To the Governor, the Legislature and the People of Minnesota:

In many respects, the past year for Minnesota State Colleges and Universities, the state’s largest system of higher education, has been an excellent one.

Fall 1999 enrollment in the system’s 36 colleges and universities was up significantly. Various new initiatives, including the formation of a Metro Alliance by the 11 Twin Cities area college presidents, have begun to have an impact on improving student services. New technologically sophisticated libraries — keys to learning in the new century — were opened or under construction on three campuses with two more on the drawing boards.

Meeting the needs of 147,000 students continues to be our top priority. Changes in technology, industry and the economy create constant challenges for students, faculty and staff.

This annual report provides updates on many recent developments and an overview of numerous efforts to build the educated, engaged citizenry that a democracy requires and the highly skilled, productive labor force that the state needs.

On behalf of all who benefit from Minnesota State Colleges and Universities today, it is our privilege to thank the many alumni, friends, students, faculty and staff who have contributed to the vitality, growth and success of these institutions.

And, please stay tuned. At the dawn of a new century, Minnesota State Colleges and Universities are poised to do today what it takes for students and businesses to succeed tomorrow.

Sincerely,

Michael M. Vekich, Chair
MnSCU Board of Trustees

Morris J. Anderson, Chancellor
Minnesota State Colleges and Universities
TWO-YEAR COLLEGES

Alexandria Technical College
Anoka-Hennepin Technical College
Anoka-Ramsey Community College
Central Lakes College
Century College
Dakota County Technical College
Fergus Falls Community College
Fond du Lac Tribal & Community College
Hennepin Technical College
Hibbing Community College
Itasca Community College
Lake Superior College
Mesabi Range Community & Technical College
Minneapolis Community & Technical College
Minnesota State College-Southeast Technical College
Minnesota West Community & Technical College
Normandale Community College
North Hennepin Community College
Northland Community & Technical College
Northwest Technical College
Pine Technical College
Rainy River Community College
Ridgewater College
Riverland Community College
Rochester Community and Technical College
St. Cloud Technical College
St. Paul Technical College
South Central Technical College
Vermilion Community College

STATE UNIVERSITIES

Bemidji State University
Metropolitan State University
Minnesota State University, Mankato
Moorhead State University
St. Cloud State University
Southwest State University
Winona State University
1999: A year of progress, enrollment gains

Throughout 1999, staff and faculty at Minnesota State Colleges and Universities remained committed to finding better ways to help students reach their educational goals and to serve Minnesota and its communities.

These goals were accomplished by making it easier for students to transfer between state colleges and universities, starting new degree programs and offering more flexible ways to take classes, to use just three examples.

In the Twin Cities metropolitan area, Minnesota State Colleges and Universities worked particularly hard at opening the doors of higher education to disadvantaged students and students of color.

Building partnerships with Minnesota businesses and industries was another high priority in 1999. With 53 campuses in 46 communities, the 36 state colleges and universities played a major role in stimulating the economic development and cultural vitality of Minnesota’s cities, suburbs, towns and rural areas.

A 1999 economic impact study by Anton & Associates, Inc., of Minneapolis showed the enhanced productivity of Minnesota State Colleges and Universities graduates contributes nearly $1.5 billion to the state’s economy each year. The study found that every $1 of net state spending on Minnesota State Colleges and Universities generates a return of $5.75 to the state’s economy. By far, the largest factor in that investment return is the increased productivity of graduates who earn higher wages and pay more in taxes because of their college and university education.

This summary of the year’s activities reflects progress toward improving educational opportunities and forging stronger bonds with business, industry and Minnesota’s community at large.

Riding an enrollment surge

In fall 1999, the 36 Minnesota State Colleges and Universities experienced the largest one-year enrollment increase since the system was formed four years earlier. The number of students surged 6.9 percent for a gain of 9,559 students, bringing total semester headcount enrollment to 147,214. Similar but slightly smaller gains (a 5.6 percent increase or 6,029 more students) were reported using a full-year equivalent measure. Full-year equivalent enrollment for 1999-2000 is 112,856.

