BEMIDJI STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NORTHWEST TECHNICAL COLLEGE

BEMIDJI STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

Chief Financial Officer
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INTRODUCTION

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Bemidji State University

Northwest Technical College

OFFICE OF THE PRESIDENT

218-755-2011 / FAX 218-755-2749 / president@bemidjistate.edu

November 15, 2013

Minnesota State Colleges and Universities
Board of Trustees
Dr. Steven Rosenstone, Chancellor
500 Wells Fargo Place
30 East Seventh Street
St. Paul, MN 55101

Dear Members of the Board of Trustees and Chancellor Rosenstone:

I am pleased to submit the audited financial statements for Bemidji State University and Northwest Technical College for the fiscal year ending June 30, 2013. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the year. I am pleased to report that the financial status of our institution is stable and that our financial position improved during a time of transitioning to a smaller base of operating revenue. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report. The responsibility for the accuracy, fairness, reliability and completeness of this report rests with the Finance and Administration staff from Bemidji State University and Northwest Technical College in partnership with the Finance Division from the Office of the Chancellor.

During our annual fall start-up meeting, I challenged the campus community to secure our future in five critical areas:

1.) Transformational Experiences for Students
2.) Imagine Tomorrow Campaign
3.) Strategic Planning
4.) Enrollment Management, Retention & Completion
5.) Collaborations, Partnerships and Community Connections

Throughout fiscal year 2013, the university faculty, staff and administrators began work on a new Strategic Plan. We will, as a university, re-identify our mission, vision and values; connect to our communities; develop and reinforce the meaning/relevance/power of the liberal arts; redouble our emphasis on innovation, access, persistence and student success; strengthen our capacity to provide an education of enduring worth; execute the Imagine Tomorrow campaign; and strengthen the institutional performance metrics.

1500 Birchmont Dr. NE, Bemidji, MN 56601-2699 USA www.bemidjistate.edu BSU NTC 905 Grant Avenue SE, Bemidji, MN 56601-4907 USA www.ntcmn.edu

As previously noted, one component of the Strategic Plan is to launch the Imagine Tomorrow capital campaign. The campaign, led by the Bemidji State University Foundation, will provide an opportunity to increase access and support for our students, enhance academic programs and provide for a robust annual fund which will create flexibility and growth. Scholarships, a strong curriculum and a healthy annual fund all increase opportunities for our students.

Another effort to support our students comes about from the establishment of the Strategic Enrollment Management Planning Committee, which has been tasked with the ideation, discussion, review, development, monitoring and evaluation of all ideas, strategies and actions relating to the marketing, recruitment, retention, and graduation of students.

During fiscal year 2013, both Bemidji State University and Northwest Technical College created new collaborations and partnerships within the Bemidji area and beyond, with organizations such as the Northwest MN Alliance, Tribal College Consortium, MN Innovation Institute, Natrona County, WY, Advanced MN (Arrowhead University Consortium), City of Bemidji, Beltrami County, Ameripride and Intern Bemidji. These new relationships, together with existing relationships, will continue to be nurtured and developed to create a secure future for both institutions.

Fiscal year 2013 also brought about a review of the alignment between Northwest Technical College and Bemidji State University. While many areas still need to be addressed, I am confident the results of the review and further study will enable both institutions to be productive and stable well into the future.

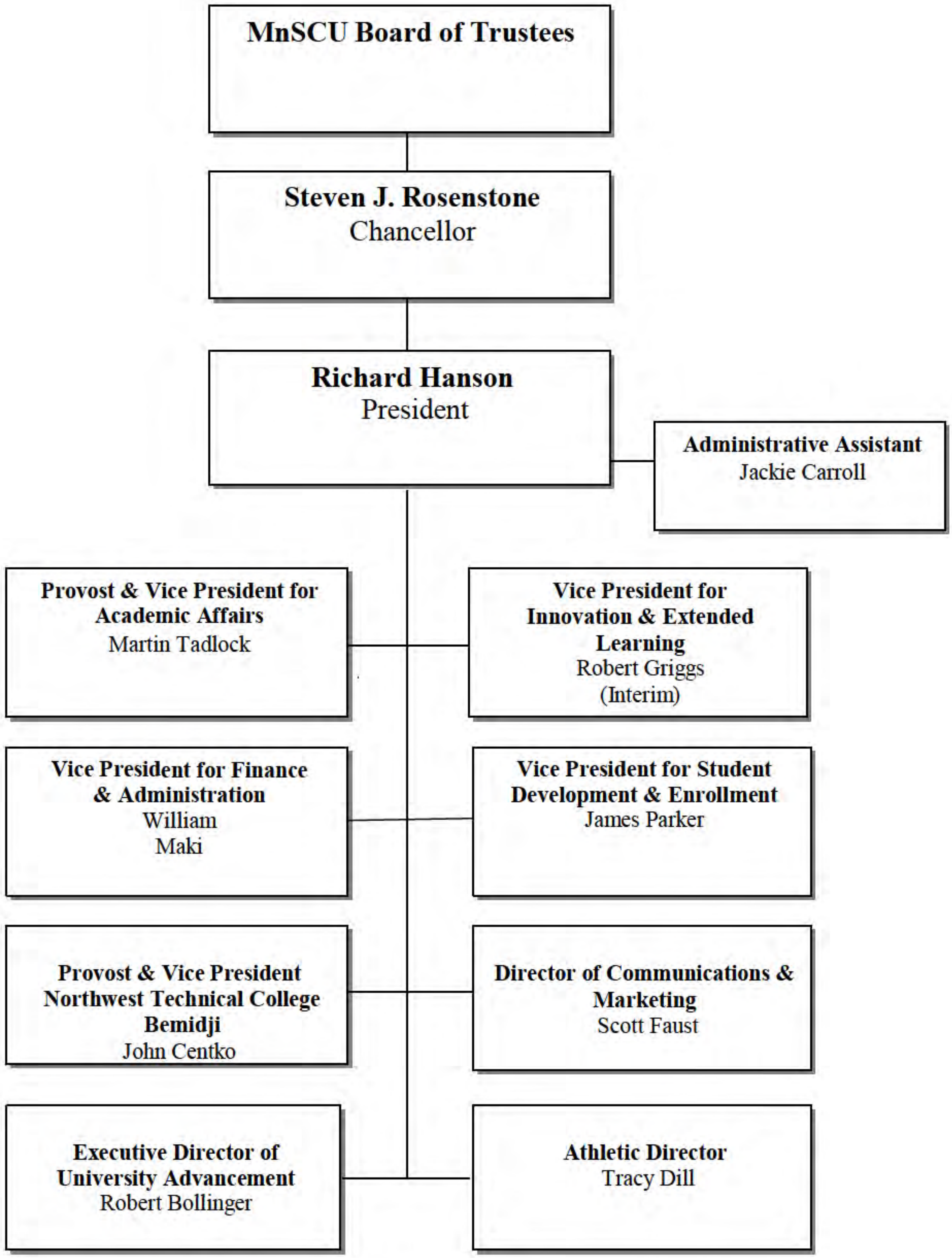
Our financial sustainability is not only dependent on us being successful in developing new revenue streams for operations but also in developing new partnerships and collaborations. We will continue to work diligently to shape our own destiny, fulfill our public mission, enrich our learning environment, impact students, sharpen our educational focus, achieve true distinction and secure our future.

Sincerely,

Richard A. Hanson, Ph.D.
President

Bemidji State University/Northwest Technical College

Organizational Chart



The combined financial position and activities of Bemidji State University and Northwest Technical College are included in this report and referred to within this document as the University unless specifically noted. The University is one of 31 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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bemidji State University (the "University"), a member of the Minnesota State Colleges and Universities (MnSCU) system of the State of Minnesota, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Bemidji State University Foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Bemidji State University Foundation, is based solely on the report of other auditors. 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. The financial statements of the Bemidji State University Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Bemidji State University as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bemidji State University's basic financial statements. The schedules of components of Bemidji State University are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of components of Bemidji State University are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Information

The introductory section identified in the table of contents has not been subjected to the auditing procedures applied by us or the other auditors in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 15, 2013 on our consideration of Bemidji State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the University's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Bemidji State University, a member of the Minnesota State Colleges and Universities system as of June 30, 2013 and 2012, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section.

Bemidji State University (BSU) and Northwest Technical College (NTC) are aligned under the leadership of one president. The institutions share administration, business services, information technology, select student services, and some academic areas. BSU and NTC maintain separate institutional accreditation from the Higher Learning Commission and all student, personnel, and financial records are recorded in separate integrated student records systems. For financial statement purposes, the records of BSU and NTC are combined and referred to within this document as the University unless specifically noted.

