HENNEPIN
TECHNICAL
COLLEGE

Annual Financial Report

for the years ended June 30, 2013 and 2012

Hennepin Technical College℠

A member of the Minnesota State Colleges and Universities system.

HENNEPIN TECHNICAL COLLEGE

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

Hennepin Technical College
9000 Brooklyn Blvd.
Brooklyn Park, MN 55445-2399

HENNEPIN TECHNICAL COLLEGE

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

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INTRODUCTION

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November 15, 2013

Members of the Board of Trustees
Steven Rosenstone, Chancellor

Dear Chancellor Rosenstone and Trustees:

I am pleased to submit to you the audited Annual Financial Report for Hennepin Technical College for the fiscal year ended June 30, 2013. This report contains the financial statements and disclosures necessary to accurately depict the financial condition and results of operations for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The responsibility for, and assurance of, the accuracy, reliability, fairness and completeness of the information in this report rests with the finance staff of HTC in partnership with the Finance Division of the Office of the Chancellor.

Within the financial statements, which were audited by Kern, DeWenter and Viere, you will find a Statement of Net Position, a Statement of Revenues, Expenses and Changes of Net Position, and a Statement of Cash Flows. The College ended fiscal year 2013 with a total net position of $44.8 million, an increase of $.9 million. Please consult the "Management's Discussion and Analysis" section of this report for a summary review and explanation of the financial statements.

The College's strong academic mission provides many viable options for individuals seeking a new career or greater opportunities within their current field and provides a skilled technical workforce for business to be more successful. As Minnesota's largest technical college, Hennepin Technical College serves 9,635 credit based students for the fiscal year ended June 30, 2013. In addition, the College's Continuing Education and Customized Training department offered non-credit education and training to 13,665 students last year.

The operations of the College for fiscal year 2013 were supported primarily through state appropriations, student tuition and fees, and sales of goods and services. Additional sources of support include several federal grants which include a Department of Labor grant for manufacturing, a Gear Up grant and three TRIO grants. In 2013, the college also received a Gateway to College grant funded by private foundations. The College's Foundation provided $238,272 in scholarships and $697,666 in program support. The Foundation maintains its own financial accounts that are audited on an annual basis. The College has a formal agreement with the Foundation to provide administrative support services in exchange for scholarships and funding of the other college-related activities.

During fiscal year 2013, the College focused on alignment of the MnSCU strategic framework with our Vision 2020. Key results were established and communicated to the college community throughout the year. These results: increase FYE by 100, 70 percent retention and 50 percent completion guided our discussions and planning. The application for the Baldrige Quality state award was begun and this process assisted in identification of successes and challenges in processes at the college. These quality elements will be incorporated within our AQIP portfolio process due in fiscal year 2015. Additionally, the MnSCU metrics were presented and discussed with activities designed to meet the performance goals.

The College completed the major capital remodel of the enrollment services area: registration, assessment, financial aid, admissions, advisement as well as enhanced computer and library service areas. Additional open gathering spaces allow for study groups and easy computer access, expanded bookstore and student life center as well as office areas for TRIO grants. This upgrade to the 40+ year old facilities has been well-received and contributes to enhanced student success.

We continue to seek and receive external grant funding as evidenced with the federal TRIO programs of Education Talent Search and Upward Bound in addition to our Student Support Services program. The additions of these programs have increased our collaboration with the K-12 schools of the communities we serve. Successful completion of our M-Power program with the Department of Labor (DOL) paved the way for our new DOL grant in manufacturing-MAAC. A revised program advancement process will provide focused data to assist in decisions regarding academic improvement. The College is the first in the State of Minnesota to receive the Gateway to College grant.

Transparency and communication were cornerstones of fiscal year 2013 as The College's leadership presented, discussed and sought input from the college community as a whole on the financial and enrollment challenges we were experiencing. As a result, several campus wide forums were held throughout the spring and summer to keep all apprised of the work being done to ensure a more solid foundation financially.

The anticipated financial challenges for higher education and our college, both at the state and federal levels, have become a reality in fiscal year 2013 and the foreseeable future. We will be diligent in prioritizing resources to meet the greatest needs of our students and our business partners. We remain committed to be the leader in providing high quality technical training and education to serve our students and Minnesota.

