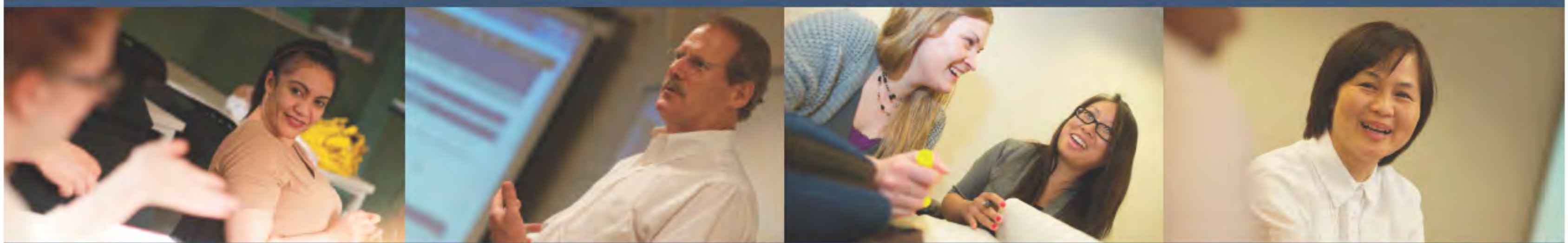
Metropolitan
State University

Annual Financial Report

For the Years Ended June 30, 2013 and 2012



A member of the Minnesota State Colleges and Universities system

METROPOLITAN 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:

Metropolitan State University
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METROPOLITAN STATE UNIVERSITY

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

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Metropolitan
State University

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November 15, 2013

Trustees, Minnesota State Colleges and Universities, and
Dr. Steven Rosenstone, Chancellor
Wells Fargo Place
30 East Seventh Street, Suite 350
Saint Paul, MN 55101-7804

Dear Chancellor Rosenstone and Trustees:

I am pleased to submit to you the Metropolitan State University audited Annual Financial Report for the fiscal years ended June 30, 2013 and 2012. It includes the appropriate financial statements and disclosures necessary to accurately represent the financial condition of our University, as well as operational results for the year. These financial statements are presented in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board. The management of the University is responsible for ensuring the accuracy, reliability, and completeness of the information in this report.

The financial statements have been audited by the firm of CliftonLarsonAllen LLP. You will find a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. Please consult the Management's Discussion and Analysis section of this report for a summary review and explanation of the financial statements.

Metropolitan State was established in 1971 by the Minnesota State Legislature to offer baccalaureate education to adult learners in the Twin Cities metropolitan area in a way that was convenient for their busy work and personal schedules. Classes were offered throughout the Twin Cities in such locations as public libraries, church basements, and classrooms at other educational institutions.

Since those early years of serving a few hundred students who wanted to complete their bachelor's degrees, we now serve over 12,000 students annually. They can complete their bachelor's degrees and go on to complete master's programs. We currently offer over 50 undergraduate majors, eleven master's degree programs, seven graduate certificates, and applied doctoral programs in nursing practice and business administration. Our regional accrediting agency, North Central Association's Higher Learning Commission, in recognition of the high quality of our online program offerings, has authorized the University to offer any of our degree programs online.

Metropolitan State University continues to lead an active collaboration between MnSCU institutions and industry partners, through Advance IT Minnesota. Legislative funds for this innovative initiative were awarded by the Office of the Chancellor through a competitive "Centers of Excellence" selection process.

Metropolitan State University remains true to its mission to serve the needs of underserved populations across the greater Twin Cities metropolitan area. The University serves a diverse array of "post-traditional" students, adults (average age is 32 years), transfer students (97% are transfer students bringing an average of 72 credit hours), and communities of color (36% of the student body are men and women of color). Two-thirds study part-time and most are also employed. In addition to its main campus in St. Paul, the university also has an extensive instructional and office facility in the Midway area, a School of Law Enforcement and Criminal Justice in Brooklyn Center on the Hennepin Technical College campus, and a College of Management and Theatre program in Minneapolis on the Minneapolis Community & Technical College campus. Degree completion programs are also offered at the campuses of several Metro Alliance college campuses including especially Normandale, Inver Hills, Century, North Hennepin, St. Paul College, and Anoka Ramsey. The University recently joined Inver Hills Community College in establishing an instructional site at the new Workforce Development Center in Burnsville. In addition, Metropolitan State University offers an impressive array of online degree programs, certificates, and coursework. One in three Metropolitan State students is enrolled in at least one online course in any given semester, and the online programs serve residents across Minnesota's rural communities as well as the metro area.

The mission of the University is to provide high-quality, affordable educational programs and services in a student-centered environment across the Twin Cities metropolitan region. In many ways, our faculty, staff, and students reflect the area's rich diversity and demonstrate an unwavering commitment to civic engagement.

We highlight below a few of the many ways in which Metropolitan State is deeply involved with the Twin Cities community:

- Our signature Library and Learning Center on the Saint Paul campus is now in its ninth year of operation, and continues to enjoy high levels of usage by our students and other community patrons. Our students, staff, and faculty have access to extensive print and electronic resources, as well as over 250 fixed and wireless computer stations.

- A prominent portion of the library facility houses a branch of the Saint Paul Public Library, a first for our Dayton's Bluff neighborhood. Young people from the community study in the computerized Young Adult Homework Center. Others find, in the Children's Reading Room, a safe and inviting place to gather for story hours and reading-related activities. Tutors and interns work with neighborhood children daily. Significant ongoing private funding supports literacy and other community outreach programs.

- Metropolitan State's Institute for Community Engagement and Scholarship (formerly named the Center for Community-Based Learning) coordinates dozens of community-based programs throughout the year, including outreach efforts such as "Read! Read! Read!" "College for Kids," the Public Achievement program, career and community-based academic internships, Project SHINE (Students Helping in the Naturalization of Elders), Constitution Day, American Democracy Project programs, "Metro State Votes!," and many more.

- Our University's dramatic expansion into online degree programs is allowing individuals and organizations to conveniently take advantage of education tailored to meet their special needs as lifelong learners. We continue to provide online courses to members of the National Guard serving abroad and to Peace Corps volunteers around the world. We frequently have online students in every legislative district.

Metropolitan State University has developed an array of dynamic, student-centered partnerships with the MnSCU colleges in the greater Twin Cities metropolitan area. Recent innovative partnerships include:

- "Reverse transfer" has been piloted with several of the colleges, enabling students to be awarded their associate degrees by the college even if they transferred into Metropolitan State before completing all of their associate degree requirements.

- Dual enrollment has been piloted with Normandale Community College and has resulted in an immediate increase in enrollments in NCC's dental hygiene program. For these students, financial aid is administered through Metropolitan State throughout their undergraduate studies.

- Academic program transfer guides have been developed for the most popular baccalaureate majors so that students beginning their studies at each of the community colleges can see from the very beginning of their college studies which courses to take to most efficiently complete the baccalaureate degree at Metropolitan State University.

- Degree completion programs in an array of majors including business administration, accounting, nursing, psychology, criminal justice, individualized studies, and other fields are offered on the campuses of several of the MnSCU two-year colleges in the metro area.

- The charter for the Minnesota Alliance of Nursing Education (MANE) program, which involved collaborative curriculum development with seven community colleges, will be signed in November 2013. Students will be dually admitted to both Metropolitan State and the partner community college. As part of this program, Metropolitan State is initiating is first full four year baccalaureate program in nursing.

- Since 2004, Metropolitan State has been physically co-located with Minneapolis Community and Technical College (MCTC) at its site at 15th Street and Hennepin Avenue in Minneapolis. As a result, MCTC students can finish their bachelor's degree programs in the College of Management without having to change locations. The University has expanded classroom space and faculty offices in the Management Education Center, increasing our instructional capacity on that site. In these new facilities we host Advance IT Minnesota and the College of Management.

