

Financial Report Summary

For the years ended June 30, 2013 and 2012



Audit Committee Meeting
December 3, 2013

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

Presentation Overview

- Consolidated System-wide Results
- Summarized Revenue Fund and College and University Audit and Financial results
- ISEEK
- Resolution and Other Related Matters

Minnesota State Colleges and Universities

Audit Presentation

Audit Committee

Year Ending Jun 30, 2013

December 3, 2013



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TODAY'S DISCUSSION

1. Audit Results
2. Overview Of The Audit Process –
Scope/Definitions/Process
(How We Got To The Results)
3. Insights, Observations and Other Information

EXCELLENT Audit Results

- PRIMARY FOCUS
 - Financial statement amounts – **Fairly stated** –
Unmodified (clean) opinion on financial statements
- SECONDARY FOCUS
 - Compliance issues causing material financial impact –
No findings
 - **No internal control weaknesses**
reportable under *Government Audit Standards*

Independent Auditors' Responsibilities

- **Opinion** on fairness of presentation of **financials**
- **Key internal controls over financial reporting-**
(including information technology)
 - Design – Documentation
 - Operation – Walkthroughs
 - BUT, not providing opinion on internal controls
 - Provided management with input on “non-significant” items noted (Chancellor/CFO/staff and CIO/staff)
- *Government Auditing Standards (GAS) -*
Auditor must report:
 - Any compliance issues having **material financial impact**
 - Any control deficiencies **observed**: material or significant

Scope of the Audit

- System-wide audit encompasses the following:
 - System office
 - 13 independently audited colleges/universities
 - 19 unaudited colleges (NHED treated as one college)
- Materiality (allowable misstatement):
 - ◇ System-wide - \$12,000,000
 - ◇ Unaudited colleges - \$4,000,000

Scope of Audit (Continued)

- Substantive testing approach
 - Reliance on independent audits of the 13 college/univ's
 - Utilize assistance of Internal Audit staff for certain areas
 - Review and rely on Office of Legislative Auditor (Cash and GO Bond Debt)
 - Substantive testing includes the system office and the 19 unaudited colleges
 - Rotating schedule of auditing procedures
 - ◇ For each audit area, we select 1/3 of the colleges for detail testing so that within a three year period all colleges will be touched.
 - ◇ In addition, each audit area has a different set of colleges so that each college is being touched in each year.

13 Campus/University Audits – by Auditor

- Kern DeWenter Viere
 - Hennepin Technical College
 - Winona State University
 - MSU Moorhead
 - MSU, Mankato
 - Normandale Community College
 - St. Cloud State University
- Baker Tilly
 - Bemidji State University
 - Century College
 - Minnesota State Community and Technical College
- CliftonLarsonAllen
 - Metropolitan State University
 - Minneapolis Community & Technical College
 - Rochester Community & Technical College
 - Southwest Minnesota State University

“SNAP SHOT” RESULTS – All Financial Statements are FAIRLY STATED -
CLEAN OPINIONS, NO MATERIAL WEAKNESSES IN INTERNAL CONTROL AND
NO REPORTED COMPLIANCE ISSUES

Internal Control Reporting – Definitions and Results

Material Weaknesses – deficiencies in internal control such that there is a reasonable possibility that a **material misstatement** would not be prevented or detected and corrected on a timely basis. **NONE**

Significant Deficiencies - deficiencies in internal control that are **less severe than material weaknesses**, yet important enough to merit attention by those charged with governance.