Respectfully submitted,

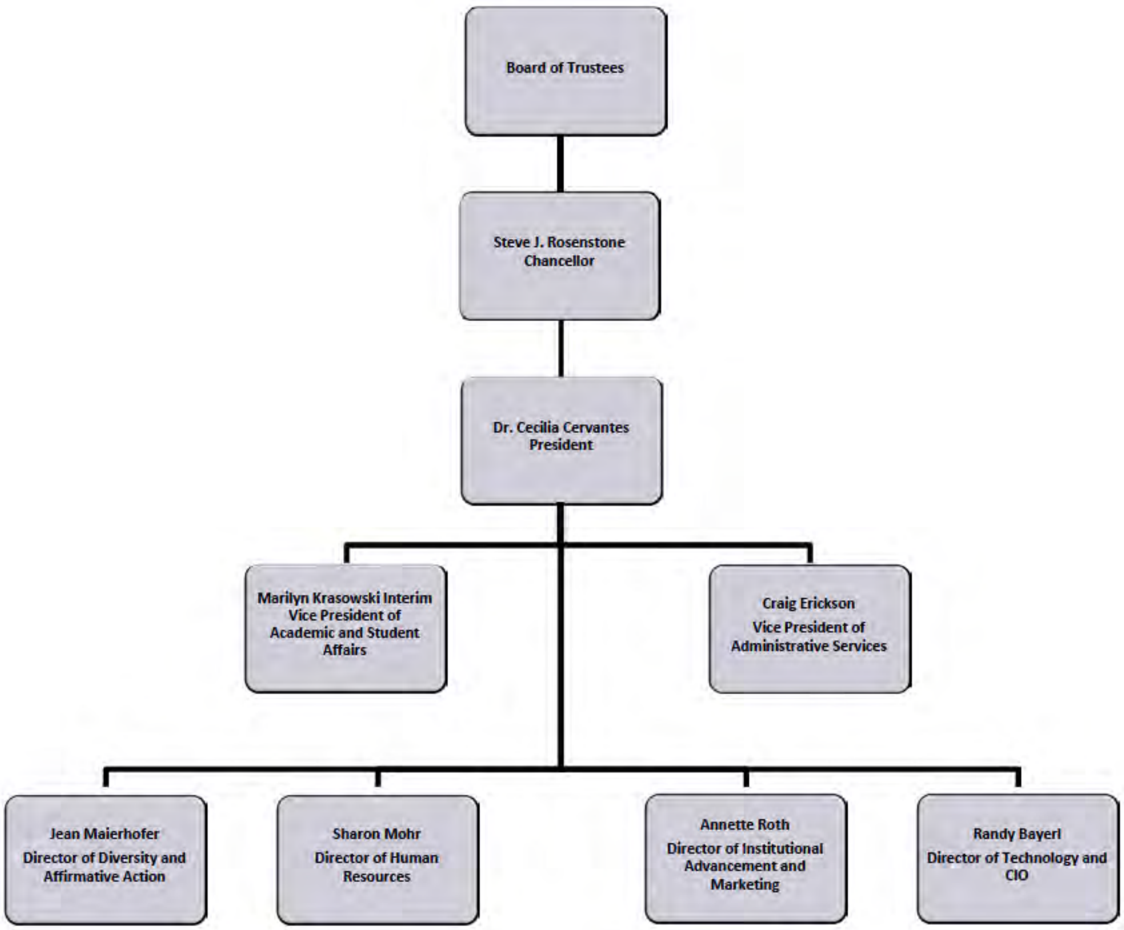
Cecilia Cervantes

Dr. Cecilia Cervantes
President

Minnesota State Colleges and Universities

Hennepin Technical College

Organizational Chart



The financial activity of Hennepin Technical College is included in this report. The College is one of 31 colleges and universities included in the *Minnesota State Colleges and Universities Annual Financial Report* which is issued separately.

All financial activity of Minnesota State Colleges and Universities is included in the state of Minnesota Comprehensive Annual Financial Report.

FINANCIAL SECTION

Expert advice. When you need it.℠

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hennepin Technical College, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2013 and 2012, and the related Notes to the Financial Statements, which collectively comprise the College's basic financial statements as presented.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit.
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 College'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 College'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 the financial statements referred to above present fairly, in all material respects, the financial position of Hennepin Technical College, as of June 30, 2013 and 2012, and the respective changes in financial position and 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, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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.

Other Information

The accompanying introductory sections identified in the Table of Contents has not been subjected to the auditing procedures applied in the audit 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 the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the College's internal control over financial reporting and compliance.

Kern, DeWenter

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

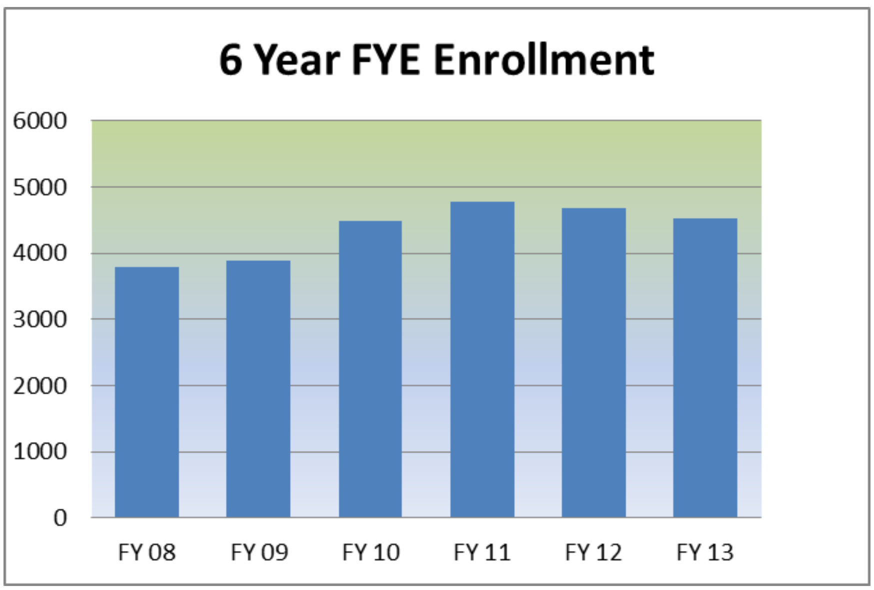
INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Hennepin Technical College, a member of the Minnesota State Colleges and Universities system, at June 30, 2013, 2012 and 2011, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes.

Hennepin Technical College is one of 31 Colleges and universities comprising the Minnesota State Colleges and Universities system, which is governed by a 15 member Board of Trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees – one from a state university, one from a community College and one from a technical College – serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admission requirements, and tuition and fees.

The College is a public two-year institution with a mission of education for employment and advancement. In the fiscal year ended June 30, 2013, the College served approximately 9,635 students in credit courses with 4,515 full-year equivalents and 13,665 students in hour-based courses through customized training. Part-time students account for 51 percent of the total full year equivalent and the average age of students is 30.

The academic offerings of the College are grouped into eleven curriculum and career clusters and general education. The College has experienced a 3.5 percent decrease in enrollment during 2013.



Awards range from certificates (63) to diplomas (53) to Associate of Applied Science (49) and Associate of Science degrees (2).

FINANCIAL HIGHLIGHTS

The College's financial position increased slightly during fiscal year 2013 ending the year on June 30, 2013 with assets of $64.1 million, an increase of $2.5 million over June 30, 2012, and liabilities of $19.4 million, an increase of $1.6 million.

