could result in an expenditure of monies of over \$100,000.

Cimics v. St. Cloud State University

The former employee asserts discrimination. The answer was filed and the University intends to move for summary judgment. The University intends to vigorously defend this claim.

Lewis v. St. Cloud State University

Employee asserts discrimination. The complaint was served. The University intends to vigorously defend this claim.

12. EMPLOYEE PENSION PLANS

The University participates in three retirement plans: the State Employees Retirement Fund, administered by the Minnesota State Retirement System; the Teachers Retirement Fund, administered by the Minnesota Teachers Retirement Association; and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund

Pension fund information is provided by the Minnesota State Retirement System, who prepares and publishes their own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from Minnesota State Retirement System, 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 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, is liable for a portion of any unfunded accrued liability of this fund.

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

(In Thousands)	
<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 776
2003	763
2002	699

Teachers Retirement Fund

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

The TRF is a cost-sharing, multiple-employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the 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 basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 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 TRF is Minnesota Statute, Chapter 354. The funding requirements are 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for St. Cloud State University were:

(In Thousands)	
<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 784
2003	782
2002	800

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes two plans, an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax-deferred, single-employer defined contribution plans authorized by Minnesota Statute Chapter 354B and 354C. The plans are designed to provide retirement benefits to 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 who have been employed full-time for a minimum of two academic years. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Wells Fargo Bank, N.A. Separately issued financial statements can be obtained from Wells Fargo, Institutional Investment Group, Retirement Plan Services, Suite 300, 2700 Snelling Avenue North, Roseville, MN 55113.

Individual Retirement Account Plan —

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

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrators group. For faculty, the employer and employee statutory contribution rates are 6 and 4.5 percent, respectively. For administrators, the employer rate is 6 percent and the employee rate is 4 percent. The contributions are made under the authority of Minnesota Statute, Chapter 354B.

Required contributions for St. Cloud State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2004	\$ 2,059	\$ 1,526
2003	2,068	1,534
2002	1,926	1,428

Supplemental Retirement Plan —

Participation — Each 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 to the SRP portion of the plan 5 percent of the eligible compensation as follows:

Member Group	Eligible Compensation	Annual Maximum
Inter Faculty Organization	\$6,000 to \$51,000	\$ 2,250
Minnesota State University Association of Administrative and Service Faculty	\$6,000 to \$48,000	\$ 2,100
Administrators	\$6,000 to \$46,000	\$ 2,000
Minnesota Association of Professional Employees Unclassified	\$6,000 to \$30,000	\$ 1,200
Middle Management Association Unclassified	\$6,000 to \$30,000	\$ 1,200
Other Unclassified	\$6,000 to \$30,000	\$ 1,200

The University matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statute, Chapter 354B. Required contributions for St. Cloud State University were as follows:

(In Thousands)	
Fiscal Year	Amount
2004	\$ 1,388
2003	1,306
2002	1,124

13. POSTRETIREMENT BENEFITS

The faculty contracts provide early retirement incentives for faculty meeting specific requirements. Certain faculty members who, as of July 1, 1995, had at least ten years in Minnesota Technical Colleges and/or in a K-12 district which was an employer for a technical college, have the right to choose to continue, at the employers expense, health insurance benefits up to age 65. The cost of health insurance benefits was \$114,569 and \$165,919 for fiscal years 2004 and 2003, respectively, and early retirement incentive was \$349,559 and \$561,290, respectively. Thirty-three St. Cloud State University retired faculty are currently receiving health insurance benefits.

14. 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 and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also purchased professional liability for employed physicians, and student health services professional liability.

Property coverage offered by the Minnesota Risk Management Fund are as follows:

Institution deductible	\$100,000
Fund responsibility	Deductible to 2,500,000
Primary re-insurer coverage	2,500,001 to 50,000,000
Multiple re-insurers' coverage	50,000,001 to 300,000,000
Bodily injury and property damage per person	300,000
Bodily injury and property damage per occurrence	1,000,000
Annual maximum paid by fund, excess by reinsurer	7,500,000
Maintenance deductible for additional claims	25,000

St. Cloud State University retains the risk of loss. The University did not have any settlements in excess of coverage the last three years.

The Minnesota Risk Management Fund purchased student intern professional liability insurance on the open market for the University.

Minnesota State Colleges and Universities participate 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. 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 liability during the fiscal years ended June 30, 2004 and 2003.