The University is one of 31 colleges and universities comprising the Minnesota State Colleges and Universities system. Minnesota State Colleges and Universities are 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.

BSU is a comprehensive public university founded in 1919, with current student enrollment of approximately 4,700 undergraduate students and 225 graduate students from nearly all 50 states and approximately 35 foreign countries. The campus is comprised of 89 acres with 19 academic/student services buildings, seven residence buildings, and a 240 acre private forest. BSU offers more than 65 majors and pre-professional programs. A select number of graduate programs are offered. The online programs offered through professional education have the highest enrollment. BSU operates with approximately 400 faculty members and 225 staff.

NTC was established in 1965 and has a current student enrollment of approximately 1,200 students. NTC offers 23 areas of study in six divisions – Business; Environmental Technology, Industrial Technology and General Technology; General Education; Health; Human and Protective Services and the Bemidji School of Nursing. NTC operates with approximately 100 faculty members and 35 staff.

NTC is also the fiscal agent for Distance Minnesota, an online inter-institutional consortium. Over half of its 1,200 students have courses through this consortium. The membership to Distance Minnesota includes founding members – Alexandria Technical and Community College, Northland Community and Technical College and Northwest Technical College, and a university partner – Bemidji State University.

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2013, and ended at June 30 with assets of $117.5 million and liabilities of $42.9 million compared to fiscal year 2012 with assets of $117.8 million and liabilities of $43.6 million and fiscal year 2011 with assets of $116.3 million and liabilities of $46.1 million. The University continued to make efforts in fiscal year 2013 to increase cash in anticipation of budgetary challenges.

Net position, which represents the residual interest in the University's assets after liabilities are deducted, is comprised of:

- Net investment in capital assets was $46.5 million for fiscal year 2013 compared with $47.6 million in fiscal year 2012 and $48.9 million in fiscal year 2011.
- Restricted net position was $7.2 million for fiscal year 2013, $7.5 million for fiscal year 2012 and $7.3 million for fiscal year 2011. Unrestricted net position was $20.9 million for fiscal year 2013, $19.1 million for fiscal year 2012, and $14.0 million for fiscal year 2011.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These 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 position categories.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the University. The change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net position at June 30, 2013, 2012, and 2011 follows:

Summarized Statement of Net Position
(In Thousands)

	2013	2012	2011
Assets			
Current assets	$ 41,020	$ 38,731	$ 35,018
Current restricted assets	2,904	3,161	9,221
Noncurrent assets			
Student loans receivable, net	4,295	4,148	4,333
Capital assets, net	69,275	71,766	67,774
Total assets	117,494	117,806	116,346
Liabilities			
Current liabilities	10,259	10,031	10,787
Noncurrent liabilities	32,595	33,520	35,263
Total liabilities	42,854	43,551	46,050
Net position	$ 74,640	$ 74,255	$ 70,296

Unrestricted current assets consist primarily of cash, cash equivalents and investments which total $36.1 million at June 30, 2013, $33.7 million at June 30, 2012, and $31.1 million at June 30, 2011. This represents approximately 6.0 months, 5.9 months, and 5.0 months of operating expenses (excluding depreciation) for fiscal years 2013, 2012 and 2011, respectively.

Included in current assets are accounts receivable. The accounts receivable balance ending June 30, 2013 was $2.6 million comprised primarily of tuition and fees, room and board charges, as well as, Distance MN contract billings. The accounts receivable balance ending June 30, 2012 was $2.6 million while accounts receivable balance ending

June 30, 2011 was $1.3 million.   The increase in accounts receivable for the years ended June 30, 2013, and June 30, 2012 compared to the June 30, 2011 balance is due primarily to the Distance MN contract billings.

Current liabilities consist primarily of accounts payable and salaries payable. Accounts payable was $1.6 million at June 30, 2013, $1.3 million at June 30, 2012 and $0.9 million at June 30, 2011. Salaries and benefits payable was $4.5 million at June 30, 2013, $3.7 million at June 30, 2012 and $5.6 million June 30, 2011. Approximately $0.54 million of the increase in fiscal year 2013 is due to an adjustment between cash and salaries and benefits payable for benefit payments due to third party providers that were disbursed on July 1 versus the end of June in prior years. A second reason for the increase is due to retroactive pay adjustments processed after June 30, 2013 for employment contract settlements approved in fiscal year 2013. The decrease in salaries payable at June 30, 2012 was attributable to a combination of fewer days being accrued based on the payroll cycle and the expiration of time-limited early separation incentives that were available in fiscal years 2011.

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position at June 30, 2013, 2012, and 2011 is summarized as follows:

Summarized Net Position
(In Thousands)

	2013	2012	2011
Net investment in capital assets	$ 46,522	$ 47,620	$ 48,914
Restricted expendable, bond covenants	3,555	3,509	3,472
Restricted expendable, other	3,672	3,967	3,875
Unrestricted	20,891	19,159	14,035
Total net position	$ 74,640	$ 74,255	$ 70,296

Net investment in capital assets, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt. Restricted net position includes funding received for capital projects, revenue bond covenants and the University's capital contribution for Perkins loans.

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 a long-range plan to modernize its complement of older facilities, balanced with some new construction. Capital outlay totaled $2.8 million in fiscal year 2013, $9.4 million in fiscal year 2012, and $4.1 million in fiscal year 2011. Capital expenses are primarily comprised of replacement and renovation of facilities, as well as significant investments in equipment. In fiscal year 2013, the primary outlays were for completion of the replacement of the American Indian Resource Center steam line as well as completion of the Education Arts Roof.   In fiscal year 2012, the largest capital expenditure was for the Birch Hall renovation project as well as the plumbing repair project in the physical education building. The primary outlays for fiscal year 2011 were for the implementation of the campus-wide emergency alert system, installation of new flooring in the recreation center, and revenue fund roofing projects.

Construction in progress as of June 30, 2013 includes design work for the Business College remodeling project and the Chemistry Lab remodeling project. Construction in progress as of June 30, 2012 includes the replacement of the Education Arts roof, cooling tower improvements and the replacement of the American Indian Resource Center steam line. Construction in progress as of June 30, 2011 included the plumbing repair project in the physical education building and Birch Hall renovation project at BSU along with the restroom renewal and ADA code compliance project at NTC. Additional information for capital project commitments can be found in Note 16 to the financial statements.

Long-term debt totaled $24.2 million at June 30, 2013, $25.3 million at June 30, 2012, and $26.6 million at June 30, 2011. Additional borrowing incurred in fiscal year 2011 for the Birch Hall renovation project.   General obligation bonds financed the Sattgast Hall addition and renovation. Additional information on capital and debt activities can be found in Notes 6 and 8 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the University's results of operations.

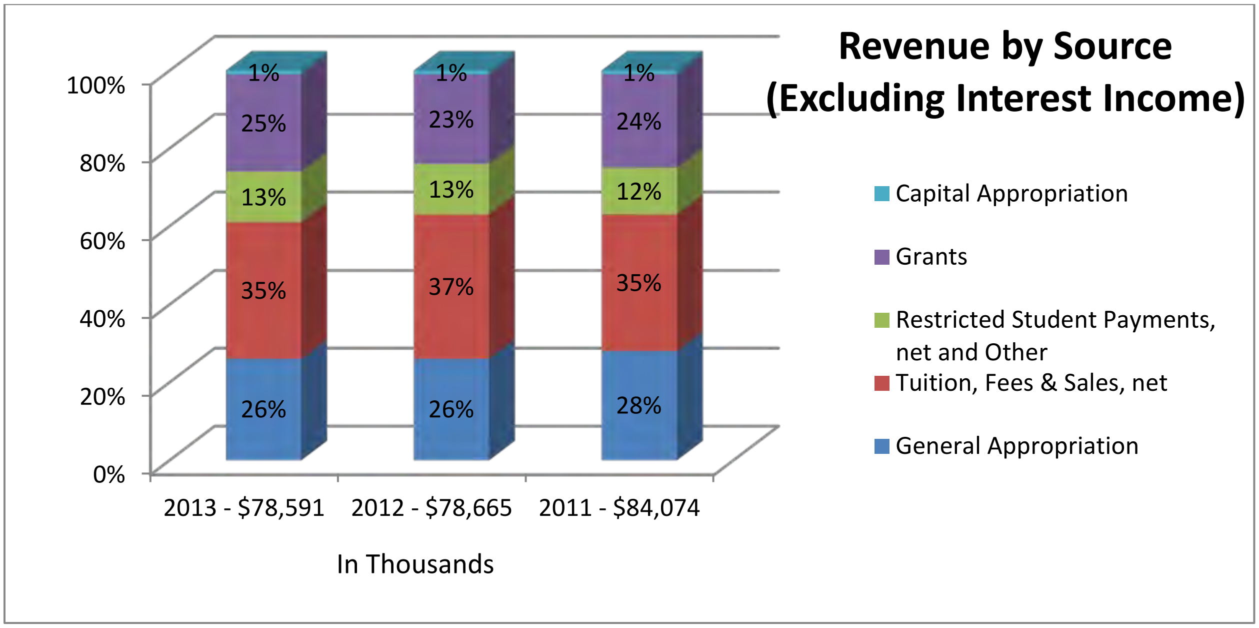
Summarized Statements of Revenue, Expenses and Change in Net Position
(In Thousands)