About 7 out of every 10 MnSCU students attend two-year institutions

Source: MnSCU Policy and Planning Office, 1998-1999 data, based on total annual unduplicated annual headcount enrollment

Enrollment rises dramatically in fall 1999

Source: MnSCU Policy and Planning Office, full-year-equivalent enrollment
New libraries enrich campuses

Improving the infrastructure of the 53 campuses of Minnesota State Colleges and Universities continued to be an important priority. In 1999, the focus was on creating libraries and resource centers to meet the needs of the Information Age. To that end, three campus libraries were built or underwent major renovations in 1999.

Bemidji State University opened its newly renovated A. C. Clark Library in September. The $8.1 million renovation incorporated the latest in information technology and library design into a comfortable and inviting environment. The new facility provides a dynamic community center for research and scholarly interaction. Library amenities include more than 40 computer stations for accessing on-line catalogs and the World Wide Web, a multimedia production laboratory for preparing presentations, two 14-station computer labs, 12 study rooms for groups, 12 carrels with audio-visual equipment and 25 one- and two-person research carrels. In addition, the library has a special area for the visually impaired, and casual reading spaces with overstuffed lounge chairs.

Library planners, who included Jeffrey Scherer, a nationally recognized authority in library design, focused on creating a facility with enough flexibility to accommodate evolving information technology and spaces to encourage students to work together - an increasingly common practice in the modern world of work.

At Winona State University, a new $20 million library opened in the summer of 1999. Serving as a regional resource for southeastern Minnesota, the new building holds more than 800,000 volumes, including books, bound periodicals and microforms. In its 108,000 square-foot space, the library has 808 seats at study tables and carrels, 20 rooms for small-group study, an electronic classroom, and capacity for 1,600 power and data connections spaced every 15 feet throughout the building. An information gallery offers users access to computerized catalogs, databases, CD-ROM, Internet sources and other electronic documents.

Construction of a new $30.4 million library at St. Cloud State University is expected to be completed in the fall 2000. The 215,000-square-foot building will be a state-of-the art learning resources center and high-tech hub for the campus and region. But it will also have the flexibility and capacity to change with evolving technology.

The facility will have seven classrooms wired for interactive television among other electronic capabilities, 12 student study rooms and a 186-seat auditorium. The idea behind the design is to make information more readily available.
More than 1,600 articulation agreements have been reached to ease student transfers. Lawmakers did not pass on any student complaints about transfer problems in 1999.

in Grand Rapids, Mesabi Range Community and Technical College in Virginia and Eveleth, and Vermilion Community College in Ely. Another Minnesota State Colleges and Universities institution, Rainy River Community College, will join the district in the academic year 2001-2002, and Hibbing Community College will join when there is a change in presidential leadership. Under the arrangement, the colleges will share a single president. In November, the Minnesota State Colleges and Universities Board of Trustees appointed Itasca Community College President Joe Sertich as the district’s president.

**Easing transfers between institutions**

Students will find that it is easier to transfer between state colleges and universities and from MnSCU institutions to the University of Minnesota system because of significant improvements. More than 1,600 articulation agreements between and among state-supported institutions have been reached to ease student transfers. Students now have more detailed information about how courses transfer from one institution to another.

Another joint project — to transfer transcripts electronically between institutions — is expected to start by mid-2000. This effort involves collaboration with the U of M, Minnesota State Colleges and Universities and a number of private colleges.

Planning also began for 16 new Bachelor of Applied Science degrees. Coursework for these new technical and community college programs will transfer in a block toward completion of a baccalaureate degree.

Students have noticed these improvements. Unlike 1998, when legislators received numerous complaints from students about transfer issues, lawmakers did not pass on any complaints about transfer problems from Minnesota State Colleges and Universities students in 1999.

**Improving diversity**

Minnesota State Colleges and Universities made significant efforts to increase the diversity of students in Minnesota State Colleges and Universities. Systemwide, 9.0 percent of Minnesota State Colleges and Universities students are students of color. At the Twin Cities institutions, about 14.4 percent are students of color.