NONE

Prior Year Findings **NONE**

No reportable issues for 4th consecutive year - COMMENDABLE

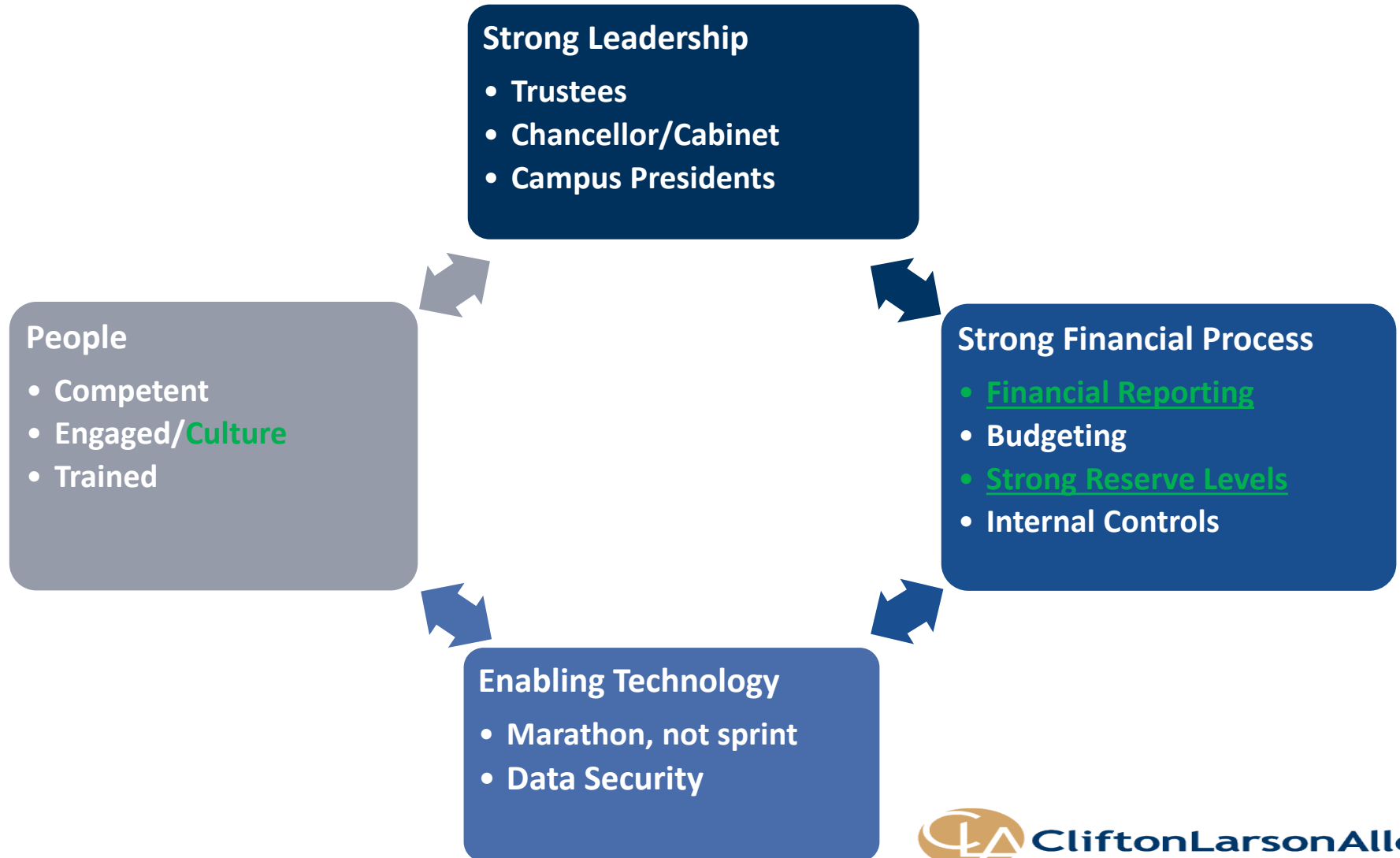
Other Information and Discussion

*Insights, Observations , and Other
Information*

New Accounting Standards

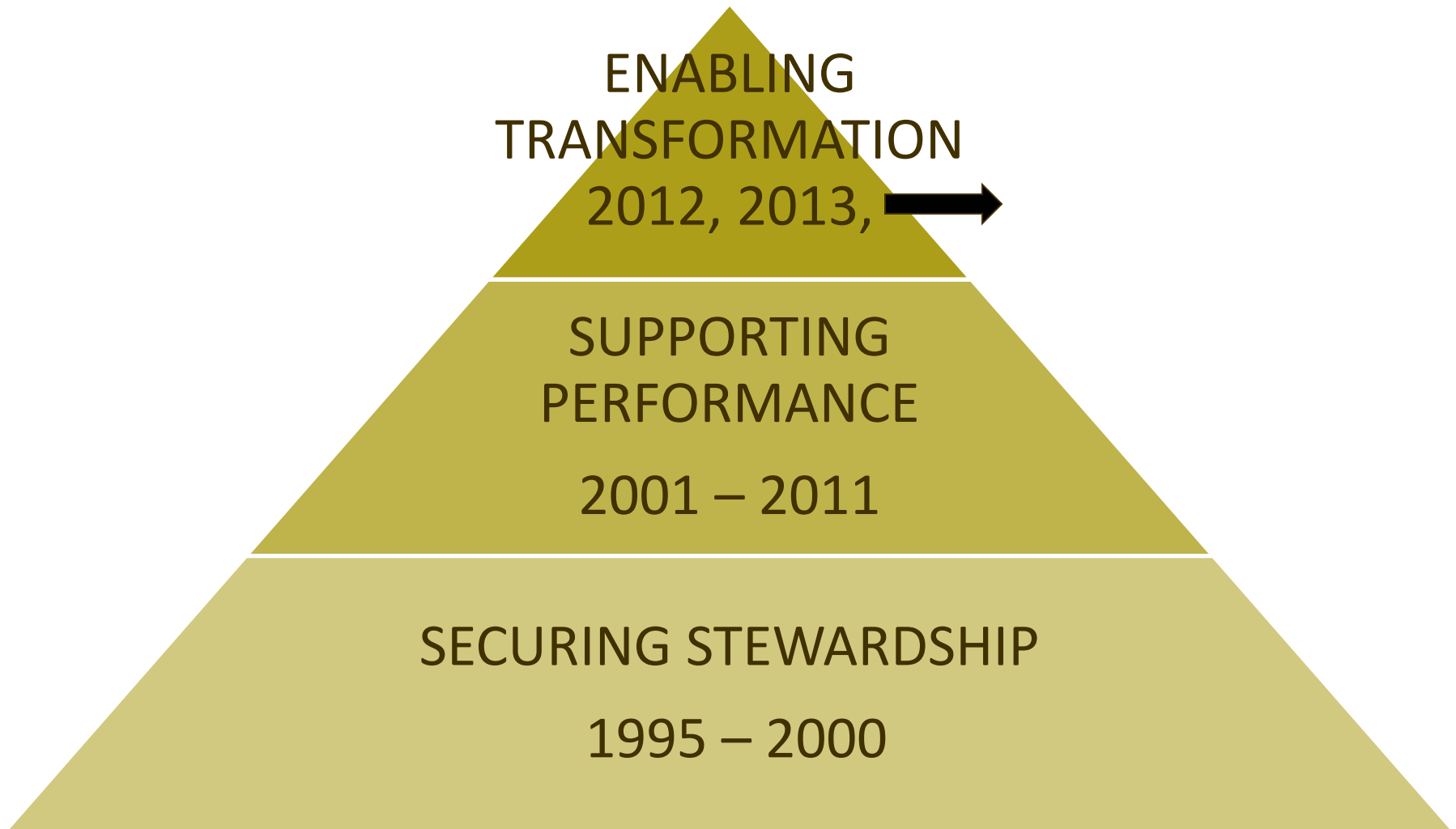
- Governmental Accounting Standards Board (GASB)
 - Current Year
 - ◇ Statement Nos. 60, 62, 63, 65
 - Minimal effect – primarily terminology impact
 - Bond issue costs are now a period cost
 - Future Years
 - ◇ Statement No. 68 – *Accounting and Financial Reporting for Pensions*
 - Applicable for June 30, 2015
 - Will require MnSCU to record a liability for its “share” of any unfunded liability for pension plans