	2013	2012	2011
Operating revenues:			
Tuition, auxiliary and sales, net	$ 27,673	$ 28,826	$ 29,444
Restricted student payments, net	9,619	9,611	9,559
Other income	555	414	451
Total operating revenues	37,847	38,851	39,454
Nonoperating revenues:			
State and capital appropriations	21,321	21,349	24,647
Private grants and interest income, net	2,081	2,036	1,832
Federal and state grants	17,562	16,631	18,375
Total nonoperating revenues	40,964	40,016	44,854
Total revenues	78,811	78,867	84,308
Operating expenses:			
Salaries and benefits	49,021	46,534	50,463
Supplies, services and other	21,344	21,004	21,941
Depreciation	5,257	5,236	4,813
Financial aid, net	1,757	1,045	1,943
Total operating expenses	77,379	73,819	79,160
Nonoperating expenses	1,047	1,089	962
Total expenses	78,426	74,908	80,122
Change in net position	385	3,959	4,186
Net position, beginning of year	74,255	70,296	66,110
Net position, end of year	$ 74,640	$ 74,255	$ 70,296

Tuition, fees, and state appropriations are the primary sources of funding for the University's academic and residential life programs. Net tuition, auxiliary and sales revenue declined by 4.0 percent in fiscal year 2013, declined by 2.1 percent in fiscal year 2012 and increased by 10.9 percent in fiscal year 2011. The net restricted student payments remained stable in fiscal year 2013, increased by 0.5 percent in fiscal year 2012, and increased by 5.9 percent in fiscal year 2011.

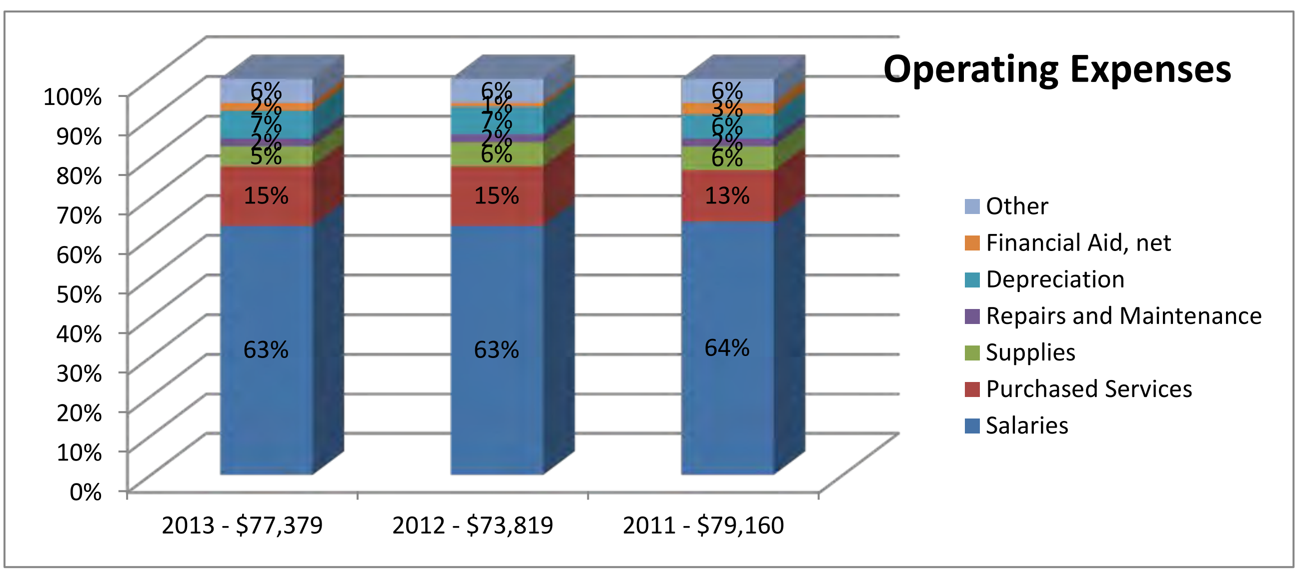
Federal and state grants increased by 5.6 percent in fiscal year 2013, decreased 9.5 percent in fiscal year 2012 and decreased by 1.5 percent in fiscal year 2011. In fiscal 2013, state grants increased 19.4 percent while Federal grants only increased 1.0 percent. In fiscal year 2012, state grants increased $0.4 million offsetting a decrease to federal grants of $2.1 million primarily due to a reduction in federal financial aid programs. In fiscal year 2011, federal grants increased by $0.7 million offsetting decreases to state grants of $1.0 million primarily due to a reduction in the state grant financial aid program.

The following graph depicts the revenue trends by source over the past three fiscal years:



Total operating expenses increased $3.6 million or 4.8 percent in 2013 after decreasing $5.3 million or 6.7 percent between fiscal years 2012 and 2011. Salaries and benefits increased $2.5 million or 5.3 percent after decreasing $3.9 million or 7.8 percent between fiscal years 2012 and 2011. Fiscal year 2013 included collective bargaining increases for fiscal year 2013 which generally ranged from 2.5 percent to 4.6 percent, as well as progression step increases. The increase in expenses also includes the impact of the approximately 10 percent increase in employer portion of the insurance premiums. Recalibration, at the end of fiscal year 2011, eliminated nineteen faculty positions and three classified positions. The increase in fiscal year 2011 was primarily due to the Board Early Separation Incentive. The faculty collective bargaining agreement for both the College and University had no salary increases for fiscal year 2011 agreement.

The following graph depicts the operating expense trends over the past three fiscal years:



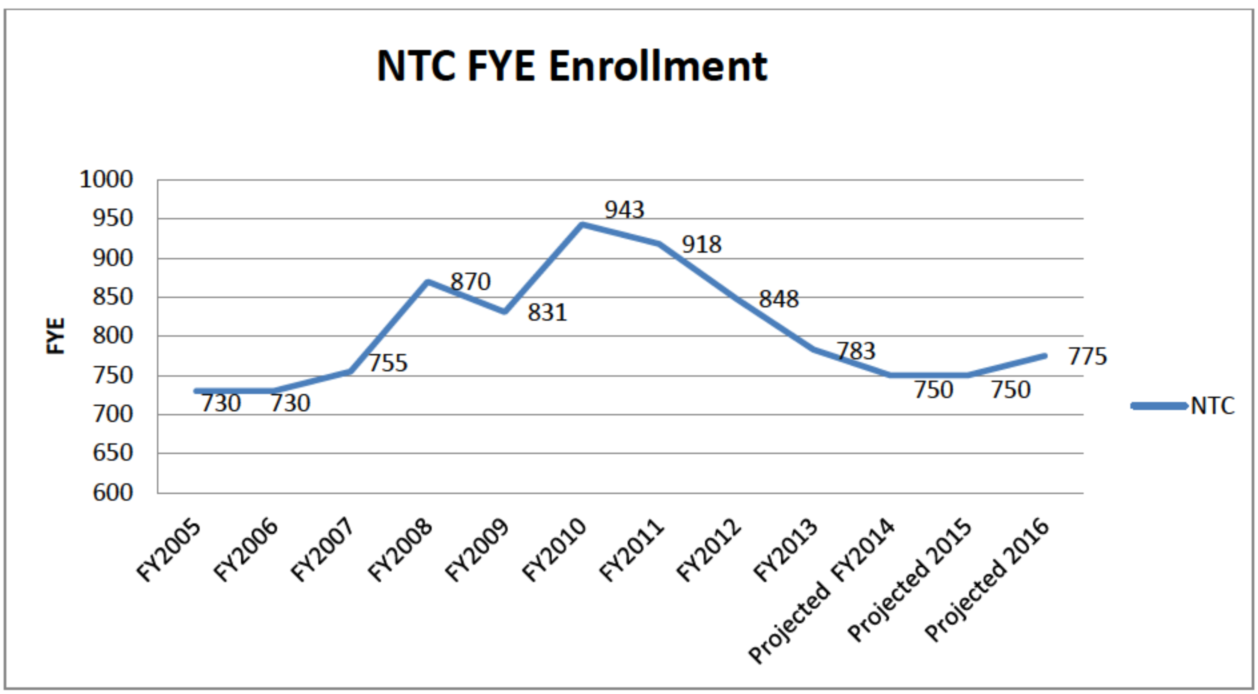
Net position increased by $0.4 million or 0.5 percent in fiscal year 2013. Net position increased by $4.0 million or 5.6 percent in fiscal year 2012 after increasing $4.2 million or 6.3 percent in fiscal year 2011. The increase in fiscal year 2013 was primarily the net result of cash, cash equivalents and investments increasing $2.1 million, long term debt decreasing $1.1 million and net capital assets decreasing $2.5 million. The increase in fiscal year 2012 was primarily due to a $3.8 million increase in unrestricted cash and accounts receivable. The increase in unrestricted cash was a result of expense savings from recalibration efforts while the increase in receivables resulted from contract billings as the College assumed the fiscal agent role for Distance Minnesota. The increase in fiscal year 2011 was primarily due to a $3.6 million increase in unrestricted cash and investments. Operating reserves were added to in fiscal year 2011 to buffer a potential loss of enrollment due to academic program reductions.