A system office Diversity Task Force worked with a strategic planning consultant to produce a Diversity Action Plan, which will be implemented in the system office.

The Office of Equal Opportunity and Diversity staff spent time this year engaging campuses and communities in finding ways to increase access and opportunities for underrepresented groups.

**Students of color make up 9 percent of MnSCU’s enrollment**

<table>
<thead>
<tr>
<th>Race</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>89.8%</td>
</tr>
<tr>
<td>Students of color</td>
<td>9.0%</td>
</tr>
<tr>
<td>African American</td>
<td>3.8%</td>
</tr>
<tr>
<td>American Indian</td>
<td>1.2%</td>
</tr>
<tr>
<td>Asian or Pacific Islander</td>
<td>2.7%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

*Source: MnSCU Policy and Planning Office, 1998-1999 headcount enrollment based on known factors. Figures for students of color include some international students.*
an under-served rural population. A satellite clinic opened in Fergus Falls and more dental clinics are planned for southwest and northwest Minnesota.

Another example of this collaborative effort: Seven northeast Minnesota community colleges and the University of Minnesota at Duluth announced 91 comprehensive agreements governing college courses and credit transfers in 21 major fields of study. These are known as 2-plus-2 transfer agreements. They will ensure the seamless transfer of credits to the University of Minnesota-Duluth from Fond du Lac Tribal Community College, Hibbing Community College, Itasca Community College, Lake Superior College, Vermilion Community College, Mesabi Range Community and Technical College and Rainy River Community College.

Other collaborative programs include the Minnesota Partnership for Training and Consortium for Nursing Training, a Collaborative Rural Nurse Practitioner Project, a Rural Health School and Regional Geriatric Education Centers.

**Expanding learning opportunities**

A notable collaborative effort is underway to expand the presence of the University of Minnesota at University Center Rochester. Working with Minnesota State Colleges and Universities, the University will match community and industry needs to maximize the University’s research strengths in allied health, technology, education, social services and professional fields.

At the same time, new programs are being created in Rochester with Winona State University in applied business, network administration, emergency health services, scientific and technical community, environmental horticulture and educational policy and administration.

Another new initiative that began in 1999 — the Urban Teacher Training Program — was designed to meet an urgent need for teachers. More than 100 students enrolled in the new program at Minneapolis Community and Technical College and Inver Hills Community College. More than 60 percent are people of color. A distinctive feature of the program is that students spend more than 60 hours each semester in a Minneapolis or St. Paul classroom working with an experienced teacher. Students in the program begin by earning a two-year associate in arts degree.

Metropolitan State University, the third partner in the initiative, is gearing up to provide the last two years of a four-year degree in education.
ers, the challenge is to help workers stay abreast of changes in this rapidly evolving industry. Heading the effort on the educational end is South Central Technical College.

The partnership’s vision is to develop and maintain an industry-driven lifelong learning model. As part of that effort, the partnership committee is promoting a link between K-12 schools and college programs. The committee has sponsored summer workshops for high school teachers that include tours and job-shadowing experiences.

Software development — Projections show the software industry needs to more than double the number of people employed in this industry by 2005. That would raise employee strength to about 70,000 from the current 30,530. Though Minnesota State Colleges and Universities offers 172 programs in software development and 243 programs in computer occupations, the need still exists to develop effective, flexible and rapid response programs. Pilot projects are being created in workforce recruitment, on-the-job training, and employee skills assessment. The initiative also builds partnerships through networking. St. Paul Technical College and Dakota Country Technical College are the lead institutions with this industry partnership.

Taconite production — Minnesota’s Iron Range supplies about 70 percent of the raw materials for the country’s steel industry. The supply of taconite in Minnesota is expected to last through the next century and beyond. With a large number of taconite workers approaching retirement within the next 10 years, training programs must be in place that develop the skills and knowledge required for a globally competitive workforce. Hibbing Community College is already helping local industry avoid a shortage of welders, maintenance mechanics, electricians and instrument technicians by upgrading the skills of current workers. Itasca Community College, Mesabi Range Community and Technical College and Vermilion Community College also are involved in the taconite partnership effort.