Maintaining Strong & Stable Service Levels Through Economic Ups and Downs



Levels of Financial Management

GFOA's *Financial Management (FM) Tool*

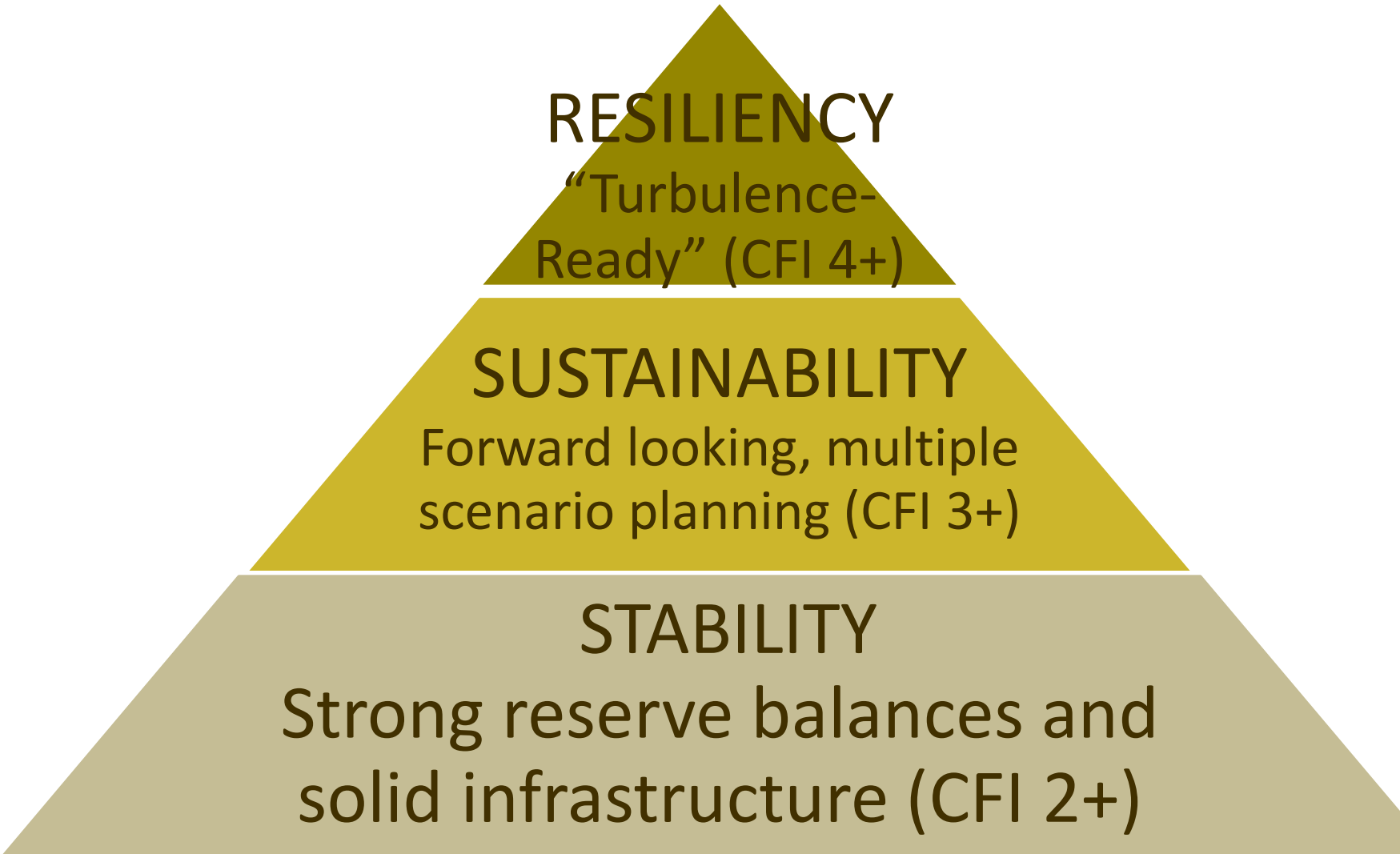


STRONG FINANCIAL MANAGEMENT

- Mission of the organization can only be “focused on” and, thus accomplished, in an environment of **financial stability**

- We encourage MnSCU to continue its environment of **strong financial management**
 - System wide
 - Each campus, individually

FINANCIAL STRENGTH – Self Assessment (GFOA - *On the Road to Financial Resiliency*)



RESILIENCY
“Turbulence-Ready” (CFI 4+)

SUSTAINABILITY
Forward looking, multiple
scenario planning (CFI 3+)

STABILITY
Strong reserve balances and
solid infrastructure (CFI 2+)

In Summary –

CONTINUED EXCELLENT AUDIT RESULTS

- Management and Financial Reporting Team
 1. Aware of their responsibility
 2. Open to improvements
 3. Cooperative with the audit process

ALL SHOULD BE COMMENDED FOR:

LEVEL OF EFFORT

QUALITY OF EFFORT

COMMUNICATION

PROFESSIONALISM

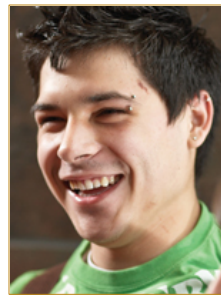
PLANNING/COORDINATION

Discussion and Any Questions

- AUDIT RESULTS
- RECOMMENDATIONS
- OTHER

Financial Performance

Fiscal Year 2013



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FY2013 financial results are stable