- Throughout 2013 we continued our collaboration with Normandale Community College to offer the nursing baccalaureate completion program. We also enable community college graduates to complete bachelor's degrees in management on multiple MnSCU community college campuses in the metropolitan area. The University currently offers classes in 19 plus locations throughout the Twin Cities, including every Metro Alliance community college campus and most technical colleges.

- During 2013, we continued our partnership with Hennepin Technical College (HTC) through co-locating in the Law Enforcement and Criminal Justice Education Center on the HTC campus. This is a state-of-the-art facility that serves the needs of the law enforcement and criminal justice students throughout the metropolitan area of the Twin Cities. The Center opened its doors in August 2010.
- During FY 2014, Metropolitan State entered into a partnership agreement with Normandale Community College, utilizing their newly constructed Partnership Center. This partnership will enable their students to transition to a four-year institution, while remaining on the Normandale campus.
- During FY 2014, the university will also partner with Inver Hills Community college by offering courses at their new Burnsville site, located within the Workforce Building. Currently, the focus will be on business administration courses.

Future Planning:

We expect the recent growth in facility expansion and program offerings for students and the community to continue.

- We continue our full engagement with continuous improvement through the AQIP (Academic Quality Improvement Program) pathway offered by our accrediting body, the North Central Association's Higher Learning Commission. Following on from the successful submission in 2010 of our second comprehensive Systems Portfolio in a web-based format, a University team attended an AQIP Strategy Forum in November 2011 as a major step toward the next reaffirmation of our accreditation status by the Higher Learning Commission. We are revisiting the initiatives identified in each of the AQIP Categories, in advance of preparing to submit another online Systems Portfolio in 2014.
- In spite of the struggling economy, the Metropolitan State Foundation succeeded in fiscal year 2013 in raising nearly $455,000, demonstrating that our philanthropic support continues to be strong.
- In 2011 a special legislative session approved $3.44 million for design of a Science Education Building. This building, to be located on the St. Paul campus, will provide much-needed science classrooms and laboratories. Metropolitan State University is the only university in the MnSCU system without a science building. If construction funding of $38.9 million is approved during the 2014 legislative session, we plan to begin construction in time for a January 2016 opening.
- We are on-track for continuous growth. This involves development of an integrated marketing initiative, implementation of coordinated enrollment retention and management strategies, pursuing additional space for long-term and short-term classroom and office needs, and building the faculty and infrastructure that we will need to serve a student

population. We expect to grow at slower pace than we had previously realized over the past few years.

- The University's updated Facilities Master Plan was approved in 2011 by the System Office. Consistent with that plan, we are working to establish a new West Metro site to better serve students who reside in the western half of the Twin Cities metropolitan area. This campus will answer our students' desire for a clearly identified university campus and will advance our mission to serve the entire Twin Cities metropolitan area.

- Also a part of the updated Facilities Master Plan, the University has received 2013 Revenue Bond funds for two new projects at the St. Paul campus. An 800 - stall parking ramp is planned at a cost of $17.6 million, with completion by January 2015. A student center is also planned, at a project cost of $11.6 million with completion planned by August 2015.

As an administrative team, we are pleased with what is being accomplished at Metropolitan State University. I want to express my sincere thanks to our faculty, staff, and students for their important contributions to our success. Our appreciation similarly goes to the Board of Trustees and the System Office. I assure you that we will continue to uphold the highest standards of financial and educational stewardship in the best interests of the diverse communities we serve.

Respectfully submitted,

Sue K. Hammersmith

Sue K. Hammersmith, Ph.D.
President

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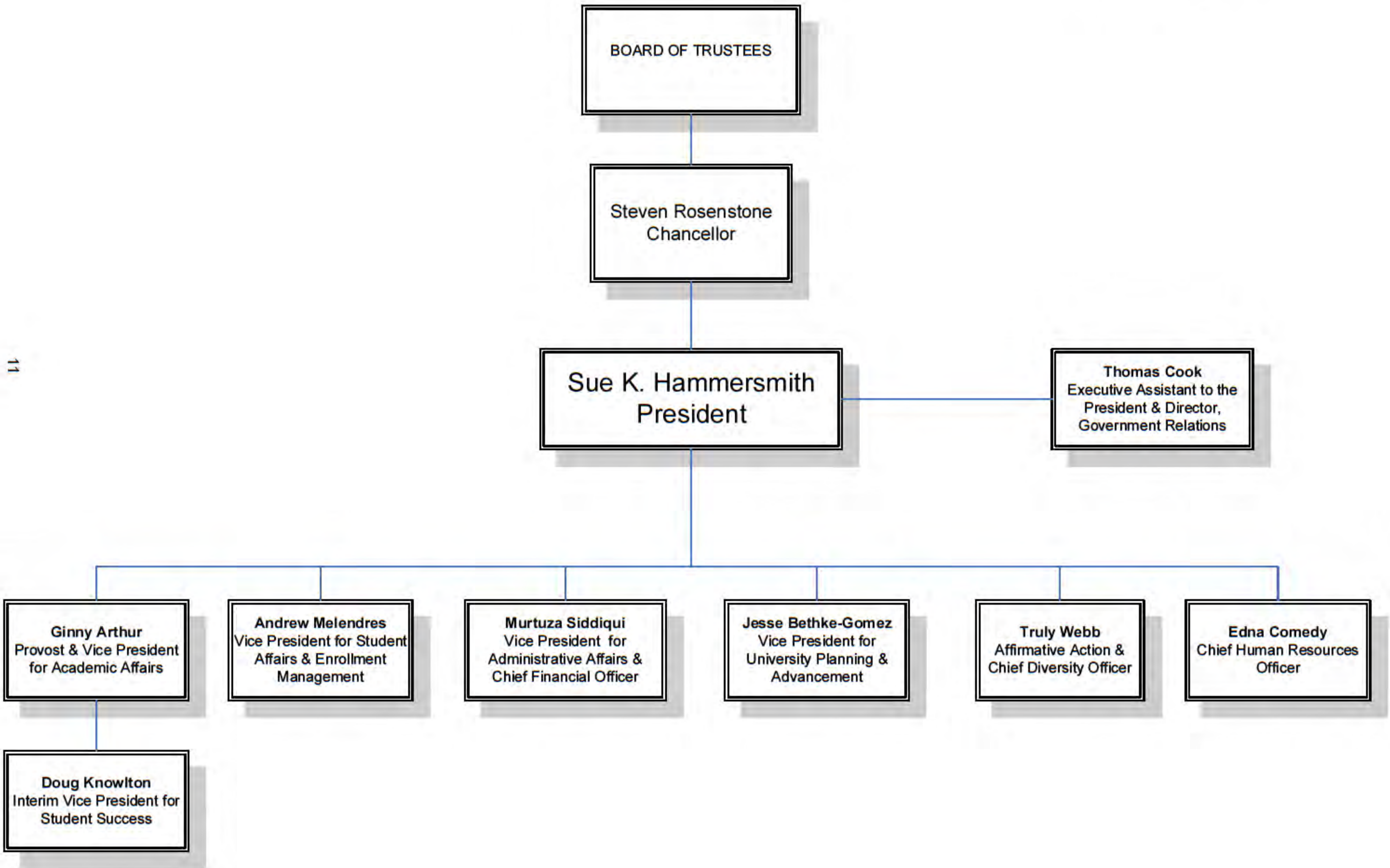
Organizational Chart
June 30, 2013

Metropolitan State University



The financial activity of the Metropolitan State University is included in this report. 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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan State University (the University), a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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 the Metropolitan State University Foundation, which represents 100% of the total assets and total revenues of the discretely presented component unit of Metropolitan State University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Metropolitan State University Foundation, is based solely on the report of the 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 consolidated financial statements are free from material misstatement. The financial statements of the Metropolitan 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 entity'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 University'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.