Also begun in 1999 was a new partnership by United Parcel Service and Minnesota State Colleges and Universities to help up to 1,200 students who work part-time at UPS obtain a college education at their employer’s expense. The 11 Minnesota State Colleges and Universities in the Twin Cities metropolitan area are participating in the initiative.

During the next five years, UPS intends to invest up to $27 million in tuition reimbursement as a way to attract new workers and assist part-time
Much of the requested appropriation — $100 million — would go for repairing and maintaining buildings. These improvements include roof repairs and safety improvements on all 53 campuses in the system.

The Minnesota State Colleges and Universities Board of Trustees selected these projects from requests from the colleges and universities for more than 137 projects totaling $734 million.

**Developing a model for equitable funding**

The Minnesota State Colleges and Universities system is in the middle of a three-year process to develop an understandable and fair way to allocate state appropriations to its institutions. When the MnSCU system was created in 1995, it brought together what had been three separate systems of state colleges, universities and technical schools, each with its own allocation formula.

The goal is for the allocation model to take into account the size of institutions, the age of buildings and the costs of various educational programs, among many other factors. This should, in turn, help individuals and institutions within the Minnesota State Colleges and Universities system understand why variations exist in funding among institutions and provide incentives for success.

During 1999, 11 committees studied these multifaceted and highly complex factors. By year’s end, recommendations from five groups were under review by supervisory committees. Plans call for the Board of Trustees to adopt a model for funding allocation in 2000.

**Refining the information system**

The Integrated Statewide Record System joins financial, human resources and student records into one online system for Minnesota State Colleges and Universities. Designed to serve all institutions as a single unit, the system still provides enough flexibility to allow for the preferences and practices of individual institutions.

By the end of 1999, every Minnesota State Colleges and Universities institution had adopted the new system, though many challenges remained. During the year, system users asked for more than 200 software changes. By year’s end, more than two-thirds of those requests had been met. More changes are expected as the system continues to evolve.

One of the system’s aims is to satisfy data reporting needs and to improve access to information. With software now in place to enter the data, next steps call for verifying data integrity and designing bet-

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**More than 40% of MnSCU students attend part-time**

- **ALL STATE COLLEGES AND UNIVERSITIES:**
  - Part-time: 43.8% (64,422 students)
  - Full-time: 56.2% (82,795 students)
  - Total number of students: 147,217

- **TWO-YEAR COLLEGES:**
  - Part-time: 52.5% (48,905 students)
  - Full-time: 47.5% (44,218 students)
  - Total number of students: 93,123

- **STATE UNIVERSITIES:**
  - Part-time: 28.7% (15,517 students)
  - Full-time: 71.3% (38,577 students)
  - Total number of students: 54,094

Source: MnSCU Policy and Planning Office, fall 1999 headcount enrollment. For undergraduate students, full-time is considered to be 12 credits or more per semester; for graduate students, full-time is considered to be 8 credits or more per semester.
Understanding the market

A major market research project completed during 1999 explored how Minnesota State Colleges and Universities can attract and retain more students during the next several years. Conducted by Noel-Levitz, a national higher education consulting firm that specializes in market research and enrollment management, the study surveyed more than 4,000 respondents statewide.

The study, the first system-wide market research effort, sought the views of three groups of prospective students: high school students and recent graduates, older students ages 25 to 39, and population groups traditionally under-represented in higher education. These three demographic sectors had previously been identified as areas for future enrollment growth in a 1998 study by consultant and former state demographer Hazel Reinhardt.

In addition, the survey sought responses from four specific groups: college-bound high school students, current MnSCU students, individuals who had been admitted to Minnesota State Colleges and Universities institutions but did not enroll, and former MnSCU students who did not return to school the following year.