FOUNDATION UNIT

The Bemidji State University Foundation (BSU Foundation) is a component unit of the University. As such, the separately audited financial statements for the BSU Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. The BSU Foundation contributed $837,095, $766,413, and $677,896 to the University for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Additional information for BSU Foundation can be found in Note 18 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

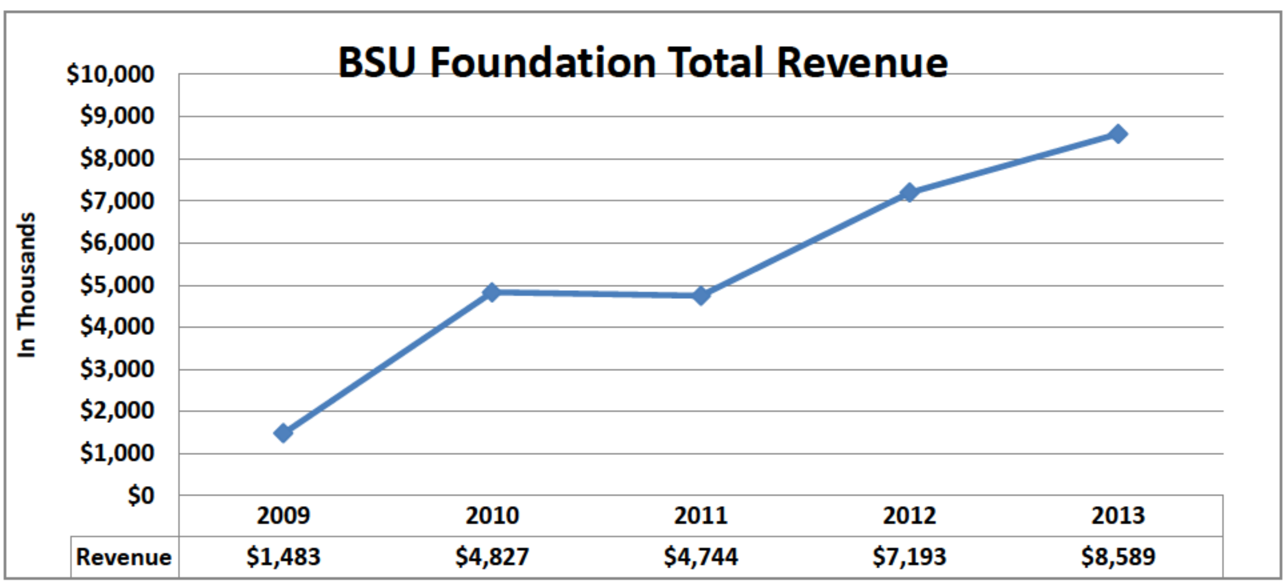
The University continues to transition after making budget reductions in excess of $4.0 million between fiscal years 2011 and 2012. Approximately 20 academic programs were downsized or eliminated. The reinvention of NTC will be a priority in fiscal year 2014, as better alignment is needed between the technical programs and training being offered and the existing resources. While NTC is a minority portion of the University's financial results, its mission moving forward is important to serving the northwest region of Minnesota. If the financial results at NTC continue to trend as they have the past few years, their sustainability could be threatened. The fluctuation in NTC's enrollment has made planning challenging as academic and student service priorities are still being refined. The chart below depicts the fluctuations that have occurred:



With tuition and fees funding the majority of the operating budget, it is critical to have realistic and attainable enrollment goals. The institution is focusing on establishing a base enrollment number that allows sufficient resources to achieve its goals. New markets are being explored that build upon the areas of strength. A new internal funding structure has been implemented to encourage departments to support adding new sites and/or distance offerings to students not in the traditional Bemidji market area. An on-line Masters of Business Administration program will begin fall semester 2014. Another area that is being actively explored is increasing the number of international students. The additional students will bring more revenue to the University, but as important, it will help diversify the student population and provide more global experiences for students from the traditional draw area. A partnership to add an intensive English language center is currently being finalized and expected to open in the summer of 2014. This center will directly support the addition of international students at BSU.

The state legislature froze undergraduate tuition rates for fiscal years 2014 and 2015. The state of Minnesota's improved financial condition allowed the legislature to allocate state appropriation to backfill funds that would have been garnered if tuition rates had increased three percent each year. This action slows the increased burden students have seen the past several years and has been viewed positively by many constituents. In past years when the University has seen appropriation increases from the state of Minnesota, it has also had some autonomy to raise tuition rates. From a policy perspective, freezing tuition rates was beneficial. Having no rate increase and a declining enrollment base will put short-term pressure on the University's revenue streams to keep up with a faster rate of increasing expenditures.

A capital campaign for BSU, which was publically launched on September 27, 2013, is being led by the BSU Foundation and is expected to provide additional financial support for the operations and assist in acquiring more students of the quality and quantity that the University desires. The three priorities of the campaign are scholarships, academic excellence, and annual support. Additional scholarship funds will help increase access for financially challenged and first generation students. The financial support will also be used for activities and programs that increase the likelihood of student success. Some examples include early awareness programs, career exploration, college transition, retention support, and providing internship experiences. Having this additional financial support will eventually impact retention rates and play a large role in stabilizing enrollment. Initial results of the silent phase of the funding raising campaign have significantly increased the BSU Foundation's revenues and assets. The change is illustrated in the following graph:



On the expenditure side, personnel projections are the most important variable as personnel costs comprise about 65 percent of overall expenditures. Faculty salaries were frozen for fiscal year 2010 through 2012, there was about a five percent salary increase in fiscal year 2013 and negotiations have just started for fiscal year 2014 and 2015. The classified staff unit contracts, which are negotiated by the state of MN recently settled contracts for three percent across-the-board increases and progression steps each year. This will put pressure on finding an affordable settlement for our faculty units. Therefore, the University is planning that labor contract increases will increase at a faster rate percentage-wise than operating revenue will in fiscal year 2014 and 2015. This phenomenon will put increasing pressure to continue to use reallocation of resources as the main source of funds to invest in new programs and to increase investments in other programs.

Investing in the physical plant will also be a priority moving forward and will be a challenge. There is still a significant amount of deferred maintenance backlog (over $50 million) that needs to be addressed. Putting together a successful project request along with having the ability to pay the debt service will be two on-going challenges to balance along with ensuring the facilities meet student expectations. Being able to advance the master facilities plan will be important to make sure the University is positioning itself well for the future as an attractive destination as well as keeping operating costs down.