Auditors' Responsibility (Continued)

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 Metropolitan State University as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows, were applicable, thereof 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 – Net Other Postemployment Benefit Plan 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 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.

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 Metropolitan State University's internal control over financial reporting and on 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 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 Metropolitan State University's internal control over financial reporting and compliance.

Clifton Larson Allen LLP

CliftonLarsonAllen 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 Metropolitan State University for the fiscal years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Metropolitan State University is a member of the Minnesota State Colleges and Universities (MnSCU) system, one of two systems of public higher education in the state of Minnesota (the other is the University of Minnesota). The Minnesota State Colleges and Universities system has 31 institutions with 54 campuses conveniently located in 47 Minnesota communities that serve more than 430,000 students. The law creating the system was passed by the Minnesota Legislature in 1991 and went into effect July 1, 1995. The law merged the state's community colleges, technical colleges and state universities into one system.

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

The University is a comprehensive public institution of higher learning with over 11,000 students with an average age of 32. Over 99 percent of the undergraduate degree-seeking students that matriculated in the 2012-2013 academic year were transfer students that attended between one and twelve institutions prior to enrolling at Metropolitan State University. Approximately 90 percent of students work while attending school, most full time. The University employs about 1,300 faculty and staff members, including approximately 550 part-time community faculty who are often practitioners in the fields in which they teach.

The colleges and centers that comprise the University's academic programs are as follows:

- College of Arts & Sciences
- College of Health, Community, and Professional Studies
- College of Individualized Studies
- College of Management
- Library and Information Services
- School of Law Enforcement and Criminal Justice
- School of Nursing
- School of Urban Education
- Center of Academic Excellence
- Center of Excellence/Advance IT Minnesota
- Center for Online Learning
- Institute for Community Engagement & Scholarship

The University offers certificate programs; baccalaureate, masters and doctorate degrees, and the University participates in the Minnesota Transfer Curriculum. The University is accredited by the Higher Learning Commission. The largest program-based student majors are business, individualized programs, accounting, psychology, criminal justice and human services. Our individualized program, which enables students to customize degree requirements to fit their individual academic aspirations, is one of the unusual opportunities offered at Metropolitan State University. The Urban Teacher Program, which was developed in collaboration with Minneapolis Community and Technical College, Inver Hills Community College, and the Minneapolis and St. Paul Public Schools, is a unique program designed to increase the number of teachers of color in urban schools.

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College. This relationship continues to provide an exciting opportunity to collaborate with a partner school on programming to benefit our combined student population, by providing a learning bridge for the students who are transitioning from a two-year system to a four-year state university.

The University's School of Law Enforcement and Criminal Justice is co-located in the Law Enforcement and Criminal Justice Education Center on the Brooklyn Park campus of Hennepin Technical College. This facility provides the unique environment needed for criminal justice and law enforcement training, including an on-campus simulation center and forensics laboratory, and specialized SKILLS program.

During fiscal 2014, the University will seek academic partnerships with a number of two year community and technical colleges to assist their existing students with a smooth transition to a four year institution. The partnership will allow the two year students to continue their baccalaureate educational journey, while remaining at their current two year college campus.

The University continues to partner with Saint Paul College and Minneapolis Community and Technical College in "The Power of You" program. This is a program that makes the first two years of college possible by covering the difference between tuition charges, and Pell and state grants, making tuition free. This funding is available to individuals who have graduated from a public school in Minneapolis or Saint Paul beginning in 2007, are current residents of either of these cities, and meet the criteria for limited income and first generation college students.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong during fiscal year 2013. Support from state appropriation revenue increased by $0.2 million, and gross tuition revenue increased by $2.6 million due to an increase of 5 percent in tuition rates and enrollment increases of approximately 3 percent. Total net operating revenue increased $1.9 million due to the tuition and enrollment increases, but was offset by $3.1 million increase in operating expenses, primarily in compensation expenses.

For the fiscal years ended June 30, assets totaled $115.9 million and $78.1 million in fiscal years 2013 and 2012, respectively, compared to liabilities of $56.1 million and $21.3 million, respectively. Net position, which represent the residual interest in the University's assets after liabilities are deducted, are comprised of $33.6 million and $33.5 million, respectively, in net investment in capital assets; $2.0 million and $1.6 million, respectively, in restricted net position; and $24.2 million and $21.7 million, respectively, of unrestricted net position for fiscal years ended June 30, 2013 and 2012, respectively. The fiscal year 2013 increase in unrestricted net position represents an increase of 11.5 percent over the ending net position in fiscal year 2012, and 32.2 percent increase over unrestricted net position as of June 30, 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 applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net position categories. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements.

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

	2013	2012	2011
Current assets	$ 40,413	$ 36,521	$ 35,245
Restricted assets	34,271	101	1,445
Noncurrent assets	41,135	41,478	46,829
Total assets	115,819	78,100	83,519
Current liabilities	9,772	8,909	11,111
Noncurrent liabilities	46,300	12,417	16,285
Total liabilities	56,072	21,326	27,396
Net position	$ 59,747	$ 56,774	$ 56,123

Current assets consist primarily of cash and cash equivalents totaling $36.1 million at June 30, 2013, an overall increase of $3.2 million in unrestricted cash and cash equivalents over the prior year, and represents approximately 6.5 months of operating expenses (excluding depreciation). This is compared to 6.2 months and 6.2 months for the fiscal years ended June 30, 2012 and 2011, respectively.

Restricted assets increased by $34.2 million during fiscal year 2013 due to the sale of Revenue Bonds for design and construction of a parking ramp and a student center on the University's Saint Paul campus.

Current liabilities consist primarily of salaries and benefits payable, unearned revenue, accounts payable, current obligations for repayment of debt, and other compensation benefits. Salaries and benefits payable totaled $4.0 million at June 30, 2013, an increase of $0.9 million compared to fiscal year 2012. Approximately $0.5 million of the increase was due to the timing of when the benefit payments due to third party providers were disbursed on July 1 of the current year 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. Salaries payable also includes $1.8 million representing approximately two months of earned salary for faculty on nine month contracts who have elected to receive salaries over a twelve month period from August 2012 until August 2013.

Noncurrent liabilities are composed primarily of the noncurrent portion of long-term debt, and other compensation benefits. During fiscal year 2013, long-term debt increased primarily due to the $31.5 million for Revenue Bonds sold for construction of a parking ramp and a student center on the Saint Paul campus, and $2.6 million for Revenue Bond premium payable.