The study showed that many prospective students need special services or assistance with integration into college life. The survey also found that today’s students balance many demands on their time. More than 85 percent of MnSCU students work in addition to going to school, and a third work 31 hours a week or more. First-generation college students – those who are the first in their families to attend college – make up one-third or more of the enrollment for most Minnesota State Colleges and Universities institutions.

The study also had some particularly good news: More than eight of 10 current students reported that the MnSCU college or university they attended was their first- or second-choice institution. This demonstrates that Minnesota State Colleges and Universities have a good reputation and a positive image. At the same time, the study found that only 56 percent of current students reported that their primary goal on entering college was to earn a degree. In an era when public institutions are increasingly asked to document educational outcomes, this points to a need to first define students’ goals.

As a result of the survey, Minnesota State Colleges and Universities institutions are developing new marketing strategies and investigating ways to offer more courses, at more convenient times and in more flexible formats. The system office also is developing a long-range marketing strategy in conjunction with the marketing plans of the 36 Minnesota State Colleges and Universities.

One out of every 2 students attending college in Minnesota attends a MnSCU institution

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Student and Faculty Associations

Students and faculty at Minnesota State Colleges and Universities are represented by several advocacy organizations that play an important policy role in advising the Minnesota State Colleges and Universities Board of Trustees.

The Minnesota State University Student Association represents more than 60,000 students at Minnesota’s seven state universities. MSUSA is an independent, non-profit corporation funded and operated by students. The association sends representatives to the Legislature to inform legislators and others about issues of student interest, such as financial aid, tuition costs, academic access and academic quality. The group also publishes “The Monitor,” a monthly newsletter.

Students who attend community and technical colleges are represented by the Minnesota State Community College Student Association. The association was formed in 1998 by consolidation of the former Minnesota Community College Student Association and the Minnesota Technical College Student Association. An independent, non-profit corporation funded and operated by students, the association represents more than 90,000 two-year college students. MSCSA coordinates the collective efforts of all the state college student governments, helping provide a cohesive and unified voice before the MnSCU Board of Trustees, the state Legislature, the governor’s office, Congress and the United States Department of Education.

Faculty at the seven state universities are represented by the Inter-Faculty Organization. The IFO was organized in 1938 to focus on legislative support for salaries and retirement benefits for faculty at the five state universities then in existence. Since that time, the organization has grown into a 2,000-member group that works on behalf of faculty at all seven state universities. The IFO bargains salaries, benefits and workload issues with the Minnesota State Colleges and Universities system. In addition, the IFO lobbies the Legislature for adequate funding for state universities and for improved salary and economic benefits.

The Minnesota Community College Faculty Association represents 2,000 full- and part-time instructors, counselors and librarians at community colleges across the state. The MCCFA negotiates and monitors the employment contract, supplies faculty representatives to shared governance structures both at the college and system level, and works with MnSCU to lobby legislators on critical issues.

United Technical College Educators represents instructors at the technical colleges in Minnesota. Its mission is to provide the best “education for employment” for all of Minnesota’s citizens. Prior to the creation of Minnesota State Colleges and Universities, Minnesota’s technical colleges were governed by either K-12 school districts, regional college boards or intermediate school districts. Each college had its own contract bargained by either the Minnesota Federation of Teachers local or the Minnesota Education Association local. UTCE was born in 1994, after the creation of MnSCU, and its first task was to bargain a single statewide master agreement that took the place of 23 separate contracts.
Customized training serves employees, employers

The Customized Training Network of the Minnesota State Colleges and Universities is working to meet the workforce development needs of Minnesota’s employers.

Working with individual employers, Minnesota State Colleges and Universities offer courses — often taught in the workplace — designed to address specific training and education needs. Besides learning job-related skills, many students also apply their learning toward certificates, diplomas or degrees.

Through these efforts, the network improves the competitiveness of Minnesota businesses and industries, helps individuals develop their careers and provides an effective return on investment for employers and other stakeholders.

Employers and employees are not the only ones who benefit from this partnership. Several new degree programs have been initiated, based on what colleges have learned from their work with progressive employers. These programs are now available not only to employees, but also to the public, and are evidence of the network’s critical role in research and development.