The University is continuing to poise itself to meet the challenges of the future. Continuing to plan financially over a multi-year period will help ensure the University builds in the flexibility needed in the budgets to advance the strategic agenda while ensuring the University has a fiscally-sustainable institution.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the University's financial position. Those interested in the University's finances should direct questions concerning any of the information provided in this report or requests for additional financial information to:

Chief Financial Officer
Deputy Hall
Bemidji State University
1500 Birchmont Drive NE
Bemidji, MN 56601

BEMIDJI STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 35,790	$ 31,159
Investments	291	2,519
Grants receivable	586	616
Accounts receivable, net	2,553	2,610
Prepaid expense	983	994
Inventory	237	129
Student loans, net	534	600
Other assets	46	104
Total current assets	41,020	38,731
Current Restricted Assets		
Cash and cash equivalents	2,904	3,161
Total current restricted assets	2,904	3,161
Noncurrent Assets		
Student loans, net	4,295	4,148
Capital assets, net	69,275	71,766
Total noncurrent assets	73,570	75,914
Total Assets	117,494	117,806
Liabilities		
Current Liabilities		
Salaries and benefits payable	4,460	3,686
Accounts payable	1,552	1,299
Unearned revenue	1,289	1,302
Payable from restricted assets	240	937
Interest payable	163	170
Funds held for others	266	447
Current portion of long-term debt	1,517	1,470
Other compensation benefits	772	720
Total current liabilities	10,259	10,031
Noncurrent Liabilities		
Noncurrent portion of long-term debt	22,648	23,807
Other compensation benefits	5,485	5,234
Capital contributions payable	4,462	4,479
Total noncurrent liabilities	32,595	33,520
Total Liabilities	42,854	43,551
Net Position		
Net investment in capital assets	46,522	47,620
Restricted expendable, bond covenants	3,555	3,509
Restricted expendable, other	3,672	3,967
Unrestricted	20,891	19,159
Total Net Position	$ 74,640	$ 74,255

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 108	$ 208
Investments	18,511	15,628
Pledges and contributions receivable, net	2,119	1,462
Other receivables and other assets	19	13
Total current assets	20,757	17,311
Noncurrent Assets		
Long-term pledges receivable	5,149	2,930
Annuities/remainder interests/trusts	141	139
Property and equipment, net	294	315
Other assets	34	31
Total noncurrent assets	5,618	3,415
Total Assets	$ 26,375	$ 20,726
Liabilities and Net Assets		
Current Liabilities		
Salaries and benefits payable	$ 28	$ 21
Accounts payable	60	59
Interest payable	3	3
Annuities payable	22	18
Total current liabilities	113	101
Noncurrent Liabilities		
Annuities payable	180	175
Notes payable	732	732
Total noncurrent liabilities	912	907
Total Liabilities	1,025	1,008
Net Assets		
Unrestricted	5,454	5,388
Temporarily restricted	3,573	1,654
Permanently restricted	16,323	12,676
Total Net Assets	25,350	19,718
Total Liabilities and Net Assets	$ 26,375	$ 20,726

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Operating Revenues		
Tuition, net	$ 22,440	$ 23,465
Fees, net	2,659	2,807
Sales, net	2,574	2,554
Restricted student payments, net	9,619	9,611
Other income	555	414
Total operating revenues	37,847	38,851
Operating Expenses		
Salaries and benefits	49,021	46,534
Purchased services	11,110	10,852
Supplies	4,089	4,492
Repairs and maintenance	1,543	1,219
Depreciation	5,257	5,236
Financial aid, net	1,757	1,045
Other expense	4,602	4,441
Total operating expenses	77,379	73,819
Operating loss	(39,532)	(34,968)
Nonoperating Revenues (Expenses)		
Appropriations	20,357	20,276
Federal grants	12,625	12,496
State grants	4,937	4,135
Private grants	1,861	1,834
Interest income	220	202
Interest expense	(1,046)	(964)
Total nonoperating revenues (expenses)	38,954	37,979
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(578)	3,011
Capital appropriations	964	1,073
Loss on disposal of capital assets	(1)	(125)
Change in net position	385	3,959
Total Net Position, Beginning of Year	74,255	70,296
Total Net Position, End of Year	$ 74,640	$ 74,255

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Support and Revenue					
Contributions	$ 609	$ 3,233	$ -	$ 3,842	$ 6,218
Endowment gifts	-	-	3,503	3,503	817
Investment income	155	987	-	1,142	83
Unrealized gains	2	-	-	2	5
Program income	28	61	-	89	67
Other income	11	-	-	11	3
Net assets released from restrictions	2,218	(2,362)	144	-	-
Total support and revenue	3,023	1,919	3,647	8,589	7,193
Expenses					
Program services					
Scholarships	837	-	-	837	767
Special projects	1,254	-	-	1,254	1,433
Total program services	2,091	-	-	2,091	2,200
Supporting services					
Management and general	135	-	-	135	107
Fundraising	731	-	-	731	426
Total supporting services	866	-	-	866	533
Total expenses	2,957	-	-	2,957	2,733
Change in Net Assets	66	1,919	3,647	5,632	4,460
Net Assets, Beginning of Year	5,388	1,654	12,676	19,718	15,258
Net Assets, End of Year	$ 5,454	$ 3,573	$ 16,323	$ 25,350	$ 19,718

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	$ 37,702	$ 37,803
Cash repayment of program loans	593	530
Cash paid to suppliers for goods or services	(21,180)	(20,677)
Cash payments for employees	(47,944)	(48,824)
Financial aid disbursements	(1,769)	(1,045)
Cash payments for program loans	(754)	(389)
Net cash flows used in operating activities	(33,352)	(32,602)
Cash Flows from Noncapital Financing Activities		
Appropriations	20,357	20,276
Federal grants	12,806	12,513
State grants	4,937	4,135
Private grants	1,861	1,834
Agency activity	(181)	156
Net cash flows provided by noncapital financing activities	39,780	38,914
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(3,520)	(8,514)
Capital appropriation	1,139	710
Proceeds from sale of capital assets	9	16
Proceeds from borrowing	297	-
Proceeds from bond premium	117	-
Interest paid	(1,026)	(962)
Repayment of note principal	(34)	(31)
Repayment of bond principal	(1,436)	(1,169)
Net cash flows used in capital and related financing activities	(4,454)	(9,950)
Cash Flows from Investing Activities		
Proceeds fom sales and maturities of investments	2,264	-
Purchase of investments	(23)	(35)
Investment earnings	159	152
Net cash flows provided by investing activities	2,400	117
Net Increase (Decrease) In Cash and Cash Equivalents	4,374	(3,521)
Cash and Cash Equivalents, Beginning of Year	34,320	37,841
Cash and Cash Equivalents, End of Year	$ 38,694	$ 34,320

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Operating Loss	$ (39,532)	$ (34,968)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	5,257	5,236
Provision for loan defaults	24	(24)
Loan principal repayments	593	530
Loans issued	(754)	(389)
Loans forgiven	56	68
Change in assets and liabilities		
Inventory	(108)	7
Accounts receivable	(126)	(924)
Accounts payable	155	217
Salaries and benefits payable	774	(1,914)
Other compensation benefits	303	(124)
Capital contributions payable	(17)	(376)
Unearned revenues	(13)	9
Other	36	50
Net reconciling items to be added to operating loss	6,180	2,366
Net cash flow used in operating activities	$ (33,352)	$ (32,602)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 240	$ 938
Equipment on account	98	148

BEMIDJI STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Bemidji State University (University), a member of the Minnesota State Colleges and Universities system, conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows include financial activities of Bemidji 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. The 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. Bemidji State University and Northwest Technical College are aligned under the leadership of one president and share administration, business services, information technology, select student services and some academic areas. For financial statement purposes, Bemidji State University and Northwest Technical College are combined and referred to as the University.

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 Bemidji 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 Bemidji State University Foundation, 1501 Birchmont Drive Northeast, Bemidji, MN 56601-2699.

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. Inter-fund receivables and payables have been eliminated in the statements of net position.

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's 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/Chief Financial Officer of Minnesota State Colleges and Universities.

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 the Minnesota State Colleges and Universities as capital appropriation revenue when the related expenses are incurred. Individual colleges and universities are allocated cash, capital appropriation revenue, and debt based on capital project expenses.

Cash and Cash Equivalents — The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds.

Restricted cash is cash held for capital projects and cash in the Revenue Fund is for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses and net position 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 accounts in local banks. The activities handled through local banks 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 System office 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 and U.S. Bank, N.A., for investment management services. Investments are reported at fair value.

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

Inventories — Inventories are valued at cost using the retail cost 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:

Asset Type	Useful Life
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 $10,000 and over for items purchased since July 1, 2008; $5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and $2,000 and over for items purchased prior to July 1, 2003. Buildings, building improvements, and internally developed software includes all projects with a cost of $250,000 and over for projects started since July 1, 2008, and $100,000 and over for projects started prior to July 1, 2008. All land and library collection purchases are capitalized regardless of amount spent.

Funds Held for Others — Funds held for others are primarily assets held in a custodial capacity such as student organizations, student loans and other clearing accounts that serve as a flow-through conduit.

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. 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 notes payable, compensated absences, net other postemployment benefits, workers' compensation claims, early termination benefits, and capital contributions associated with Perkins loan agreements with the U.S. Department of Education.

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

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

Operating Activities — Operating activities as reported in the statements of revenues, expenses and changes in net position 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 non-operating revenues, including state appropriations, federal, state and private grants, and investment income.