The College's income before other revenues, expenses, gains and losses which represents the College's net results from operations experienced a significant loss of $ 2.6 million. This compares to a loss of $2.6 million and loss of $0.17 million for fiscal years 2012 and 2011 respectively. The loss is the result of lower revenues caused by lower enrollment along with labor contracts getting settled in fiscal year 2013 for the two year contract period of fiscal year 2012 and 2013.

Total revenues experienced a significant decrease of $3.3 million between fiscal years 2013 and 2012. Operating revenues decreased by 9.2 percent and the non-operating revenues decreased by 3.9 percent. The decrease in operating revenue is due to lower enrollment. The decrease in non-operating revenue is due to the decrease in capital appropriation in the amount of $2.3 million.

Management continues its emphasis to control and reduce operating expenses. The fiscal year 2013 operating expenses decreased 2.1 percent from fiscal year 2012 and 3.9 percent below the fiscal year 2011 amounts.

USING THE FINANCIAL STATEMENTS

The College'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 applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the College at the end of the fiscal year and include all assets and liabilities of the College as measured using the accrual basis of accounting. The difference between total assets and total liabilities (net position) is an indicator of the current financial condition of the College, while the change in net position is an indicator of whether the overall condition has improved or worsened during the year. Capital assets are stated at historical cost, (less an allowance for depreciation), with current year depreciation reflected as a period expense on the statements of revenues, expenses, and changes in net position. A summary of assets, liabilities, and net position as of June 30, 2013, 2012 and 2011 follows.

Summarized Statements of Net Position
(In Thousands)

	2013	2012	2011
Assets			
Current assets	$ 18,583	$ 18,751	$ 23,987
Current restricted assets	-	936	320
Capital assets, net	45,589	42,009	34,676
Total assets	64,172	61,696	58,983
Liabilities			
Current liabilities	6,764	6,568	8,558
Noncurrent liabilities	12,641	11,265	9,530
Total liabilities	19,405	17,833	18,088
Total net position	$ 44,767	$ 43,863	$ 40,895

Current unrestricted assets consist primarily of cash, cash equivalents and accounts receivable, net. Cash and cash equivalents total $14.0 million at June 30, 2013, $14.8 million at June 30, 2012, and $19.5 million at June 30, 2011. This represents approximately 3.3 months, 3.4 months, and 4.4 months of operating expenses (excluding depreciation) for fiscal years 2013, 2012, and 2011, respectively. The capital project related receivables of $0.7 million at June 30, 2013, are for bond proceeds spent on capital projects, but not yet collected from the state of Minnesota.

Current liabilities consist primarily of salaries and benefits payable, accounts payable and unearned revenue. Salaries and benefits payable totaled $2.9 million at June 30, 2013, which was a $0.5 million increase compared to fiscal year 2012. Approximately $0.3 million of the increase 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.

Net position represents the residual interest in the College's assets after liabilities are deducted.

Net Position
(In Thousands)

	2013	2012	2011
Net investment in capital assets	$ 36,464	$ 34,265	$ 28,663
Restricted	815	672	552
Unrestricted	7,488	8,926	11,680
Total net position	$ 44,767	$ 43,863	$ 40,895

Net invested in capital assets, represents the College's capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The current portion of the capital debt is $ 0.6 million and the non-current portion is $8.6 million. Restricted net position represents donations received for specific purposes and amounts restricted for faculty professional development funded through their labor contract as well as funds reserved for debt service. Comparison of amounts as of June 30, 2013, 2012, and 2011 follow.

Restricted Net Position
(In Thousands)

	2013	2012	2011
Debt service	$ 739	$ 607	$ 505
Donations	53	42	33
Capital projects	11	-	-
Faculty contracts	12	23	14
Total restricted net position	$ 815	$ 672	$ 552

CAPITAL AND DEBT ACTIVITIES

During fiscal year 2013, the College continued to renovate and upgrade existing facilities. Capital assets as of June 30, 2013, totaled $45.6 million, net of accumulated depreciation of $50.0 million. This compares to $42.0 million as of June 30, 2012, net of accumulated depreciation of $48.1 million.

Construction in progress decreased by $5.0 million in fiscal year 2013 and primarily includes renovations of the learning resource and student services areas at both campuses during 2013. Current year capital asset additions were funded through capital appropriations of $3.4 million, general obligation debt of $1.8 million, with the remainder from College operating funds.

Additional information on capital activities and long-term debt can be found in Notes 5 and 7 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statements of revenues, expenses, and changes in net position represent the College's results of operations for the year. When reviewing the full statements, users should note that GASB requires classification of state appropriations as nonoperating revenue. Summarized statements for the years ended June 30, 2013, 2012 and 2011 follow.