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

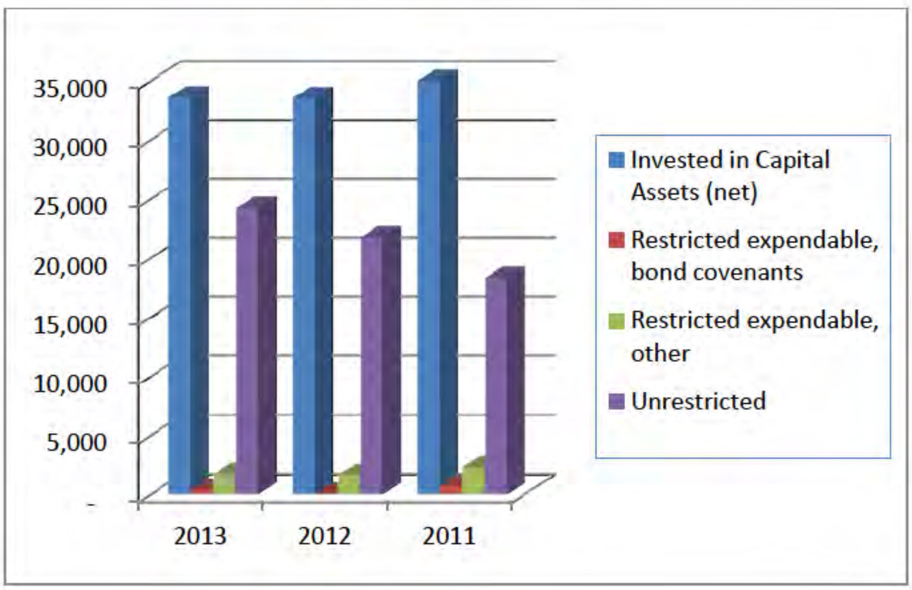
	2013	2012	2011
Net investment in capital assets	$ 33,564	$ 33,513	$ 34,953
Restricted	1,998	1,569	2,878
Unrestricted	24,185	21,692	18,292
Total net position	$ 59,747	$ 56,774	$ 56,123

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

Restricted - primarily includes debt service, donations received for specific purposes, capital projects, faculty contracts, and funds reserved for legislatively mandated purposes.

Changes in net position for fiscal years 2011 through 2013 are presented as follows:

Net Position (In Thousands)



CAPITAL AND DEBT ACTIVITIES

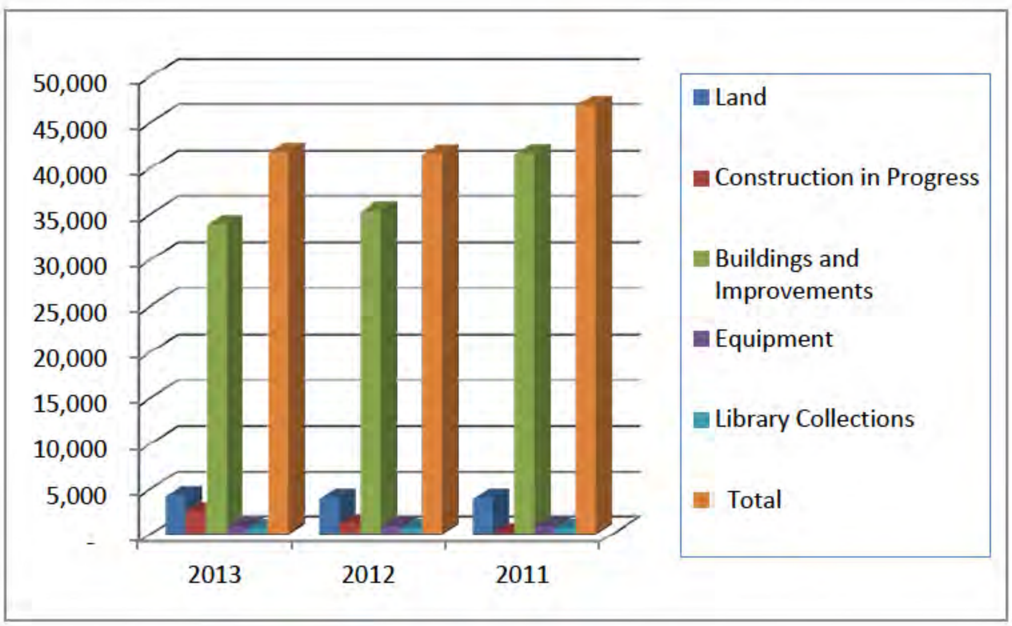
One of the critical factors in continuing the quality of the University's academic programs and student life is the development and renewal of its capital assets. During fiscal year 2012 the University updated its master facilities plan to maintain its complement of existing facilities while systematically addressing new construction needs. Capital assets as of June 30, 2013 totaled $41.7 million, net of accumulated depreciation of $24.3 million. Total capital assets net of accumulated depreciation increased during fiscal year 2013 by $0.2 million.

In the 2011 legislative session, the University was awarded $3.44 million in general obligation bonds for design of a new Science Education Center on the St. Paul campus. The design project is expected to be completed during fiscal year 2014.

In February 2013, Minnesota State Colleges and Universities sold Revenue Bonds in the amount of $33.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus of Metropolitan State University. Construction of the parking ramp is expected to begin during fiscal year 2014 and to be completed during fiscal year 2015, at a cost of approximately $18.9 million. The student center construction is expected to proceed concurrently with the parking ramp, with its completion expected early in fiscal year 2016, at a cost of approximately $12.7 million. The parking ramp Revenue Bonds are tax-exempt bonds, while the student center Revenue Bonds include $11.1 million in tax-exempt and $1.6 million in taxable bonds.

Additional information on capital and debt activities can be found in Note 5 and Note 7 to the financial statements.

Capital Assets, Net of Depreciation (In Thousands)



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position present the University's results of operations for the year. When reviewing the full statements, users should note that GASB requires classification of state appropriations as non-operating revenue. Summarized statements for the years ended June 30, 2013, 2012 and 2011, respectively, follow (in thousands):

	2013	2012	2011
Operating revenue:			
Tuition, fees and sales, net	$ 31,991	$ 30,232	$ 29,122
Restricted student payments	—	—	1,376
Other revenue	280	134	45
Total operating revenue	32,271	30,366	30,543
Nonoperating revenue:			
State appropriations	20,758	20,524	21,650
Capital appropriations	926	702	3,797
Other	18,786	17,729	17,444
Total nonoperating revenue	40,470	38,955	42,891
Total revenue	72,741	69,321	73,434
Operating expense:			
Salaries and benefits	49,897	46,850	45,829
Services and other expenses	15,689	16,200	15,063
Depreciation	2,261	2,313	2,367
Financial aid, net	1,313	739	1,820
Total operating expense	69,160	66,102	65,079
Nonoperating expense:			
Interest expense	535	359	527
Other	73	2,209	9,652
Total nonoperating expense	608	2,568	10,179
Total expense	69,768	68,670	75,258
Change in net position	2,973	651	(1,824)
Net position, beginning of year	56,774	56,123	57,947
Net position, end of year	$ 59,747	$ 56,774	$ 56,123

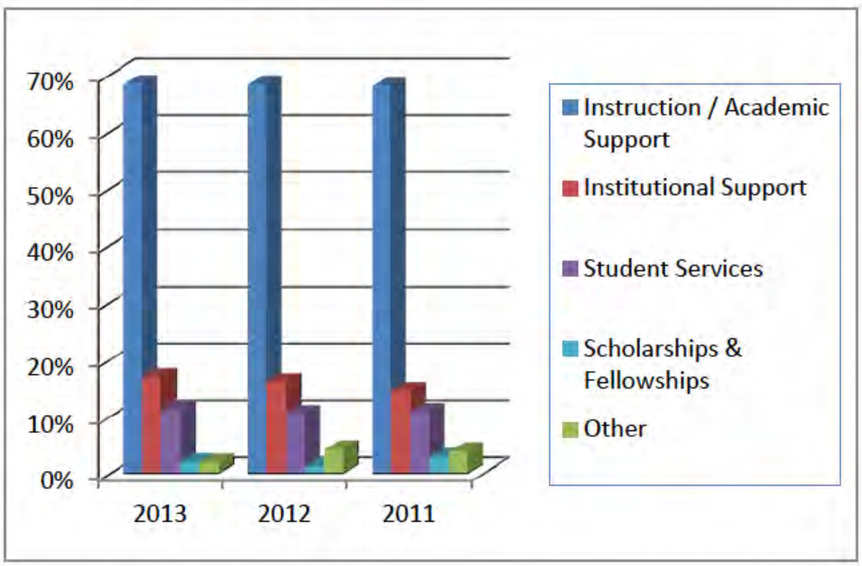
Tuition and state appropriations are the primary sources of funding for the University's academic programs. The University has experienced an increase in student enrollment by 179 full-year equivalent (FYE) students, which represents approximately a 2.9 percent increase over fiscal year 2012. Enrollment levels totaled 6,266, 6,086, and 5,850 full year equivalent students for fiscal years ended June 30, 2013, 2012, and 2011, respectively. In addition to the enrollment increases seen in each of those years, tuition revenue also increased as a result of tuition rate increases in each of the last three fiscal years. Tuition rates increased 5.6 percent from fiscal year 2011 to fiscal year 2012, and 5.0 percent from fiscal year 2012 to fiscal year 2013. State appropriation revenue increased in fiscal year 2013 by $0.2 million to $20.8 million, representing a 1.1 percent increase over fiscal year ended June 30, 2012 and 4.1 percent decrease from the fiscal year ended June 30, 2011.