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances. See Note 12 for additional information.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances. See Note 12 for additional information.

Federal Grants — The University participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, TRIO, and AmeriCorps. Federal grant revenue is recognized as non-operating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions.* 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.

Use of Estimates — To prepare the basic financial statements in conformity with GAAP, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets 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.

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

- *Net Investment in Capital Assets*: 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 position subject to externally imposed stipulations. Net position restrictions for the University are as follows:

Restricted for bond covenants — revenue bond restrictions

Restricted for other — includes restrictions for the following:

Donations — restricted per donor requests

Loans — University capital contributed for Perkins loans

Debt service — legally restricted for bond debt repayments

Faculty contract obligations — faculty development and travel required by contracts

Net Position Restricted for Other
(In Thousands)

	2013	2012
Donations	$ 246	$ 541
Loans	496	498
Debt service	2,354	2,380
Faculty contract obligations	576	548
Total	$ 3,672	$ 3,967

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

New Accounting Pronouncements — The Minnesota State Colleges and Universities adopted GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements, retroactive to July 1, 2011. This statement requires that revenue be recognized in a systematic manner over the term of contracts when applicable. There was no impact on the financial statements as a result of this adoption.

The Minnesota State Colleges and Universities adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, retroactive to July 1, 2011. This statement amends the net asset reporting requirements in Statement No. 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of residual measure and by renaming the measure as net position, rather than net assets. There was no impact on the financial statements as a result of this adoption.

The Minnesota State Colleges and Universities adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. More specifically, the statement requires costs related to the issuance of debt to no longer be recorded as a deferred charge and amortized, but to be recognized as an expense in the period incurred. An insignificant amount of costs related to prior year bond issuance costs were expensed in fiscal year 2013.

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 checking and three savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands) Carrying Amount	2013	2012
Cash, in bank	$ 3,043	$ 3,153
Restricted cash	1,478	1,735
Cash, trustee account (US Bank)	1,426	1,426
Total local cash and cash equivalents	5,947	6,314
Total treasury cash accounts	32,747	28,006
Grand Total	$ 38,694	$ 34,320

At June 30, 2013 and 2012, the University's local bank balances were $3,288,639 and $3,092,680, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

The University's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

The cash accounts are invested in short term, liquid, high quality debt securities.

Investments — The Minnesota State Board of Investment manages the majority of the state's investments. All investments managed by Minnesota State Board of Investment are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

Within statutory parameters, Minnesota State Board of Investment has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Board procedure 7.5.1 requires compliance with Minnesota Statutes, Section 118A.03, and further excludes the use of FDIC insurance when meeting collateral requirements.

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04. This statute limits investments to the top quality rating categories of a nationally recognized rating agency.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The University complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term investments.

As of June 30, the University had the following investments:

Fair Value as of June 30
(In Thousands)

Investment Type	2013	2012
Stock	$ 81	$ 67
Certificate of deposit	210	2,452
Total fair value	$ 291	$ 2,519

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2013 and 2012, the total accounts receivable balances for the University were $3,122,103 and $3,140,740, respectively, less an allowance for uncollectible receivables of $568,529 and $530,771, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 1,189	$ 1,217
Room and board	159	184
Sales and services	398	129
Fees	154	139
Interest	—	7
Other	1,222	1,465
Total accounts receivable	3,122	3,141
Allowance for uncollectible accounts	(569)	(531)
Net accounts receivable	$ 2,553	$ 2,610

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $929,433 and $954,737 for fiscal years 2013 and 2012, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand as of 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 fiscal year. Also, included in prepaid expense for fiscal years 2013 and 2012 is $53,763 and $39,721 respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balances consist 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. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University.
At June 30, 2013 and 2012, the total loans receivable for this program were $5,197,401 and $5,091,969, respectively, less an allowance for uncollectible loans of $368,386 and $343,971, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2013 and 2012 follow:

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,147	$ —	$ —	$ —	$ 1,147
Construction in progress	968	1,751	—	(2,085)	634
Total capital assets, not depreciated	2,115	1,751	—	(2,085)	1,781
Capital assets, depreciated:					
Buildings and improvements	137,960	—	—	2,085	140,045
Equipment	8,972	590	1,070	—	8,492
Library collections	3,511	493	510	—	3,494
Total capital assets, depreciated	150,443	1,083	1,580	2,085	152,031
Less accumulated depreciation:					
Buildings and improvements	72,077	4,275	—	—	76,352
Equipment	6,727	483	1,002	—	6,208
Library collections	1,988	499	510	—	1,977
Total accumulated depreciation	80,792	5,257	1,512	—	84,537
Total capital assets, depreciated, net	69,651	(4,174)	68	2,085	67,494
Total capital assets, net	$ 71,766	$ (2,423)	$ 68	$ —	$ 69,275

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,147	$ —	$ —	$ —	$ 1,147
Construction in progress	1,558	8,228	—	(8,818)	968
Total capital assets, not depreciated	2,705	8,228		(8,818)	2,115
Capital assets, depreciated:					
Buildings and improvements	129,284	—	142	8,818	137,960
Equipment	9,303	620	951	—	8,972
Library collections	3,340	521	350	—	3,511
Total capital assets, depreciated	141,927	1,141	1,443	8,818	150,443
Less accumulated depreciation:					
Buildings and improvements	67,942	4,224	89	—	72,077
Equipment	7,078	511	862	—	6,727
Library collections	1,838	501	351	—	1,988
Total accumulated depreciation	76,858	5,236	1,302	—	80,792
Total capital assets, depreciated, net	65,069	(4,095)	141	8,818	69,651
Total capital assets, net	$ 67,774	$ 4,133	$ 141	$ —	$ 71,766

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2013	2012
Purchased services	$ 693	$ 492
Supplies	285	298
Capital projects	98	148
Repairs and maintenance	60	80
Other payables	416	281
Total	$1,552	$1,299

In addition, as of June 30, 2013 and 2012, the University had payable from restricted assets in the amounts of $240,178 and $937,704, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net position.

The changes in long term debt for fiscal years 2013 and 2012 follow:

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 469	$ 117	$ 56	$ 530	$ —
General obligation bonds	8,040	297	681	7,656	696
Notes payable	313	—	34	279	38
Revenue bonds	16,455	—	755	15,700	783
Total long term debt	$ 25,277	$ 414	$ 1,526	$ 24,165	$ 1,517

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 526	$ —	$ 57	$ 469	$ —
General obligation bonds	8,746	—	706	8,040	681
Notes payable	344	—	31	313	34
Revenue bonds	16,943	—	488	16,455	755
Total long term debt	$ 26,559	$ —	$ 1,282	$ 25,277	$ 1,470

The changes in other compensation benefits for fiscal years 2013 and 2012 follow:

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 5,036	$ 886	$ 557	$ 5,365	$ 636
Early termination benefits	84	36	84	36	36
Net other postemployment benefits	658	308	319	647	—
Workers' compensation	176	143	110	209	100
Total other compensation benefits	$ 5,954	$ 1,373	$ 1,070	$ 6,257	$ 772

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 5,365	$ 261	$ 590	$ 5,036	$ 557
Early termination benefits	220	84	220	84	84
Net other postemployment benefits	604	464	410	658	—
Workers' compensation	141	151	116	176	79
Total other compensation benefits	$ 6,330	$ 960	$ 1,336	$ 5,954	$ 720

Bond Premium — In fiscal year 2013, bonds were issued resulting in premiums of $117,346. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

General Obligation Bonds— 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 2.0 percent to 5.7 percent. The 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 upon the specific projects funded. The general obligation bond liability included in these financial statements represents the University's share.

Notes Payable — Notes payable consists of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate is tied to the prime interest rate at the time of the project.

Revenue Bonds— The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence halls, food service, student union, and other revenue producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 3 percent to 5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2032. Annual principal and interest payments on the bonds are expected to require less than 13.69 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $21,747,722. Principal and interest paid for the current year and total customer net revenues were $1,420,631 and $10,375,000, respectively.

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 only at the time of termination from state employment.

Early Termination Benefits — Early termination benefits are benefits received for discontinuing services earlier than planned. See Note 9 for additional information.

Net Other Postemployment Benefits — Other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 10 for further details.

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $209,104 and $175,806 as of June 30, 2013 and 2012, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end, and is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $4,462,551 and $4,479,093 at June 30, 2013 and 2012, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $16,542 and $8,627 for the fiscal years 2013 and 2012, respectively. Principal and interest payment schedules are provided in the following table for general obligation bonds, notes payable and revenue bonds. There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, workers' compensation and capital contributions.