	(In Thousands)			
	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/04	\$ 413	\$ 127	\$ 187	\$ 353
Fiscal Year Ended 6/30/03	\$ 404	\$ 776	\$ 767	\$ 413

15. COMMITMENTS

In March 2002, the University guaranteed revenue bonds issued by the City of Saint Cloud, Minnesota Housing and Redevelopment Authority to the Foundation (see note 18). The proceeds of the bonds were used to fund University projects of a stadium, student recreation center, and an addition to the Atwood Memorial Center. The University entered into an operating agreement with the Foundation. The operating agreement contains lease terms meeting the criteria of a capital lease, as defined by Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*. The estimated cost of the projects is \$21.2 million. The stadium was completed on or about August 30, 2004 and the recreation center is to be completed on or about December 31, 2004. The Atwood Memorial Center addition was completed in fiscal year 2004. The gross amount of the leased asset related to the Atwood Memorial Center and related depreciation as of June 30, 2004 is \$3,924,433 and \$56,063, respectively, and is included in buildings and improvements.

During 2002 the University began a roof replacement project that included various buildings. Part of the project included the removal of asbestos from behind the ceiling tiles. As of June 30, 2004 a total of approximately \$609,000 has been spent in efforts of the asbestos abatement. The asbestos removal project is anticipated to be complete in 2005. Based on information currently available, the University estimates total costs to remove the asbestos at approximately \$750,000.

16. 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 and losses, assets, and liabilities that are required by an external party to be accounted for separately.

Minnesota State Colleges and Universities issues revenue bonds to finance St. Cloud State University dormitories and student union.

St. Cloud State University Portion of the Revenue Fund
(In Thousands)

	2004	2003
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	\$ 9,922	\$ 8,562
Restricted assets	4,992	5,208
Capital assets	<u>22,850</u>	<u>16,468</u>
Total assets	<u>37,764</u>	<u>30,238</u>
Liabilities		
Current liabilities	3,387	2,458
Noncurrent liabilities	<u>12,244</u>	<u>6,688</u>
Total liabilities	<u>15,631</u>	<u>9,146</u>
Invested in capital assets, net of related debt	13,777	14,450
Restricted	<u>8,356</u>	<u>6,642</u>
Total net assets	<u>\$ 22,133</u>	<u>\$ 21,092</u>
 CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$ 14,435	\$ 13,919
Operating expenses	<u>12,543</u>	<u>12,997</u>
Net operating income	1,892	922
Nonoperating revenues (expenses)	(846)	(192)
Other revenues	<u>(5)</u>	<u>(21)</u>
Change in net assets	1,041	709
Net assets-beginning of year	<u>21,092</u>	<u>20,383</u>
Net assets-end of year	<u>\$ 22,133</u>	<u>\$ 21,092</u>
 CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 2,842	\$ 2,753
Investing activities	(138)	653
Capital and related financing activities	<u>(2,040)</u>	<u>(4,540)</u>
Net increase (decrease)	664	(1,134)
Cash-beginning of year	<u>8,516</u>	<u>9,650</u>
Cash-end of year	<u>\$ 9,180</u>	<u>\$ 8,516</u>

17. RELATED PARTY TRANSACTIONS

The University received \$725,000 and \$1.2 million in fiscal years 2004 and 2003, respectively from the Foundation.

18. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with St. Cloud State University is a legally separate, tax-exempt entity and reported as a component unit.

The St. Cloud State University Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete.

The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's 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 Statement No. 117. Net assets, which are classified on the existence or absence of donor-imposed restrictions, are classified and reported according to the following classes:

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

Investments — The Foundation adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held By Not-for-Profit Organizations*, in 1997. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Schedule of Investments		
(In Thousands)		
Investments	2004	2003
Money Markets	\$ 703	\$ —
Mutual Funds	10,298	8,377
Fixed Income Securities/Bonds	5,440	3,035
Total Investments	\$ 16,441	\$ 11,412

Long-Term Obligations —The Foundation entered into an agreement with the Housing and Redevelopment Authority in and for the city of St. Cloud, MN and U.S. Bank National Association to issue \$16,515,000 in revenue bonds. Future scheduled debt payments are as follows:

Year Ended June 30	
(In Thousands)	
2005	\$ 500
2006	510
2007	580
2008	600
2009	660
2010-2014	3,795
2015-2019	4,845
2020-2023	4,880
Total	\$ 16,370