Capital appropriations have fluctuated over the past three fiscal years, with the University receiving $0.9 million, $0.7, and $3.8 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

Salary expenses for employee compensation totaled $38.5 million for the fiscal year ended June 30, 2013, which represents an increase of $2.1 million over the prior year. Increases in salary expense are the result of addition of seven full-time equivalent (FTE) employees during fiscal year 2013, as well as payment of retroactive salary adjustments due to settlement of bargaining unit agreements prior to June 30, 2013.

One way to examine a teaching institution's focus on its mission is by reviewing the percentage of its operating expenses dedicated to instructional costs. Instructional costs are defined as costs of direct instruction plus costs for academic support (i.e. academic advisors, college support staff, library, academic computing, etc.). From the perspective of the higher education industry, the higher this percentage is, the more mission-focused the institution is considered to be, with 50 percent as the minimum recommended threshold. The chart below displays this information for the University for fiscal years 2013, 2012, and 2011. Metropolitan State University has consistently exceeded this threshold each of those years, investing 68 percent of its operating budget into direct instructional activities during each of the last 3 fiscal years, indicating that the University continues to stay focused on the core teaching mission of the institution.

Operating Expenses by Functional Classification



FOUNDATION

The Metropolitan State University Foundation is a component unit of Metropolitan State University. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. Additional information regarding the Foundation can be found in Note 18 to the financial statements. The Foundation helps the University raise funds, provides financial support to students, and assists the University fund projects consistent with the University's mission.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue to remain in a relatively sound financial condition and level of excellence. Unlike more traditional institutions, the University's focus has always been on adult students, which are projected to be a growth market in higher education. With nearly 100,000 students in attendance at metropolitan-area community and technical colleges, the University is positioning itself to be the provider for upper level courses for those students. As the most diverse public university in the state, the University has worked hard to become an institution of choice for communities of color and recent immigrants, and thus is well-positioned to take advantage of the demographic projections in those groups.

The University continues to face challenges in space allocation and usage for classrooms, faculty and staff offices. the University is being considered to receive bond funding for a new Science Education Center. The projects are currently number two on MnSCU's funding priority for the upcoming 2014 legislative session. Decision for funding will be determined by Legislature.

However, as the condition of the economy in Minnesota as well as other states improves, the University expects to face some challenges with enrollment growth and management in the future. Enrollment has slowed, and it has been growing at a lower rate of change than over the past years. The revised projections for the rate of growth for fiscal years 2014 through 2016 are expected to be lower than prior estimates.

An ongoing challenge for the University will be staying financially accessible, given the shifts in funding sources for public higher education in Minnesota. In the year 2000, the state of Minnesota paid about 65 percent of the cost of education for the University students, with tuition and other revenue covering the other 35 percent. In fiscal year 2013, the University's base appropriation declined to 29 percent of total revenue, compared to 30 percent and 31 percent for fiscal years 2012 and 2011, respectively, with tuition and other student-based revenue accounting for the other 71 percent. The more reliant the University must be on tuition as its primary source of income, the more difficult it will be to remain affordable. The financial projections for the state of Minnesota indicate a lower budget deficit than anticipated in the past, but funding for higher education will remain in flux until there is funding reprioritization at the Legislature.

During the fiscal year ended June 30, 2013, the University saw a significant increase in the percentage of students eligible for and receiving federal and state financial aid. In fiscal year 2013, 70.9 percent of students were eligible for financial aid programs, compared to 62.7 percent and 60.0 percent in the fiscal years ended June 30, 2012 and 2011, respectively. While the number of students eligible for financial aid rose significantly, the average amount of financial aid awards remained almost constant over the prior year. In fiscal year 2013, the average financial aid award was $8,859, compared to $8,870 and $8,363 in fiscal years 2012 and 2011, respectively. As the University becomes more reliant on financial aid as a payment method for students, changes in federal and state legislation regarding financial aid program funding could have a material effect on students' ability to pay for higher education and affect enrollment at the University.

The University anticipates challenges in the future with tuition rate growth. During the 2013 session, the Legislature froze undergraduate tuition rates for the next two academic years. Additional appropriation was set aside for the colleges and universities as an offset to lost tuition revenue due to the freeze, but the future impact of the tuition freeze will extend beyond the next two years.

In summary, the University will face challenges in the upcoming 2015-2016 biennium and beyond as it attempts to cope with enrollment growth and management, reduced state appropriations, potential changes in financial aid funding, and restrictions on tuition rate increases.

REQUESTS FOR INFORMATION

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

Chief Financial Officer/Vice President for Administrative Affairs
Metropolitan State University
700 East 7th Street
St. Paul, MN 55106-5000

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

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 36,139	$ 32,916
Grants receivable	867	950
Accounts receivable, net	2,377	1,635
Prepaid expense	1,022	1,013
Other assets	8	7
Total current assets	40,413	36,521
Current Restricted Assets		
Cash and cash equivalents	33,748	101
Total current restricted assets	33,748	101
Noncurrent Restricted Assets		
Construction in progress	523	-
Total noncurrent restricted assets	523	-
Total restricted assets	34,271	101
Noncurrent Assets		
Capital assets, net	41,135	41,478
Total noncurrent assets	41,135	41,478
Total Assets	115,819	78,100
Liabilities		
Current Liabilities		
Salaries and benefits payable	4,004	3,120
Accounts payable	1,417	1,575
Unearned revenue	2,457	2,540
Payable from restricted assets	151	325
Interest payable	333	-
Funds held for others	102	25
Current portion of long-term debt	736	717
Advances to other schools	31	-
Other compensation benefits	541	607
Total current liabilities	9,772	8,909
Noncurrent Liabilities		
Noncurrent portion of long-term debt	40,978	7,248
Other compensation benefits	5,322	5,169
Total noncurrent liabilities	46,300	12,417
Total Liabilities	56,072	21,326
Net Position		
Net investment in capital assets	33,564	33,513
Restricted expendable, bond covenants	316	-
Restricted expendable, other	1,682	1,569
Unrestricted	24,185	21,692
Total Net Position	$ 59,747	$ 56,774

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 1,559	$ 1,368
Investments	375	588
Pledges and contributions receivable, net	75	74
Other receivables	3	3
Total current assets	2,012	2,033
Noncurrent Assets		
Investments held for endowment	2,860	2,736
Other assets held for endowment	63	130
Total noncurrent assets	2,923	2,866
	$ 4,935	$ 4,899
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 547	$ 49
Scholarships payable	10	82
	557	131
Net Assets		
Unrestricted	356	330
Temporarily restricted	1,578	2,009
Permanently restricted	2,444	2,429
	4,378	4,768
Total Liabilities and Net Assets	$ 4,935	$ 4,899