Among colleges that have begun new programs are Anoka-Ramsey Community College (biomedical technology), Rochester Community and Technical College (AS/400 computer operations) and Alexandria Technical College (wireless communication.)

In 1999, the customized training network used an $8.7 million allocation to serve more than 145,000 employees through contracted services with more than 4,000 Minnesota employers. Construction, metal fabrication, industrial machinery, business services, manufacturing and health care industries make up the majority of the network’s customers.

In 1999, the network generated about $20.3 million to offset the cost of services. These funds include fees and tuition for services, equipment and cash donations and grants from foundations and other private-public partnerships.

Each MnSCU institution or cooperating group of institutions in the customized training network is guided by a Partnership Advisory Group. Leaders from business and industry, economic development agencies, school districts, local government and others help clarify regional economic development needs.

The groups determine which business and industry sectors create the greatest economic impact in the area. Firms or organizations within these critical industries typically provide high skill/high wage jobs, are a major employer experiencing significant growth or decline, or are part of a start-up industry with significant growth potential.

One funding source of special significance to Minnesota State Colleges and Universities is the Minnesota Job Skills Partnership, which awards state grants to educational institutions. The purpose is to support innovative curriculum development and delivery based on employer demand. In 1999, 17 Minnesota state colleges received $8.4 million in grants to launch 29 new training partnerships with local employers. These grants were matched by an equal or greater contribution from these employers.

For example, Minnesota West Community and Technical College received a $318,754 grant to upgrade workers’ skills at two processing plants, Minnesota Corn Processors of Marshall and Chippewa Valley Ethanol Company of Benson. The grant also will allow Minnesota West to develop a new two-year degree program for students seeking to become processing plant operators.
Financial outlook

MnSCU has formed a unified system of public higher education. Continuing academic and financial initiatives will substantially improve the opportunity for traditional and non-traditional learning. The Board of Trustees is dedicated to the independence and self-leadership of each college and university. The Board's policies assure financial and program oversight.

Multi-year capital planning

All Minnesota State Colleges and Universities participate in MnSCU’s six-year capital improvement program plan. Facilities and academic master plans for each institution provide the basis for future requirements. A system-wide space utilization survey was completed in fiscal year 1999 and will be expanded in fiscal year 2000. A statewide facilities condition survey also was completed in fiscal year 1999 and identified over $500 million of deferred maintenance needs.

The state of Minnesota provides deferred maintenance and capital improvement funds through the sale of general obligation bonds authorized by the Minnesota Legislature.

The state has provided the following amounts for deferred maintenance and capital improvements over the past six years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>$143,080,000</td>
</tr>
<tr>
<td>1996-1997</td>
<td>$90,931,000</td>
</tr>
<tr>
<td>1994-1995</td>
<td>$140,450,000</td>
</tr>
</tbody>
</table>

Reserves

MnSCU colleges and universities hold a portion of general fund revenues as a reserve against unexpected events. All institutions are building toward the Board’s target date of FY2001 when reserves are expected to be within 5 to 7 percent of each institution’s annual operating revenue. Most institutions are expected to reach the target by the end of FY2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserve as a percent of general fund revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY1999</td>
<td>5.9%</td>
</tr>
<tr>
<td>FY1998</td>
<td>4.9%</td>
</tr>
<tr>
<td>FY1997</td>
<td>4.6%</td>
</tr>
<tr>
<td>FY1996</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Per credit rate increase over prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY1999</td>
<td>2.9%</td>
</tr>
<tr>
<td>FY1998</td>
<td>3.2%</td>
</tr>
<tr>
<td>FY1997</td>
<td>4.9%</td>
</tr>
<tr>
<td>FY1996</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Tuition revenue

Tuition is charged at various rates for all credit and contract sale-based activity. The overall rate structure is approved annually by the Board of Trustees. Presidents have discretion concerning the annual requested rate change and the rates charged for non-credit based activity. All tuition revenues are retained by presidents for use at individual colleges and universities.