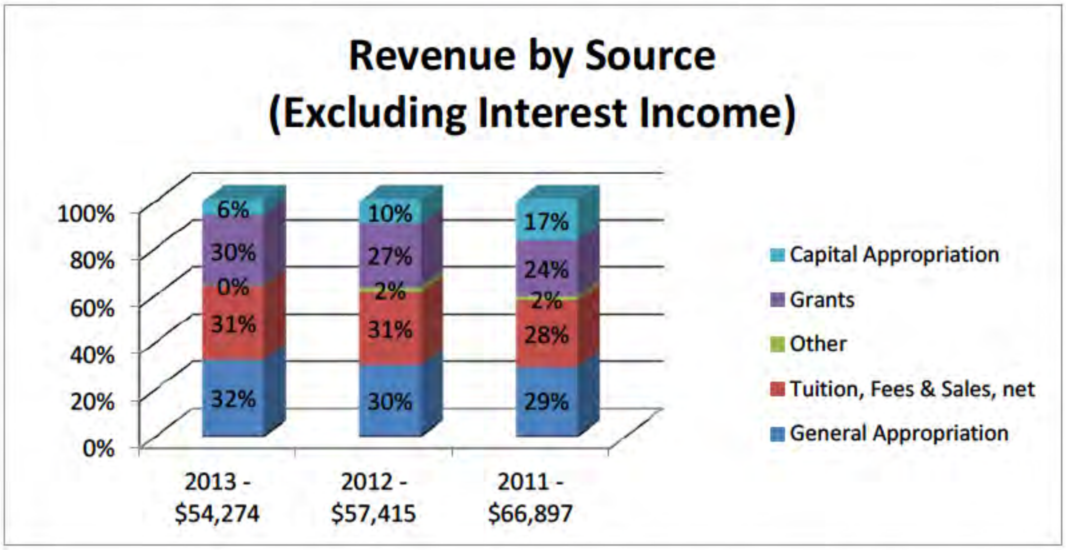
Summarized Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	2013	2012	2011
Operating revenues:			
Tuition, fees, and sales	$ 28,114	$ 28,903	$ 28,895
Less: scholarship allowance	(11,156)	(11,098)	(10,030)
Net tuition, fees, and sales	16,958	17,805	18,835
Other operating revenues	207	1,106	1,115
Total operating revenues	17,165	18,911	19,950
Nonoperating revenues:			
State appropriations	17,408	17,193	19,498
Capital appropriations/Grants	3,378	5,693	11,602
Federal grants	14,137	14,115	14,535
State grants	1,911	1,439	1,213
Other non-operating revenues	326	231	157
Total non-operating revenues	37,160	38,671	47,005
Total revenues	54,325	57,582	66,955
Operating expenses:			
Salaries and benefits	35,916	35,583	35,273
Supplies and services	13,124	15,118	15,894
Depreciation	2,452	2,136	1,806
Financial aid, net of scholarship allowance	1,579	1,344	2,273
Total operating expenses	53,071	54,181	55,246
Non-operating expenses:			
Total non-operating expenses	350	433	286
Total expenses	53,421	54,614	55,532
Change in net position	904	2,968	11,423
Net position, beginning of year	43,863	40,895	29,472
Net position, end of year	$ 44,767	$ 43,863	$ 40,895

Tuition and state appropriations are the primary sources of funding for the College. Tuition rates increased 3.7 percent effective at the beginning of the 2012-2013 fall semesters. The tuition revenue increase was offset by a 3.5 percent full year equivalent decrease or 4,920 credits. This compares to an increase in tuition and fees from 2011 to 2012 when the tuition rate increased by 3.0 percent and enrollment decreased by 3,000 credits.

Total state appropriations remained stable between fiscal year 2012 and fiscal year 2013 with a slight increase of $0.2 million.

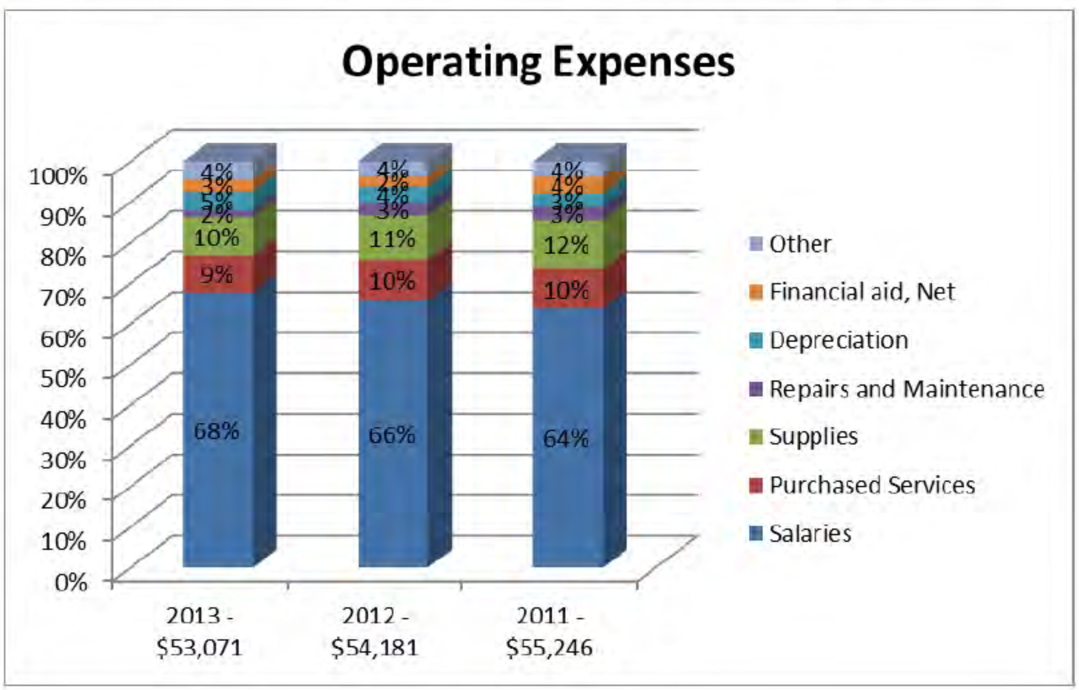
The following graph depicts the revenue trends by source over the past three fiscal years:



The net resources expended for compensation and benefits increased slightly by $0.3 million in fiscal year 2013. The labor contracts that were settled in fiscal year 2013 for the two year contract period of fiscal year 2012 and 2013 ranged from 3.8 percent to 5.6 percent. This increase was partially offset by retirements and open positions held vacant. Compensation and benefits continue to be the largest percentage of operating expenses for the College; in fiscal year 2013, these expenditures accounted for approximately 68.0 percent of total operating expenses.

In January 2012, the College began a construction project to renovate the Learning Resource Centers and Student Service Centers at both campuses. The total estimated construction cost of the renovation is $10.6 million. As of June 30, 2013, $10.1 million had been expended and recorded as building improvements to be depreciated over 20 years.

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



ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the College needs to continue to realign costs based on the current enrollment. Current future planning anticipates labor contract increases will increase at a faster percentage than the operating revenue. This situation will put increased pressure to control costs and managing enrollments.

The College experienced an enrollment decrease (3.5 percent) in fiscal year 2013, which is greater than the system average (2.3 percent). The decline was (7.0 percent) to the Eden Prairie campus and (1.0 percent) decline to the Brooklyn Park campus. This information will be used to assess the academic needs at the Eden Prairie campus. This is a trend to watch along with the number of new students enrolling at the College and retention rates.