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 29,180	$ 27,452
Fees, net	1,881	1,867
Sales, net	930	913
Other income	280	134
Total operating revenues	32,271	30,366
Operating Expenses		
Salaries and benefits	49,897	46,850
Purchased services	9,504	8,669
Supplies	2,182	2,533
Repairs and maintenance	1,150	1,406
Depreciation	2,261	2,313
Financial aid, net	1,313	739
Other expense	2,853	3,592
Total operating expenses	69,160	66,102
Operating loss	(36,889)	(35,736)
Nonoperating Revenues (Expenses)		
Appropriations	20,758	20,524
Federal grants	13,412	13,061
State grants	3,969	2,931
Private grants	1,189	1,194
Interest income	216	198
Interest expense	(535)	(359)
Grants to other organizations	(24)	(24)
Total nonoperating revenues (expenses)	38,985	37,525
Income Before Other Revenues, Expenses, Gains, or Losses	2,096	1,789
Capital appropriations	926	702
Transfer of assets	-	(2,184)
Donated assets and supplies	-	345
Loss on disposal of capital assets	(49)	(1)
Change in net position	2,973	651
Total Net Position, Beginning of Year	56,774	56,123
Total Net Position, End of Year	$ 59,747	$ 56,774

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 804	$ 361	$ 10	$ 1,175	$ 1,472
Unrealized gains	13	1	5	19	13
Investment income (loss)	51	208	-	259	(70)
Net assets released from restrictions	989	(989)	-	-	-
Total support and revenue	1,857	(419)	15	1,453	1,415
Expenses					
Program services					
Program Services	1,202	-	-	1,202	1,337
Total program services	1,202	-	-	1,202	1,337
Supporting services					
Management and general	277	-	-	277	210
Fundraising	364	-	-	364	407
Total supporting services	641	-	-	641	617
Total expenses	1,843	-	-	1,843	1,954
Change in Net Assets	14	(419)	15	(390)	(539)
Net Assets, Beginning of Year	330	2,009	2,429	4,768	5,307
Net Asset Transfer Related to Application of UPMIFA	12	(12)	-	-	-
Net Assets, End of Year	$ 356	$ 1,578	$ 2,444	$ 4,378	$ 4,768

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 31,500	$ 29,717
Cash paid to suppliers for goods or services	(15,871)	(15,567)
Cash payments for employees	(48,925)	(47,892)
Financial aid disbursements	(1,313)	(739)
Net cash flows used in operating activities	(34,609)	(34,481)
Cash Flows from Noncapital Financing Activities		
Appropriations	20,758	20,524
Federal grants	13,287	12,726
State grants	3,969	2,931
Private grants	1,189	1,194
Agency activity	77	(38)
Loans from other schools	31	-
Grants to other organizations	(24)	(24)
Net cash flows provided by noncapital financing activities	39,287	37,313
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(2,678)	(1,804)
Capital appropriation	926	479
Inter-capital transfer of restricted cash	164	(1,536)
Proceeds from sale of capital assets	5	1
Proceeds from borrowing	31,916	431
Proceeds from bond premium	2,786	51
Interest paid	(172)	(394)
Repayment of bond principal	(731)	(720)
Net cash flows provided by (used in) capital and related financing activities	32,216	(3,492)
Cash Flows from Investing Activities		
Investment earnings	(24)	101
Net cash flows provided by (used in) investing activities	(24)	101
Net Increase (Decrease) in Cash and Cash Equivalents	36,870	(559)
Cash and Cash Equivalents, Beginning of Year	33,017	33,576
Cash and Cash Equivalents, End of Year	$ 69,887	$ 33,017

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Loss	$ (36,889)	$ (35,736)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	2,261	2,313
Donated and leased equipment not capitalized	-	345
Change in assets and liabilities		
Accounts receivable	(668)	(94)
Accounts payable	(157)	278
Salaries and benefits payable	884	(1,205)
Other compensation benefits	88	163
Unearned revenues	(104)	(555)
Other liabilities	(24)	10
Net reconciling items to be added to operating loss	2,280	1,255
Net cash flow used in operating activities	$ (34,609)	$ (34,481)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 151	$ 343
Amortization of bond premium	239	98
Capital assets net of related debt transfer	-	(640)

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Metropolitan State University, a member of the Minnesota State Colleges and Universities system, conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows include financial activities of Metropolitan 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. Metropolitan State University receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* Metropolitan 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 Metropolitan State University Foundation, 700 East Seventh Street, St. Paul, MN 55106-5000.

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 — University budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, differs from GAAP. University budgetary accounting includes all receipts and expenses up to the close of the books in August for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenses is the actual disbursement, not when the goods or services are received.

The state of Minnesota operates on a two year (biennial) budget cycle ending on June 30 of odd numbered years. Minnesota State Colleges and Universities is governed by a 15 member Board of Trustees appointed by the Governor with the advice and consent of the state senate. The Board approves the University biennial budget request and allocation as part of the Minnesota State Colleges and Universities' total budget.

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

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 biennia.

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 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. The Revenue Fund holds restricted cash for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net position of revenue producing facilities. 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 has one checking account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary operations, 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 allocated to the colleges and universities.

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. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

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

Prepaid Expense — Prepaid expense consists primarily of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

Capital Assets — Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. Estimated historical cost has been used when actual cost is not available. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets.

Estimated useful lives are as follows:

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

Equipment includes all items with an original cost of $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 amount spent.

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

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 compensated absences, early termination benefits, net other postemployment benefits, and workers' compensation claims.

Minnesota State Colleges and Universities may finance the construction, renovation, and acquisition of facilities for student residences, student unions, and parking facilities 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 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 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 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. The University does not conduct retail sales. See Note 11 for additional information.

Federal Grants — The University participates in several federal grant programs. The largest programs include Pell, TRIO, Supplemental Educational Opportunity Grant, and Federal Work Study. 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 University 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 are 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:
        Capital projects — restricted for completion of capital projects.
        Debt service — legally restricted for bond repayments.
        Donations — restricted per donor requests.
        Faculty contract obligations — faculty development and travel required by contracts.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Capital projects	$ 12	$ —
Debt service	956	969
Donations	247	34
Faculty contract obligations	467	566
Total	$ 1,682	$ 1,569

- *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. The fiscal year 2013 income statement reflects $293,978 of expense related to current year bond issuance costs.

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 a checking account in a local bank. The activities handled through the local bank 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.

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State Colleges and Universities' name. Category 3 includes uncollateralized cash and cash equivalents. All the University's cash and cash equivalents are classified as Category 1.

At June 30, 2013 and 2012, the University's bank balance was $2,397,260 and $2,518,358 respectively. These bank 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 following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands)				
Carrying Amount		2013		2012
Cash, in bank	$	2,129	$	2,163
Cash, trustee account (US Bank)		33,450		—
Total local cash and cash equivalents		35,579		2,163
Total treasury cash accounts		34,308		30,854
Grand Total	$	69,887	$	33,017

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 the 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, the 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.

At June 30, 2013 and 2012, the University held no investments.

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 an investment. The University complies with Board procedure 7.5.1 that recommends considering fluctuation interest rates and cash flow needs when purchasing short term and long term investments.