Audit plan

FY1999 marked the beginning of the second round of a three-year schedule for internal control reviews and limited scope financial audits at each institution. All institutions had an internal control and selected scope financial audit between FY1996 and FY1999. The audits are performed by the state Office of the Legislative Auditor. The MnSCU system is audited by the OLA as a part of their financial audit of the state of Minnesota’s comprehensive annual financial report.
MnSCU Changes in Fund Balance Summary Comparison (Unaudited)

All current funds for the years ended June 30, 1999 and 1998

<table>
<thead>
<tr>
<th></th>
<th>FY 1999</th>
<th>FY 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Appropriation</td>
<td>$547,911,296</td>
<td>$500,570,937</td>
</tr>
<tr>
<td>Tuition and Fees</td>
<td>$303,524,943</td>
<td>$311,067,744</td>
</tr>
<tr>
<td>Sales and Services, Net</td>
<td>$77,853,614</td>
<td>$68,490,658</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>$111,680,691</td>
<td>$104,575,629</td>
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<tr>
<td>State Grants</td>
<td>$55,865,436</td>
<td>$47,770,376</td>
</tr>
<tr>
<td>Private Grants</td>
<td>$11,473,723</td>
<td>$12,885,779</td>
</tr>
<tr>
<td>Other Income</td>
<td>$25,222,132</td>
<td>$22,892,004</td>
</tr>
<tr>
<td>Unreconciled Amounts</td>
<td>$1,793,105</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,133,531,835</td>
<td>$1,070,046,231</td>
</tr>
</tbody>
</table>

| **Expenses**         |                  |                  |
| Salaries             | $699,367,374     | $642,143,517     |
| Purchased Services   | $161,413,982     | $176,406,839     |
| Supplies             | $64,389,262      | $68,940,745      |
| Interest Expense     | $6,663,910       |                  |
| Financial Aid and Other Awards | $117,219,450 | $103,836,746 |
| Capital Expenditures | $35,774,707      | $31,001,998      |
| Debt Service         | $9,310,578       | $6,568,972       |
| Other Expense        | $29,010,229      |                  |
| Unreconciled Amounts |                  | $400,213         |
| **Total Expenses**   | $1,123,149,492   | $1,029,299,035   |

| **Transfers, Net**   | $1,493,223       | ($1,628,641)     |
| **Change in Fund Balance** | $11,875,566 | $39,118,555     |
| **Beginning Fund Balance** | $259,703,628 | $218,045,221    |
| Prior Period Adjustments | (1,455,493) | 2,539,852       |
| **Total Beginning Fund Balance** | $258,248,135 | $220,585,073    |
| **Ending Fund Balance** | $270,123,701   | $259,703,628    |
Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Financial Reporting Entity
The financial statements include the current funds accounts of the 36 institutions, excluding Minnesota State University-Akita. Organizations that are not financially accountable to MnSCU, such as both individual institution foundations and system-wide foundations, are not included.

Basis of Accounting
The MnSCU financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for colleges and universities, except as noted below.

To ensure compliance with limitations and restrictions placed on system resources, MnSCU maintains its accounting records according to the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds according to the activities or objectives specified.

Fund Structure
These financial statements include only the current funds. Not included are the Loan, Endowment and Plant funds.

Current funds are used primarily to account for transactions directly related to the MnSCU missions of education and community service. Current funds are primarily used for current operations. Current funds are divided into two groups: unrestricted and restricted.

Current Unrestricted Funds account for all resources available for current operations that have not been restricted as to use by outside entities. Current operations include the institutions’ educational and general-purpose expenditures and self-sustaining auxiliary enterprises. The three fund types included in current unrestricted funds include the General Fund, Auxiliary Funds and other unrestricted funds.

- The General Fund represents those economic resources that are accumulated and expended for operating purposes to perform the primary mission of MnSCU. The primary revenue sources are state appropriation and tuition and related fees.
- The Auxiliary Funds account for activities that provide goods and services primarily to students, faculty and staff, and for which charges are made that directly relate to the cost of such goods and services. These activities are managed as self-supporting operations.
- Other unrestricted funds include resources for which uses are not restricted but are maintained separately from the general fund. The activities include student activities, childcare facilities, imprest cash and projects.