The College has a comprehensive review process for existing instructional programs to identify areas for growth, increased efficiencies and alignment with industry needs. A model to review non-instructional services is continuing with the Learning Resource Centers and the Advising/Counseling department with planned expansion to all operational areas. The College will continue its strong investment in instructional program equipment, and its commitment to maintaining and enhancing the technology infrastructure that will support effective delivery of instruction and services. The College is actively reviewing programs with AAS degrees over 60 credits and will either reduce or request waivers by the December 2013 timeline in partnership with students and the program's advisory committee. Development of new and restructured programs that are focused on providing students with both living-wage employment and educational pathways continue to be a major activity for the College. With the current enrollment levels, all departments of the College are facing an increased demand for services and reallocations will continue to be a key strategy to match resources where there are greatest needs for services. The College continues to apply for grants that can assist with serving students and improve its academic programs.

REQUESTS FOR INFORMATION

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

Chief Financial Officer
Hennepin Technical College
9000 Brooklyn Boulevard
Brooklyn Park, MN 55445

HENNEPIN TECHNICAL COLLEGE
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 13,982	$ 14,839
Grants receivable	566	317
Accounts receivable, net	2,651	2,466
Prepaid expense	786	640
Inventory	516	452
Other assets	71	37
Advances from other schools	11	-
Total current assets	18,583	18,751
Current Restricted Assets		
Cash and cash equivalents	-	936
Total current restricted assets	-	936
Noncurrent Restricted Assets		
Capital assets, net	45,589	42,009
Total noncurrent assets	45,589	42,009
Total Assets	64,172	61,696
Liabilities		
Current Liabilities		
Salaries and benefits payable	2,880	2,378
Accounts payable	1,261	1,274
Unearned revenue	806	946
Payable from restricted assets	684	936
Funds held for others	30	-
Current portion of long-term debt	492	410
Other compensation benefits	590	592
Other liabilities	21	32
Total current liabilities	6,764	6,568
Noncurrent Liabilities		
Noncurrent portion of long-term debt	8,633	7,334
Other compensation benefits	4,008	3,931
Total noncurrent liabilities	12,641	11,265
Total Liabilities	19,405	17,833
Net Position		
Net investment in capital assets	36,464	34,265
Restricted expendable, other	815	672
Unrestricted	7,488	8,926
Total Net Position	$ 44,767	$ 43,863

The notes are an integral part of the financial statements.

HENNEPIN TECHNICAL COLLEGE
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	$ 13,095	$ 13,939
Fees, net	1,506	1,313
Sales, net	2,357	2,553
Other income	207	1,106
Total operating revenues	17,165	18,911
Operating Expenses		
Salaries and benefits	35,916	35,583
Purchased services	4,844	5,476
Supplies	5,054	5,925
Repairs and maintenance	858	1,683
Depreciation	2,452	2,136
Financial aid, net	1,579	1,344
Other expense	2,368	2,034
Total operating expenses	53,071	54,181
Operating loss	(35,906)	(35,270)
Nonoperating Revenues (Expenses)		
Appropriations	17,408	17,193
Federal grants	14,137	14,115
State grants	1,911	1,439
Private grants	165	64
Interest income	51	167
Interest expense	(346)	(276)
Grants to other organizations	-	(2)
Total nonoperating revenues (expenses)	33,326	32,700
Loss Before Other Revenues, Expenses, Gains, or Losses	(2,580)	(2,570)
Capital appropriations	3,378	5,693
Donated assets and supplies	110	-
Loss on disposal of capital assets	(4)	(155)
Change in net position	904	2,968
Total Net Position, Beginning of Year	43,863	40,895
Total Net Position, End of Year	$ 44,767	$ 43,863

The notes are an integral part of the financial statements.

HENNEPIN TECHNICAL COLLEGE
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	$ 17,550	$ 17,759
Cash paid to suppliers for goods or services	(13,327)	(15,627)
Cash payments to employees	(35,340)	(36,605)
Financial aid disbursements	(1,581)	(1,344)
Net cash flows used in operating activities	(32,698)	(35,817)
Cash Flows from Noncapital Financing Activities		
Appropriations	17,408	17,193
Federal grants	13,861	14,820
State grants	1,911	1,439
Private grants	165	64
Agency activity	19	-
Grants to other organizations	-	(2)
Net cash flows provided by noncapital financing activities	33,364	33,514
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(6,111)	(8,982)
Capital appropriation	2,694	5,693
Proceeds from sale of capital assets	2	27
Proceeds from borrowing	1,649	1,934
Proceeds from bond premiums	192	150
Interest paid	(378)	(318)
Repayment of bond principal	(503)	(372)
Net cash flows used in capital and related financing activities	(2,455)	(1,868)
Cash Flows from Investing Activities		
Investment earnings	(4)	127
Net cash flows (used in) provided by investing activities	(4)	127
Net Decrease in Cash and Cash Equivalents	(1,793)	(4,044)
Cash and Cash Equivalents, Beginning of Year	15,775	19,819
Cash and Cash Equivalents, End of Year	$ 13,982	$ 15,775

The notes are an integral part of the financial statements.

HENNEPIN TECHNICAL COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Operating Loss	$ (35,906)	$ (35,270)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	2,452	2,136
Change in assets and liabilities		
Inventory	(64)	261
Accounts receivable	499	(147)
Accounts payable	(13)	(747)
Salaries and benefits payable	502	(1,168)
Other compensation benefits	74	145
Unearned revenues	(110)	(1,005)
Other assets and liabilities	(132)	(22)
Net reconciling items to be added to operating loss	3,208	(547)
Net cash flow used in operating activities	$ (32,698)	$ (35,817)
Non-Cash Investing, Capital and Financing Activities		
Capital projects on account	$ 684	$ 936

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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 College 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.