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 University were $3,678,035 and $2,604,238, respectively, less an allowance for uncollectible receivables of $1,300,742 and $968,950, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 2,002	$ 1,351
Financial aid	313	393
Fees	206	146
Sales and services	144	38
Third party obligations	426	321
Other	587	355
Total accounts receivable	3,678	2,604
Allowance for uncollectible accounts	(1,301)	(969)
Net accounts receivable	$ 2,377	$ 1,635

The allowance for uncollectible accounts has been computed based on the following aging schedule for fiscal years 2013 and 2012:

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 $956,566 and $969,592 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 $65,657 and $43,526, 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	$ 3,935	$ 258	$ —	$ —	$ 4,193
Construction in progress	1,048	2,062	177	(462)	2,471
Total capital assets, not depreciated	4,983	2,320	177	(462)	6,664
Capital assets, depreciated:					
Buildings and improvements	55,329	—	—	462	55,791
Equipment	2,381	200	389	—	2,192
Library collections	1,422	162	241	—	1,343
Total capital assets, depreciated	59,132	362	630	462	59,326
Less accumulated depreciation:					
Buildings and improvements	20,088	1,910	—	—	21,998
Equipment	1,681	159	325	—	1,515
Library collections	868	192	241	—	819
Total accumulated depreciation	22,637	2,261	566	—	24,332
Total capital assets depreciated, net	36,495	(1,899)	64	462	34,994
Total capital assets, net	$ 41,478	$ 421	$ 241	$ —	$ 41,658

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 3,935	$ —	$ —	$ —	$ 3,935
Construction in progress	78	1,224	—	(254)	1,048
Total capital assets, not depreciated	4,013	1,224	—	(254)	4,983
Capital assets, depreciated:					
Buildings and improvements	67,138	—	12,063	254	55,329
Equipment	2,511	197	327	—	2,381
Library collections	1,610	175	363	—	1,422
Total capital assets, depreciated	71,259	372	12,753	254	59,132
Less accumulated depreciation:					
Buildings and improvements	25,617	1,902	7,431	—	20,088
Equipment	1,798	208	325	—	1,681
Library collections	1,028	203	363	—	868
Total accumulated depreciation	28,443	2,313	8,119	—	22,637
Total capital assets depreciated, net	42,816	(1,941)	4,634	254	36,495
Total capital assets, net	$ 46,829	$ (717)	$ 4,634	$ —	$ 41,478

6. ACCOUNTS PAYABLE

Accounts payable represent amounts due at June 30, 2013 and 2012, 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	$ 817	$ 866
Interagency agreements	2	171
Capital assets	—	18
Supplies	65	201
Financial aid	122	—
Other payables	411	319
Total	$ 1,417	$ 1,575

In addition, as of June 30, 2013 and 2012, the University had payable from restricted assets in the amounts of $151,266 and $324,568, respectively, which were related to capital projects financed by general obligation bonds.

7. LONG TERM OBLIGATIONS

Summaries of amounts that are 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 are as follows:

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 830	$ 2,786	$ 239	$ 3,377	$ —
General obligation bonds	7,135	381	714	6,802	736
Revenue bonds	—	31,535	—	31,535	—
Total long-term debt	$ 7,965	$ 34,702	$ 953	$ 41,714	$ 736

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 877	$ 51	$ 98	$ 830	$ —
General obligation bonds	7,467	431	763	7,135	717
Revenue bonds	3,984	—	3,984	—	—
Total long-term debt	$ 12,328	$ 482	$ 4,845	$ 7,965	$ 717

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	$ 4,403	$ 556	$ 491	$ 4,468	$ 520
Early termination benefits	4	—	4	—	—
Net other postemployment benefits	1,121	297	67	1,351	—
Workers' compensation	248	19	223	44	21
Total other compensation benefits	$ 5,776	$ 872	$ 785	$ 5,863	$ 541

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 4,315	$ 563	$ 475	$ 4,403	$ 491
Early termination benefits	—	4	—	4	4
Net other postemployment benefits	889	369	137	1,121	—
Workers' compensation	409	40	201	248	112
Total other compensation benefits	$ 5,613	$ 976	$ 813	$ 5,776	$ 607

Bond Premium— Bonds were issued in fiscal years 2013 and 2012 resulting in premiums of $2,786,301 and $50,625, respectively. Amortization is calculated using the straight-line method and amortized over the remaining average 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 University's share.

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 hall, food service, student union, and other revenue producing and related facilities at the state universities. Revenue funds currently outstanding have interest rates of 1.0 percent to 4.0 percent.

In fiscal year 2013 new bonds were issued totaling $31.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus.

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 8 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 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 $44,107 and $248,151 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 and revenue bonds. There are no payment schedules for compensated absences, early termination benefits, net other postemployment benefits, or workers' compensation.

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2014	$ 736	$ 325	$ —	$ 1,236
2015	676	281	—	1,141
2016	644	248	—	1,141
2017	585	216	1,305	1,118
2018	585	187	1,345	1,070
2019-2023	2,290	564	7,580	4,556
2024-2028	853	170	8,810	2,972
2029-2033	433	30	10,290	1,156
2034-2038	—	—	2,205	33
Total	$ 6,802	$ 2,021	$ 31,535	$ 14,423

8. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. The Inter Faculty Organization (IFO) contract provides for this benefit. The following is a description of the benefit arrangements, 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.

There was no future liability in fiscal year 2013 and there was one retired faculty member who received $4,000 of future liability for fiscal year 2012.

9. 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 4 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 30 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)	$ 289	$ 361
Interest on net OPEB obligation	53	42
Adjustment to ARC	(45)	(34)
Annual OPEB cost	297	369
Contributions during the year	(67)	(137)
Increase in net OPEB obligation	230	232
Net OPEB obligation, beginning of year	1,121	889
Net OPEB obligation, end of year	$ 1,351	$ 1,121

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 year net OPEB obligation	$ 1,121	$ 889
Annual OPEB cost	297	369
Employer contribution	(67)	(137)
End of year net OPEB obligation	$ 1,351	$ 1,121
Percentage contributed	22.56%	37.13%

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.

(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	$ —	$ 2,194	$ 2,194	0.00%	$ 36,430	6.02%

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.

10. 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 totaled $1,241,806 and $1,295,413 for fiscal years 2013 and 2012, respectively.

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC). The University has an agreement with MCTC to reimburse MCTC for a share of facilities expenses.

The University has an operating agreement with Hennepin Technical College (HTC) to lease space at the Law Enforcement and Criminal Justice Education Center, located on the campus of HTC. The agreement allocates operating expenses between the University and HTC based on square footage allocated to each institution. The operating agreement is effective until July 1, 2015.

The University has extended the lease for current space at the Midway Campus through July 31, 2018. In addition, the University entered into a new lease agreement effective August 1, 2013 through December 31, 2019 for increased leased space at the Midway Campus. Due to excess capacity in the Twin Cities' current office space market, the effect on total lease costs per annum is minimal.

Future minimum lease payments are as follows:

Year Ended June 30 (In Thousands)	
Year	Amount
2014	$ 1,232
2015	1,287
2016	1,308
2017	1,252
2018	1,271
2019-2023	445
Total	$ 6,795

Income Leases — The University has an income lease with the Saint Paul Public Library Dayton's Bluff Branch that commenced on July 1, 2004 and continues through June 30, 2014.

The University has an income lease with Verizon for a lease for cell phone tower located on campus. The current lease commenced February 6, 2004 and continues through February 5, 2014. Future expected income receipts for this lease includes a payment of $101,000 in fiscal year 2014.