Long term Debt Repayment Schedule
(In Thousands)

	General Obligation Bonds		Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 696	$ 363	$ 38	$ 13	$ 783	$ 638
2015	673	323	41	11	807	609
2016	656	291	46	9	832	579
2017	621	259	50	7	870	548
2018	621	228	55	4	898	515
2019-2023	2,577	730	49	1	4,800	2,011
2024-2028	1,579	206	—	—	4,840	956
2029-2033	233	10	—	—	1,870	192
Total	$ 7,656	$ 2,410	$ 279	$ 45	$ 15,700	$ 6,048

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2013 and 2012.

Inter Faculty Organization (IFO) contract — The IFO contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments.

The number of retired faculty who received this benefit and the amount of future liability for that faculty, as of the end of fiscal years 2013 and 2012 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	2	$ 36
2012	5	66

Minnesota State University Association of Administrative Service Faculty (MSUAASF) contract — The MSUAASF contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments.

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2013 and 2012 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	—	$ —
2012	1	18

10. NET OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program.

Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012, there were approximately 51 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation **—** The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the annual OPEB cost for 2013 and 2012, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2013	2012
Annual required contribution (ARC)	$ 303	$ 460
Interest on net OPEB obligation	32	28
Adjustment to ARC	(27)	(24)
Annual OPEB cost	308	464
Contributions during the year	(319)	(410)
Increase in net OPEB obligation	(11)	54
Net OPEB obligation, beginning of year	658	604
Net OPEB obligation, end of year	$ 647	$ 658

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013 and 2012 were as follows:

Year Ended June 30
(In Thousands)

	2013	2012
Beginning of the year net OPEB obligation	$ 658	$ 604
Annual OPEB cost	308	464
Employer contribution	(319)	(410)
End of year net OPEB obligation	$ 647	$ 658
Percentage contributed	103.57%	88.36%

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2012	$ —	$3,670	$3,670	0.00%	$35,965	10.20%

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 8.10 percent initially, reduced incrementally to an ultimate rate of 5 percent after seventeen years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2013 and 2012, totaled $401,293 and $416,006, respectively. Future obligations consist primarily of an operating lease for the City of Bemidji's Regional Event Center which began in October 2010.

Future minimum lease payments for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2014	$ 403
2015	404
2016	405
2017	351
2018	253
2019-2023	1,278
2024-2028	1,482
2029-2031	742
Total	$ 5,318

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30 (In Thousands)						
	2013			2012		
Description	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 36,917	$ (14,477)	$ 22,440	$ 38,194	$ (14,729)	$ 23,465
Fees	3,358	(699)	2,659	3,575	(768)	2,807
Sales	2,788	(214)	2,574	2,784	(230)	2,554
Restricted student payments	10,020	(401)	9,619	10,007	(396)	9,611
Total	$ 53,083	$ (15,791)	$ 37,292	$ 54,560	$ (16,123)	$ 38,437

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2013 (In Thousands)					
Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 4,041	$ 1,343	$ 2,739	$ 43	$ 8,166
Institutional support	4,663	1,855	4,562	51	11,131
Instruction	18,067	5,309	5,396	214	28,986
Public service	83	19	184	1	287
Research	145	51	155	2	353
Student services	7,450	2,226	5,694	76	15,446
Auxiliary enterprises	3,068	701	7,871	659	12,299
Scholarships & fellowships	—	—	1,757	—	1,757
Less interest expense	—	—	—	(1,046)	(1,046)
Total operating expenses	$ 37,517	$ 11,504	$ 28,358	$ —	$ 77,379

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 4,267	$ 1,255	$ 2,938	$ 48	$ 8,508
Institutional support	4,061	1,776	4,124	51	10,012
Instruction	17,638	5,120	5,305	232	28,295
Public service	39	12	122	—	173
Research	107	25	61	1	194
Student services	6,404	1,892	5,713	72	14,081
Auxiliary enterprises	3,018	920	7,977	560	12,475
Scholarships & fellowships	—	—	1,045	—	1,045
Less interest expense	—	—	—	(964)	(964)
Total operating expenses	$ 35,534	$ 11,000	$ 27,285	$ —	$ 73,819

14. EMPLOYEE PENSION PLANS

Minnesota State Colleges and Universities participates in both mandatory and voluntary retirement plans. Mandatory plans include the State Employees Retirement Fund, administered by the Minnesota State Retirement System; the Teachers Retirement Fund, administered by the Teachers Retirement Association; and, the General Employees Retirement Fund, administered by the Public Employees Retirement Association. Normal retirement age, for employees covered by these defined benefit plans, range from age 62 to age 66, depending upon employment date and years of service. Additionally, Minnesota State Colleges and Universities participates in a Defined Contribution Retirement Plan which is available to faculty, system administrators and other unclassified employees.

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Minnesota State Retirement System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal years 2011, 2012, and 2013 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for Bemidji State University were:

(In Thousands)

Fiscal Year	Amount
2013	$ 478
2012	462
2011	479

Teachers Retirement Fund (TRF)

Pension fund information is provided by the Minnesota Teachers Retirement Association, which prepares and publishes its own stand-alone comprehensive annual financial report including financial statements and required supplementary information. Copies of the report may be obtained directly from the Teachers Retirement Association at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-3000.

The Teachers Retirement Fund is a cost sharing, multiple employers, defined benefit plan. Teachers and other related professionals may participate in TRF. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement.

The applicable rates for coordinated members range from 1.2 percent and 1.7 percent for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. For fiscal year 2011 the funding requirement was 5.5 percent for both employer and employee coordinated members. For fiscal year 2012, the funding requirement was 6 percent for both employer and employee coordinated members. For fiscal year 2013, the funding requirement was 6.5 percent for both employer and employee coordinated members. Thereafter, the contribution rate will increase 0.5 percent every July 1 over two years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.

Required contributions for Bemidji State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 399
2012	394
2011	422

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund include two plans: an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer, defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately.

The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for Bemidji State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 1,104	$ 829
2012	970	726
2011	1,020	770

Supplemental Retirement Plan (SRP)

Participation — Every unclassified employee who has completed two full time years of unclassified service with Minnesota State Colleges and Universities must participate upon achieving eligibility. The eligible employee is enrolled on the first day of the fiscal year following completion of two full time years. Vesting occurs immediately and normal retirement age is 55.

Contributions — Participants contribute 5 percent of eligible compensation up to a defined maximum annual contribution as specified in the following table.

Member Group	Eligible Compensation	Max. Annual Contribution
Inter Faculty Organization	$ 6,000 to 51,000	$ 2,250
MN State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Administrators	6,000 to 60,000	2,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Commissioner's Plan	6,000 to 40,000	1,700

The University matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for the University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 516
2012	532
2011	594

Voluntary Retirement Savings Plans

Minnesota State Colleges and Universities offers two voluntary programs to employees for retirement savings.

Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2013, the plan had 176 participants.
In addition, to the state's deferred compensation program, Minnesota State Colleges and Universities also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2013, the plan had 79 participants.

15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand- alone entity, for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains 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 the University dormitories and student unions.

Bemidji State University Portion of the Revenue Fund
(In Thousands)

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 4,346	$ 4,269
Current restricted assets	2,852	2,910
Noncurrent assets	18,817	19,727
Total assets	26,015	26,906
Liabilities		
Current liabilities	1,401	1,688
Noncurrent liabilities	15,241	15,900
Total liabilities	16,642	17,588
Net position		
Net investment in capital assets	4,392	4,384
Restricted net position	4,981	4,934
Total net position	$ 9,373	$ 9,318
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 10,376	$ 10,253
Operating expenses	(9,692)	(9,761)
Net operating income	684	492
Nonoperating revenues (expenses)	(629)	(520)
Change in net position	55	(28)
Net position, beginning of year	9,318	9,346
Net position, end of year	$ 9,373	$ 9,318
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) in		
Operating activities	$ 2,232	$ 1,660
Capital and related financing activities	(2,168)	(8,234)
Investing activities	34	39
Net increase (decrease)	98	(6,535)
Cash, beginning of year	6,766	13,301
Cash, end of year	$ 6,864	$ 6,766

16. COMMITMENTS AND CONTINGENCIES

During fiscal year 2013 the University entered into new commitments for building improvement projects including a chemistry lab, fieldhouse improvements, roof design and artificial turf totaling $2.7 million. As of June 30, 2013, the University has expended approximately $325,000. These projects are expected to be completed during fiscal year 2014.

The University also received a $3.3 million capital appropriation in the 2013 state of Minnesota bonding bill. A $1.0 million design contract was entered into with LHB, Inc. during 2013 to design the renovation of Memorial and Decker Halls and to demolish Sanford Hall. After the design is complete, capital funding of $13 million to $14 million will be requested from the legislature to complete the project. Approximately $875,000 of the 2013 appropriation will be used to abate and demolish Maple Hall. As of June 30, 2013 the University has expended approximately $610,000 towards the total project.

17. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities 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. The University purchases optional physical damage coverage for their newest or most expensive vehicles. While property and casualty coverage is required by Minnesota State Colleges and Universities policy, campuses may select optional coverage. The University purchased optional coverage for professional liability for employed physicians and student health services professional liability. Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage Type	Amount
Institution deductible	$25,000
Fund responsibility	Deductible to $1,000,000
Primary reinsurer coverage	$1,000,001 to $25,000,000
Multiple reinsurers' coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by reinsurer	$2,500,000
Maintenance deductible for additional claims	$25,000

The University retains the risk of loss. The University did not have any settlements in excess of coverage in the last three years. The Minnesota Risk Management Fund purchased student intern professional liability, dental clinics professional liability, and a variety of bonds on the open market for the University and College.

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

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

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2013 and 2012.

(In Thousands)				
	Beginning Liability	Net Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	$ 176	$ 143	$ 110	$ 209
Fiscal Year Ended 6/30/12	141	151	116	176

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 Bemidji State University is a legally separate, tax exempt entity and reported as a component unit.

The Bemidji State University Foundation (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 (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. 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*: Net assets not subject to donor imposed stipulations.
- *Temporarily restricted net assets*: Net assets subject to donor imposed restrictions as to how the assets may be used.
- *Permanently restricted net assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by the 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.

In fiscal years 2013 and 2012, Bemidji State University received $837,095 and $766,413, respectively, from its Foundation. These proceeds were used for student scholarships.

Investments — The Foundation's investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Schedule of Investments at June 30
(In Thousands)

	2013	2012
Money market & Certificate of deposit	$ 851	$ 796
Fixed income/Bonds/U.S. treasuries	3,188	3,364
Equity based mutual funds	9,740	6,717
Real estate (held for investment)	1,625	1,828
Other investments	3,107	2,923
Total investments	$ 18,511	$15,628

Capital Assets — Summaries of the Foundation's capital assets for fiscal years 2013and 2012 are:

Schedule of Capital Assets at June 30
(In Thousands)

	2013	2012
Capital assets, depreciated		
Buildings and improvements	$ 576	$ 576
Equipment	56	90
Total capital assets, depreciated	632	666
Total accumulated depreciation	(338)	(351)
Total capital assets depreciated, net	$ 294	$ 315

Long Term Obligations — Bemidji State University Foundation has a $732,250 secured note from Security Bank USA. The full principal balance of the note is payable on November 21, 2015. Interest only payments will be due quarterly, calculated as a variable interest rate.

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

Changes in endowment net assets as of June 30, 2013 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2013
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 908	$ 254	$ 12,632	$ 13,794
Contributions	828	40	1,839	2,707
Investment income	48	555	111	714
Amounts appropriated for expenditures	(32)	(365)	—	(397)
Other transfers	(90)	(5)	22	(73)
Net assets, end of year	$ 1,662	$ 479	$ 14,604	$ 16,745

Changes in endowment net assets as of June 30, 2012 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2012
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 111	$ 525	$ 12,053	$ 12,689
Contributions	828	20	848	1,696
Investment income	15	29	(284)	(240)
Amounts appropriated for expenditures	(46)	(339)	—	(385)
Other transfers	—	19	15	34
Net assets, end of year	$ 908	$ 254	$ 12,632	$ 13,794

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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BEMIDJI STATE UNIVERSITY
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 4,167	$ 4,167	0.00%	$ 37,825	11.02%
July 1, 2008	—	4,733	4,733	0.00	35,617	13.29
July 1, 2010	—	5,063	5,063	0.00	39,511	12.81
July 1, 2012	—	3,670	3,670	0.00	35,965	10.20

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SUPPLEMENTARY SECTION

As of July 1, 2004, the Bemidji campus of the former Northwest Technical College was aligned with Bemidji State University under the name Northwest Technical College – Bemidji. The activities of the College were consolidated with the University effective July 1, 2005 and were first included in the University's fiscal year 2006 annual financial report. Included in the supplementary section are the unaudited financial statements of both individual institutions.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

Assets	Bemidji State University	Northwest Technical College	Total 2013	Total 2012
Current Assets				
Cash and cash equivalents	$ 32,482	$ 3,308	$ 35,790	$ 31,159
Investments	291	-	291	2,519
Grants receivable	526	60	586	616
Accounts receivable, net	1,077	1,476	2,553	2,610
Prepaid expense	855	128	983	994
Inventory	13	224	237	129
Student loans, net	534	-	534	600
Other assets	31	15	46	104
Total current assets	35,809	5,211	41,020	38,731
Current Restricted Assets				
Cash and cash equivalents	2,904	-	2,904	3,161
Total current restricted assets	2,904	-	2,904	3,161
Noncurrent Assets				
Student loans, net	4,295	-	4,295	4,148
Capital assets, net	64,064	5,211	69,275	71,766
Total noncurrent assets	68,359	5,211	73,570	75,914
Total Assets	107,072	10,422	117,494	117,806
Liabilities				
Current Liabilities				
Salaries and benefits payable	3,830	630	4,460	3,686
Accounts payable	1,306	246	1,552	1,299
Unearned revenue	1,095	194	1,289	1,302
Payable from restricted assets	240	-	240	937
Interest payable	163	-	163	170
Funds held for others	266	-	266	447
Current portion of long-term debt	1,397	120	1,517	1,470
Other compensation benefits	670	102	772	720
Total current liabilities	8,967	1,292	10,259	10,031
Noncurrent Liabilities				
Noncurrent portion of long-term debt	21,350	1,298	22,648	23,807
Other compensation benefits	4,656	829	5,485	5,234
Capital contributions payable	4,462	-	4,462	4,479
Total noncurrent liabilities	30,468	2,127	32,595	33,520
Total Liabilities	39,435	3,419	42,854	43,551
Net Position				
Net investment in capital assets	42,729	3,793	46,522	47,620
Restricted expendable, bond covenants	3,555	-	3,555	3,509
Restricted expendable, other	3,552	120	3,672	3,967
Unrestricted	17,801	3,090	20,891	19,159
Total Net Position	$ 67,637	$ 7,003	$ 74,640	$ 74,255

BEMIDJI STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	Bemidji State University	Northwest Technical College	Total 2013	Total 2012
Operating Revenues				
Tuition, net	$ 20,028	$ 2,412	$ 22,440	$ 23,465
Fees, net	2,440	219	2,659	2,807
Sales, net	1,874	700	2,574	2,554
Restricted student payments, net	9,619	-	9,619	9,611
Other income	473	82	555	414
Total operating revenues	34,434	3,413	37,847	38,851
Operating Expenses				
Salaries and benefits	42,238	6,783	49,021	46,534
Purchased services	10,268	842	11,110	10,852
Supplies	3,188	901	4,089	4,492
Repairs and maintenance	1,298	245	1,543	1,219
Depreciation	4,756	501	5,257	5,236
Financial aid, net	979	778	1,757	1,045
Other expense	3,956	646	4,602	4,441
Total operating expenses	66,683	10,696	77,379	73,819
Operating loss	(32,249)	(7,283)	(39,532)	(34,968)
Nonoperating Revenues (Expenses)				
Appropriations	17,440	2,917	20,357	20,276
Federal grants	9,897	2,728	12,625	12,496
State grants	4,165	772	4,937	4,135
Private grants	1,575	286	1,861	1,834
Interest income	193	27	220	202
Interest expense	(974)	(72)	(1,046)	(964)
Total nonoperating revenues (expenses)	32,296	6,658	38,954	37,979
Income (Loss) Before Other Revenues, Expenses, Gains, or Los	47	(625)	(578)	3,011
Capital appropriations	964	-	964	1,073
Gain (loss) on disposal of capital assets	1	(2)	(1)	(125)
Change in net position	1,012	(627)	385	3,959
Total Net Position, Beginning of Year	66,625	7,630	74,255	70,296
Total Net Position, End of Year	$ 67,637	$ 7,003	$ 74,640	$ 74,255

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

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bemidji State University, a member of the Minnesota State College and University system of the State of Minnesota, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2013. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of Bemidji State University Foundation, a discretely presented component unit of Bemidji State University, as described in our report on Bemidji State University's financial statements. The financial statements of the Bemidji State University Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bemidji State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bemidji State University's internal control. Accordingly, we do not express an opinion on the effectiveness of Bemidji State University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bemidji State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bemidji State University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bemidji State University's internal control compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2013

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