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

Budgetary Accounting — College budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. 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 individual colleges and universities biennial budget requests and allocations as part of the Minnesota State Colleges and Universities' total budget.

Budgetary control is maintained at the College. The College President has the authority and responsibility to administer the budget and can transfer money between programs within the College without Board approval. The budget of the College 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 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 a local bank account as well as cash equivalents. Cash equivalents are short term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds.

Restricted cash is cash held for capital projects and debt service.

Investments — The Minnesota State Board of Investment invests the College's balances in the state treasury 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.

Excess cash in the local bank account is swept into a repurchase agreement nightly. The balance in the repurchase agreement is included in cash and cash equivalents on the balance sheet.

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

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

Prepaid Expense — Prepaid expense consists of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments. More information about prepaid expense can be found in Note 4.

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	Life
Buildings	35 years
Building improvements	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 include all projects with a cost of $250,000 and over for projects started since July 1, 2008, and $100,000 and over for projects started prior to July 1, 2008. All land and library collection purchases are capitalized regardless of the amount spent.

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The College is responsible for a portion of the debt service on the bonds sold for some College projects. Other long term liabilities include the noncurrent portion of compensated absences, net other postemployment benefits and workers' compensation claims as well as early retirement benefits accrued by some faculty members.

Unearned Revenue — Historically, unearned revenue consists primarily of tuition received, but not yet earned, for summer and fall sessions. It also includes 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 College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating 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 11 for additional information.

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

Federal Grants — Hennepin Technical College participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Carl Perkins, and Federal Work Study, and Trio. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange 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 College will record such disallowance at the time the determination is made.

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

Net Position — The difference between assets and liabilities is net position. Net position is further classified for accounting and reporting purposes into the following 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, other*: Net position that is subject to externally imposed stipulations. Net position restrictions for Hennepin Technical College are as follows:

    Restricted for other — includes restrictions for the following:

    Debt service — legally restricted for bond debt payments

    Capital projects— restricted for completion of capital projects

    Donations — restricted per donor requests.

    Faculty contract obligations — faculty development and travel required by contracts.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Debt service	$ 739	$ 607
Capital projects	11	—
Donations	53	42
Faculty contracts	12	23
Total	$ 815	$ 672

- *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. There was no impact on the financial statements as a result of this adoption.

2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the College has an account in a local bank. The activities handled through the local bank account 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 10.0 percent greater than the amount on deposit. All College deposits were fully insured at 110.0 percent of their value as of June 30, 2013.

The following table summarizes cash and cash equivalents:

Year Ended June 30
(In Thousands)

Carrying Amount	2013	2012
Cash, in local bank	$ 2,223	$ 1,647
Cash, in state treasury	11,759	14,128
Total cash and cash equivalents	$ 13,982	$ 15,775

At June 30, 2013 and 2012, the College's local bank balances were $2,428,321 and $1,803,445 respectively. These balances were adjusted by items in transit to arrive at the College's cash in bank balance. The difference in the bank balance and the carrying amount is due to outstanding checks and deposits in transit. The College's balance in the treasury is invested by the Minnesota State Board of Investment as part of the state investment pool. This cash is reported as a cash equivalent.

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals. At June 30, 2013 and 2012, the total accounts receivable balances for the College were $3,323,480 and $3,024,929, respectively, less an allowance for uncollectible receivables of $672,891 and $558,596, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 1,486	$ 1,240
Sales and services	194	188
Third party obligations	118	448
Fees	298	253
Capital projects	684	—
Other	544	896
Total accounts receivable	3,324	3,025
Allowance for uncollectible accounts	(673)	(559)
Net accounts receivable	$ 2,651	$ 2,466

The capital project related receivables of $683,687 at June30th 2013, are for bond proceeds spent on capital projects, but not yet collected from the state of Minnesota.

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

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

4. 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 $738,685 and $606,978 for fiscal years 2013 and 2012, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on 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 was $47,317 and $33,463, respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. 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	$ 2,631	$ —	$ —	$ —	$ 2,631
Construction in progress	5,516	5,404	—	(10,366)	554
Total capital assets, not depreciated	8,147	5,404	—	(10,366)	3,185
Capital assets, depreciated:					
Buildings and improvements	64,242	—	—	10,366	74,608
Equipment	17,456	582	469	—	17,569
Library collections	312	22	63	—	271
Total capital assets, depreciated	82,010	604	532	10,366	92,448
Less accumulated depreciation:					
Buildings and improvements	34,321	1,569	—	—	35,890
Equipment	13,610	845	493	—	13,962
Library collections	217	38	63	—	192
Total accumulated depreciation	48,148	2,452	556	—	50,044
Total capital assets, depreciated, net	33,862	(1,848)	(24)	10,366	42,404
Total capital assets, net	$ 42,009	$ 3,556	$ (24)	$ —	$ 45,589

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 2,631	$ —	$ —	$ —	$ 2,631
Construction in progress	290	8,948	—	(3,722)	5,516
Total capital assets, not depreciated	2,921	8,948	—	(3,722)	8,147
Capital assets, depreciated:					
Buildings and improvements	60,520	—	—	3,722	64,242
Equipment	17,532	633	709	—	17,456
Library collections	366	17	71	—	312
Total capital assets, depreciated	78,418	650	780	3,722	82,010
Less accumulated depreciation:					
Buildings and improvements	33,105	1,216	—	—	34,321
Equipment	13,315	875	580	—	13,610
Library collections	243	45	71	—	217
Total accumulated depreciation	46,663	2,136	651	—	48,148
Total capital assets, depreciated, net	31,755	(1,486)	129	3,722	33,862
Total capital assets, net	$ 34,676	$ 7,462	$ 129	$ —	$ 42,009

6. 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	$ 704	$ 778
Supplies	241	223
Other payables	183	87
Repairs and maintenance	44	141
Financial aid	17	19
Inventories	5	12
Employee benefits	67	14
Total	$ 1,261	$ 1,274

In addition, as of June 30, 2013 and 2012, the College had accounts payable from restricted assets in the amounts of $683,766 and $936,249, respectively, which were related to capital projects financed by general obligation bonds.