- Flat revenue with tight expense controls result in balanced budgets
- System reserves stable but thinly funded
- College/university budget stress emerging in CFI calculations

Key Performance Metrics Fiscal Year 2013

- Student Enrollment
 - Headcount 272,500 students; decline of 1.5%
 - FYE 149,905 students ; decline of 2.3%
- \$2.0 billion revenue grew 2.3%; gain in capital appropriations
- \$2.1 billion net assets grew 4.6%; gain in capital assets
- Operating Fund Reserve
 - \$100 million; approximately 2 payroll cycles
 - 7% of revenue; Board requirement is 5% to 7%
- Composite Financial Index
 - Decline to 2.26 in FY2013 from 2.78 in FY12 (w/o foundation)
 - Decline to 2.49 in FY2013 from 2.78 in FY12 (w/ foundation)

Changes in Net Position

FY 2013 vs. FY 2012 (\$ millions)

(includes colleges, universities and system office)

Revenue/(Expense)	FY2013	change	FY2012
Total revenues	\$1,889.8	\$10.7	\$1,879.1
Total expenses	(1,891.8)	(75.6)	(1,816.2)
Net operating revenue	(2.0)	(64.9)	62.9
Capital appropriation revenue	88.5	32.2	56.3
Other revenue, net	4.6	2.3	2.3
Change in Net Position	\$ 91.1	\$ (30.4)	\$ 121.5

Changes in Net Operating Revenue

FY 2013 vs FY 2012 (\$ millions)

(includes colleges, universities and system office)

Revenue/(Expense)	FY2013	change	FY2012
Components and changes			
Revenue from students, net of financial aid	\$ 837.2	\$5.7	\$ 831.5
State appropriation revenue	553.2	1.9	551.3
Federal and state grant revenue	459.5	16.0	443.5
Compensation expense	(1,251.6)	(48.4)	(1,203.2)
All other revenues/(expenses), net	(600.3)	(40.1)	(560.2)
Net operating revenue	\$ (2.0)	\$(64.9)	\$ 62.9

Composite Financial Index

Benchmarks for CFI = 3

MnSCU = 2.49

	<u>Weighting</u>
■ Primary Reserve <i>{resource availability}</i>	35%
➤ MnSCU 4.6 months vs. 5 months as benchmark	
■ Viability <i>{debt coverage}</i>	35%
➤ MnSCU 113% vs. 125% as benchmark	
■ Net Operating Revenue <i>{surplus or deficit}</i>	10%
➤ MnSCU 0.0% vs. 2% – 4% as benchmark	
■ Return on Net Position <i>{asset stewardship}</i>	20%
➤ MnSCU 5.4% vs. 6% as benchmark	

FY2014 Outlook

- Colleges and universities are closely managing revenue and expense outlook
- Very thin margins require focused planning
- Stable, but thin reserves protect enterprise risks
- Strategic enrollment management and strong program development are key to successful year

Individual Audits

Fiscal Year 2013



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Revenue Fund

- **CliftonLarsonAllen** *Craig Popenhagen*

College & University Audits

- **CliftonLarsonAllen** *Thomas Koop*
 - Minneapolis Community & Technical College (Book 1)
 - Southwest Minnesota State University (Book 1)
 - Rochester Community & Technical College (Book 2)
 - Metropolitan State University (Book 2)
- iSeek Solutions (Book 1)

College & University Audits

- **Kern DeWenter Viere, Ltd.** *Steve Wischmann*
 - St. Cloud State University (Book 1)
 - Minnesota State University, Mankato (Book 1)
 - Minnesota State University Moorhead (Book 1)
 - Winona State University (Book 1)
 - Hennepin Technical College (Book 2)
 - Normandale Community College (Book 2)

College & University Audits

- **Baker Tilly Virchow Krause** *Daryl DeKam*
 - Minnesota State Community and Technical College (Book 1)
 - Bemidji State University (Book 2)
 - Century College (Book 2)

Recommended Motion

- **Committee Motion:**

- *The Audit Committee has reviewed the fiscal year 2013 audited financial statements and discussed them with representatives of management and the external auditing firms. The committee recommends that the Board of Trustees adopt the following motion:*

- **Recommended Motion:**

- *Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2013 audited financial statements as submitted.*