■ Current restricted funds account for resources made available to MnSCU institutions for operating purposes that have been restricted by outside entities. These resources generally are in the form of grants, contracts and gifts received by the institutions in support of educational, research and public service activities.

Departures from Generally Accepted Accounting Principles
These financial statements do not include the Loan, Endowment, Plant and Agency funds.

Investment in plant and related long-term debt information is included only for auxiliary fund activities. Under generally accepted accounting principles, this activity would be shown in the Plant Fund. In the auxiliary fund activities, capital expenditures and payments of long-term debt would be shown as current-year expenditures or transfers to the Plant Fund.
6. LONG-TERM DEBT
MnSCU may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities for six of the state universities are accounted for and reported in the Revenue Fund, an auxiliary fund. Additionally, Vermilion Community College student dormitories were financed with revenue bonds issued by the Minnesota Higher Education Facilities Authority.

The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of other MnSCU facilities as approved through the state’s capital budget process. MnSCU is responsible for a portion of the debt service on the bonds sold for MnSCU projects. MnSCU may enter into capital lease agreements for certain capital assets.

Detail on the bond issues, outstanding bonds and refundings for the Revenue Fund are available in the separately audited and issued Revenue Fund Financial Report.

Debt repayment schedules for outstanding bonds and capital leases

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue Bonds</th>
<th>Vermilion Housing</th>
<th>Capital Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$2,407</td>
<td>$202</td>
<td>$2,589</td>
</tr>
<tr>
<td>2001</td>
<td>$2,422</td>
<td>201</td>
<td>1,763</td>
</tr>
<tr>
<td>2002</td>
<td>$2,409</td>
<td>205</td>
<td>632</td>
</tr>
<tr>
<td>2003</td>
<td>$2,419</td>
<td>207</td>
<td>235</td>
</tr>
<tr>
<td>2004</td>
<td>$2,429</td>
<td>210</td>
<td>120</td>
</tr>
<tr>
<td>Thereafter</td>
<td>40,777</td>
<td>1,402</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$52,863</td>
<td>$2,427</td>
<td>$5,339</td>
</tr>
<tr>
<td>Less: Interest</td>
<td>-24,808</td>
<td>-802</td>
<td>-545</td>
</tr>
<tr>
<td>Total</td>
<td>$28,055</td>
<td>$1,625</td>
<td>$4,795</td>
</tr>
</tbody>
</table>

7. LEASE AGREEMENTS
MnSCU system office and institutions are committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases.

Future lease payments for existing lease agreements ($ in thousands)

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>$ in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$6,539</td>
</tr>
<tr>
<td>2001</td>
<td>$4,842</td>
</tr>
<tr>
<td>2002</td>
<td>$3,472</td>
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<tr>
<td>2003</td>
<td>$3,380</td>
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<tr>
<td>2004</td>
<td>$2,563</td>
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<tr>
<td>Thereafter</td>
<td>$4,326</td>
</tr>
<tr>
<td>Total</td>
<td>$25,123</td>
</tr>
</tbody>
</table>

8. COMPENSATED ABSENCE LIABILITY
Compensated absence liability for MnSCU at June 30, 1999, totaled $70,372,832. Of this amount, liabilities of $2,145,374 are reported for auxiliary fund activities. Compensated absence liabilities are not included for any other funds in the financial statements.

Compensated absences liabilities are primarily for vacation leave and for sick leave, which is payable as severance pay under specific conditions. Both amounts are paid only at the time of termination from state employment. Severance and vacation time paid in FY1999 totaled $6,406,419.

9. PRIOR PERIOD ADJUSTMENTS
Beginning fund balances changed for several reasons. Most of the adjustments are a correction for prior year:

- incorrect recognition of revenues in restricted funds
- incorrect fund in which certain activities were reported
- imprest cash balances which were not reported