7. 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	$ 426	$ 192	$ 55	$ 563	$ —
General obligation bonds	7,318	1,649	405	8,562	492
Total long term debt	$ 7,744	$ 1,841	$ 460	$ 9,125	$ 492

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 316	$ 150	$ 40	$ 426	$ —
General obligation bonds	5,697	1,934	313	7,318	410
Total long term debt	$ 6,013	$ 2,084	$ 353	$ 7,744	$ 410

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	$ 3,495	$ 462	$ 367	$ 3,590	$ 399
Early termination benefits	287	—	134	153	73
Net other postemployment benefits	539	256	186	609	—
Workers' compensation	202	140	96	246	118
Total other compensation benefits	$ 4,523	$ 858	$ 783	$ 4,598	$ 590

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,511	$ 370	$ 386	$ 3,495	$ 367
Early termination benefits	264	242	219	287	134
Net other postemployment benefits	460	302	223	539	—
Workers' compensation	143	163	104	202	91
Total other compensation benefits	$ 4,378	$ 1,077	$ 932	$ 4,523	$ 592

Bond Premium — In fiscal years 2013 and 2012, bonds were issued, resulting in premiums of $191,912 and $150,877 respectively. Amortization is calculated using the straight line method amortized over the average remaining life of the bonds.

General Obligation Bonds — The state of Minnesota sells general obligation bonds to finance most of Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.0 to 5.5 percent. 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. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bonds liability included in these financial statements represents the College's share.

Compensated Absences — College 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. Technical college faculty members that had ten years of service prior to July 1, 1995, will have a choice at the time of retirement, to choose the state retirement provisions or the early retirement and severance provisions of their member district 1993-1995 contract, from which they transferred to the state on July 1, 1995.

Early Termination Benefits — The College provides early retirement benefits for certain faculty members. The reported liability for early termination benefits of $153,014 and $286,932, as of June 30, 2013 and 2012, respectively, is based on accepted offers. More information about early termination benefits can be found in Note 8.

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 100.0 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 9 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 $246,256 and $202,321 at 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.

Principal and interest payment schedules are provided in the following table for general obligation bonds. There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, or workers' compensation.

General Obligation Bonds
(In Thousands)

Fiscal Years	Principal	Interest
2014	$ 492	$ 416
2015	492	356
2016	492	332
2017	492	307
2018	493	283
2019-2023	2,462	1,053
2024-2028	2,354	488
2029-2033	1,285	85
Total	$ 8,562	$ 3,320

8. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned.

Minnesota State College Faculty (MSCF) contract

Hennepin Technical College provides early retirement benefits, as per Article 28, Section 3, Retirement Incentive Grandparent Clause, of the UTCE Contract for 1995-1997, for certain faculty members and their dependents. Eligible faculty members include those who, as of July 1, 1995, had served at least ten years with Independent School District 287, the employer for the College prior to the merger into the Minnesota State Colleges and Universities system. Employees who have reached age 55 and have at least 15 years of continuous service with the College are eligible to receive early retirement benefits. Early retirement credit is based on the employee's years of service and age at retirement.

Retirees may elect to receive benefit payments in a lump sum, in three equal annual payments, or may elect to bank all or part of the cash value of their vested sick leave and early retirement benefit to continue participation in a group health and dental plan. In the event of the death of the retiree prior to the final payment, regardless of the election by the retiree, the balance of the remaining benefit is payable to the named beneficiary or the estate of the deceased.

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	8	$ 153
2012	15	287

9. NET OTHER POSTEMPLOYMENT BENEFITS

The Minnesota State Colleges and Universities provide 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 who 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 100.0 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 27 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 Post Employment 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 thirty years.

The following table shows the components of the annual OPEB cost for fiscal years 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)	$ 252	$ 298
Interest on net OPEB obligation	26	22
Adjustment to ARC	(22)	(18)
Annual OPEB cost	256	302
Contributions during the year	(186)	(223)
Increase in net OPEB obligation	70	79
Net OPEB obligation, beginning of year	539	460
Net OPEB obligation, end of year	$ 609	$ 539

The College'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 follow:

For Year Ended June 30
(In Thousands)

	2013	2012
Beginning of year net OPEB obligation	$ 539	$ 460
Annual OPEB cost	256	302
Employer contribution	(186)	(223)
End of year net OPEB obligation	$ 609	$ 539
Percentage contributed	72.66%	73.84%

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	$ —	$ 2,697	$ 2,697	0.00 %	$ 27,303	9.88%

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 3.00 percent. The annual healthcare cost trend rate was 8.10 percent initially, reduced incrementally to an ultimate rate of 5.00 percent after seventeen years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

10. LEASE AGREEMENTS

Operating Leases — The College 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 approximately $71,703 and $172,272, respectively.

Future minimum lease payments for existing lease agreements follow:

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2014	$ 57
2015	58
2016	45
2017	46
2018	46
Total	$ 252

Income Leases — The College has entered into several income lease agreements, primarily for building space. Lease income for the years ended June 30, 2013 and 2012, totaled $17,280 and $168,691, respectively, and are included in sales, net in the statements of revenues, expenses, and changes in net position. Future expected income receipts for existing lease agreements in fiscal year 2014 is $15,840.

11. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

Description	2013 Gross	2013 Scholarship Allowance	2013 Net	2012 Gross	2012 Scholarship Allowance	2012 Net
Tuition	$ 23,051	$ (9,956)	$ 13,095	$ 23,841	$ (9,902)	$ 13,939
Fees	2,129	(623)	1,506	1,839	(526)	1,313
Sales	2,934	(577)	2,357	3,223	(670)	2,553
Total	$ 28,114	$ (11,156)	$ 16,958	$ 28,903	$ (11,098)	$ 17,805

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2013
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 5,216	$ 1,649	$ 2,921	$ 66	$ 9,852
Institutional support	2,173	893	2,283	30	5,379
Instruction	15,324	4,662	6,091	197	26,274
Public service	38	3	57	—	98
Student services	4,142	1,322	2,483	53	8,000
Auxiliary enterprises	323	171	1,741	—	2,235
Scholarships & fellowships	—	—	1,579	—	1,579
Less interest expense	—	—	—	(346)	(346)
Total operating expenses	$ 27,216	$ 8,700	$ 17,155	$ —	$ 53,071

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 4,758	$ 1,507	$ 2,889	$ 48	$ 9,202
Institutional support	2,951	871	2,552	30	6,404
Instruction	15,346	4,486	6,832	154	26,818
Public service	67	6	138	—	211
Student services	3,929	1,181	2,399	40	7,549
Auxiliary enterprises	319	162	2,444	4	2,929
Scholarships & fellowships	—	—	1,344	—	1,344
Less interest expense	—	—	—	(276)	(276)
Total operating expenses	$ 27,370	$ 8,213	$ 18,598	$ —	$ 54,181

13. EMPLOYEE PENSION PLANS

The College 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, the College 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. The College, 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 5.0 percent for both employer and employee. Actual contributions were 100.0 percent of required contributions. Actual contributions were 100.0 percent of required contributions.

Required contributions for Hennepin Technical College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 266
2012	248
2011	220

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. The College, 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 6.0 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, a contribution rate increase will be phased in with a 0.5 percent increase, occurring every July 1 over two years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100.0 percent of required contributions.

Required contributions for Hennepin Technical College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 520
2012	467
2011	448

General Employees Retirement Fund (GERF)

Pension fund information is provided by the Public Employees Retirement Association of Minnesota, 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 Public Employees Retirement Association of Minnesota at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103.

GERF is a cost sharing, multiple employer defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts, and related organizations participate in the plan. 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 members are 1.2 percent and 1.7 percent. The College, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6.0 percent and 7.0 percent, respectively. Effective January 1, 2011 and thereafter, employee and employer contribution rates were 6.25 percent and 7.25 percent, respectively. Actual contributions were 100.0 percent of required contributions.

Required contributions for Hennepin Technical College were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 155	$ 133
2012	167	143
2011	180	155

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 25.0 percent of a full academic year, excluding summer session. An employee remains a participant of the plan even if employed for less than 25.0 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 6.0 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Required contributions for Hennepin Technical College were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 639	$ 480
2012	598	452
2011	581	441

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

Member Group	Eligible Compensation	Maximum Annual Contributions
MN Association of Professional Employees Unclassified	$6,000 to $40,000	$ 1,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota State College Faculty Association	6,000 to 56,000	2,500
Administrators	6,000 to 60,000	2,700
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for Hennepin Technical College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 390
2012	361
2011	376

Voluntary Retirement Savings Plans

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

Minnesota Deferred Compensation Plan 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 and after-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 131 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 89 participants.

14. COMMITMENTS AND CONTINGENCIES

In fiscal year 2013, the College began construction projects to remodel the Executive Suite and upgrade the Energy Management System. The total estimated construction cost of the remodeling and upgrade is $966,437. As of June 30, 2013, $533,211 had been expended and recorded as construction in progress. The remodeling and upgrade are expected to be completed in the summer of 2014.

15. 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 Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. Property and casualty coverage is required by Minnesota State Colleges and Universities policy. Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage Type	Amount
Institution deductible	$1,000 to $50,000
Fund responsibility	$1,000,000
Primary reinsurance coverage	$1,000,001 to $25,000,000
Catastrophic reinsurance 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 College retains the risk of loss. The College did not have any settlements in excess of coverage in the last three years.

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

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

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

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

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	$ 202	$ 140	$ 96	$ 246
Fiscal Year Ended 6/30/12	143	163	104	202

16. RELATED PARTY TRANSACTONS

Pursuant to an agreement regarding the transfer of the 21 credit Law Enforcement Skills program from Minneapolis Community and Technical College to Hennepin Technical College, in June 2010, Minneapolis Community and Technical College paid Hennepin Technical College $1,586,652 to help offset future expenses. This amount is the estimated gap between expenses for instructional and building operation costs, and tuition and other income revenues for fiscal years 2013 and 2012. This reflects the two-year lag of enrollment under the allocation framework and the agreement between the two colleges.

The College leases space to Metropolitan State University (MSU) in the Law Enforcement and Criminal Justice Education Center, a partnership between the College, MSU and Minneapolis Community and Technical College. In July 1, 2010, ownership of the building was transferred from MSU to the College. The College and MSU executed an operating agreement to share costs based on each institution's share of the usable square footage of the building. Shared costs were $176,281 and $216,347 for fiscal years 2013 and 2012, respectively. The College recorded $338,818 in shared costs due from MSU at June 30, 2013. The College also recorded shared costs payable to MSU of $102,074 and $93,062 at June 30, 2013 and 2012 respectively, for reimbursable information technology services.

17. IMPAIRMENT OF CAPITAL ASSET

On July 13, 2013, the College incurred severe water damage to its Eden Prairie campus. The water damage was to its Dental and Nursing labs and adjoining classrooms. Risk Management was contacted with the claim. The total amount of the reconstruction and repair is estimated to be approximately one million dollars. The College's financial outlay is its deductible amount of fifty thousand dollars. Majority of the project was complete by the end of August 2013.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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HENNEPIN TECHNICAL COLLEGE
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	$ —	$ 3,026	$ 3,026	0.00%	$ 23,029	13.14%
July 1, 2008	—	2,615	2,615	0.00	23,773	11.00
July 1, 2010	—	3,194	3,194	0.00	25,439	12.56
July 1, 2012	—	2,697	2,697	0.00	27,303	9.88

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SUPPLEMENTARY SECTION

Expert advice. When you need it.SM

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

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

We have audited, in accordance with the 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 Hennepin Technical College, a campus of Minnesota State Colleges and Universities, as of and for the year ending June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 15, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

KDV

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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 result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kern, Dek

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 15, 2013

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