11. TUITION, FEES, AND SALES, NET

The following tables provide 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	$ 43,085	$ (13,905)	$ 29,180	$ 40,460	$ (13,008)	$ 27,452
Fees	2,158	(277)	1,881	2,214	(347)	1,867
Sales	930	—	930	913	—	913
Total	$ 46,173	$ (14,182)	$ 31,991	$ 43,587	$ (13,355)	$ 30,232

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	$ 11,387	$ 3,714	$ 5,412	$ 162	$ 20,675
Institutional support	5,398	1,656	4,562	76	11,692
Instruction	17,087	4,392	4,872	230	26,581
Public service	34	10	41	—	85
Research	206	81	173	3	463
Student services	4,370	1,208	1,993	60	7,631
Auxiliary enterprises	28	326	897	4	1,255
Scholarships & fellowships	—	—	1,313	—	1,313
Less interest expense	—	—	—	(535)	(535)
Total operating expenses	$ 38,510	$ 11,387	$ 19,263	$ —	$ 69,160

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 11,208	$ 3,656	$ 4,341	$ 113	$ 19,318
Institutional support	3,625	1,157	5,880	37	10,699
Instruction	16,724	4,008	4,759	159	25,650
Public service	41	16	33	—	90
Research	604	164	284	6	1,058
Student services	4,181	1,137	1,498	41	6,857
Auxiliary enterprises	5	324	1,718	3	2,050
Scholarships & fellowships	—	—	739	—	739
Less interest expense	—	—	—	(359)	(359)
Total operating expenses	$ 36,388	$ 10,462	$ 19,252	$ —	$ 66,102

13. EMPLOYEE PENSION PLANS

The University 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 University 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 University, 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. Actual contributions were 100 percent of required contributions.

Required contributions for Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 403
2012	382
2011	372

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, 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 percent of required contributions.

Required contributions for Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 328
2012	269
2011	241

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

<u>General Information</u> — 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)

<u>Participation</u> — 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 Metropolitan State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 1,318	$ 984
2012	1,260	940
2011	1,168	873

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	Annual Maximum
Inter Faculty Organization	$ 6,000 to $ 51,000	$ 2,250
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Administrators	6,000 to 60,000	2,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Other Unclassified Members	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 Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 550
2012	547
2011	509

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 132 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 108 participants.

14. 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 parking ramp.

During fiscal year 2013, Minnesota State Colleges and Universities sold revenue bonds totaling $31.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus.

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

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 650	$ —
Restricted assets	33,748	—
Noncurrent assets	523	—
Total assets	34,921	—
Liabilities		
Current liabilities	416	—
Noncurrent liabilities	34,143	—
Total liabilities	34,559	—
Net Position		
Net investment in capital assets	—	—
Restricted	362	—
Total net position	$ 362	$ —
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 22	$ —
Operating expenses	(334)	—
Net operating income	(312)	—
Nonoperating revenues (expenses)	(192)	(2,184)
Capital contributions	866	—
Change in net position	362	(2,184)
Net position, beginning of year	—	2,184
Net position, end of year	$ 362	$ —
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 551	$ —
Investing activities	(135)	—
Capital and related financing activities	33,979	(1,618)
Net increase (decrease) in cash	34,395	(1,618)
Cash, beginning of year	—	1,618
Cash, end of year	$ 34,395	$ —

15. RELATED PARTY TRANSACTIONS

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC) and shares physical plant and institutional and academic support. The University and MCTC have an agreement to share costs using relevant cost bases. This agreement articulates a cost allocation methodology which ensures that equitable and complete costs are absorbed by both schools. In fiscal years 2013 and 2012, the University's shared cost expense was $425,294 and $437,312, respectively. The University had no shared costs payable to MCTC at June 30, 2013 and 2012, respectively.

The University leases space from Hennepin Technical College (HTC) in the Law Enforcement and Criminal Justice Education Center, a partnership between the University, MCTC, and HTC. As of July 1, 2010, ownership of the building was transferred to HTC, and the University and HTC 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 University recorded $338,818 in shared costs payable to HTC at June 30, 2013. The University also recorded shared costs receivable from HTC of $102,074 and $93,062 at June 30, 2013 and 2012 respectively, for reimbursable information technology services.

On July 1, 2011 the University executed an agreement with MCTC to transfer ownership of the Minneapolis parking ramp, a revenue bond funded project, to MCTC. The ownership transferred capital assets of $12.1 million less accumulated depreciation of $7.4 million, nonoperating cash of $1.5 million, and short and long term debt of $4.0 million, to MCTC from the University. This net change of $2.2 million is shown as a transfer of assets on the fiscal year 2012 financial statements.

16. COMMITMENTS AND CONTINGENCIES

In fiscal year 2011, the University received bond funds for design of the Science Education Center on the St. Paul campus. Total cost of the project is $3.4 million, of which $1,721,525 had been spent as of June 30, 2013. Residual commitments to the University total $1,722,475.

During fiscal year 2013, the University received revenue bond funds for the construction of a Parking Ramp and a Student Center on the St. Paul campus. Total cost of the Parking Ramp project is $18.9 million, of which $398,298 had been expended with residual commitments of $18,486,702 at June 30, 2013. Total cost of the Student Center project is $12.7 million, of which $124,284 had been expended with residual commitments of $12,252,716 at June 30, 2013.

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 manages these risks through state of 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. The University also purchases optional physical damage coverage for their newest or most expensive vehicles. Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage	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 and 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 University.

Student intern professional liability per occurrence	$1,000,000
Student intern professional liability annual aggregate	$5,000,000

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)

Fiscal Years Ended	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
June 30, 2013	$ 248	$ 19	$ 223	$ 44
June 30, 2012	409	40	201	248

18. COMPONENT UNITS

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with Metropolitan State University is a legally separate, tax exempt entity and reported as a component unit.

The Metropolitan State University Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University.
The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete. The Foundation is considered a component unit of the University and its 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 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 that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets*: Net assets subject to donor imposed restrictions as to how the assets will be used.
- *Permanently Restricted Net Assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The University received $303,342 and $253,775 in fiscal years 2013 and 2012, respectively, from the Foundation for scholarships. In addition, the University received $583,650 and $457,355 for program support for the fiscal years ended June 30, 2013 and 2012, respectively. The University pays the salaries and benefits of certain individuals providing services to the Foundation. The estimated value of these salaries and benefits was $512,000 and $471,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

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 statements of financial position.

Schedule of Investments at June 30
(In Thousands)

	2013	2012
Money market & certificate of deposit	$ 710	$ 420
Fixed income/bonds/US treasuries	938	977
Balanced mutual funds	905	1,200
Equity based mutual funds	513	568
Alternative investments	169	159
Total investments	$ 3,235	$ 3,324

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	$ (27)	$ 353	$ 2,429	$ 2,755
Change in value of trusts	—	206	15	221
Amounts appropriated for expenditures	—	(106)	—	(106)
Other transfers	12	(12)	—	—
Net assets, end of year	$ (15)	$ 441	$ 2,444	$ 2,870

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	$ (5)	$ 474	$ 2,410	$ 2,879
Change in value of trusts	—	(79)	20	(59)
Amounts appropriated for expenditures	—	(64)	—	(64)
Other transfers	(22)	22	(1)	(1)
Net assets, end of year	$ (27)	$ 353	$ 2,429	$ 2,755

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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METROPOLITAN 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	$ —	$ 3,245	$ 3,245	0.00%	$ 29,010	11.19%
July 1, 2008	—	2,323	2,323	0.00	29,905	7.77
July 1, 2010	—	2,709	2,709	0.00	35,364	7.66
July 1, 2012	—	2,194	2,194	0.00	36,430	6.02

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SUPPLEMENTARY SECTION

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

Board of Trustees
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 Metropolitan State University (the University), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Metropolitan State University's basic financial statements, and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the Metropolitan State University Foundation. The financial statements of the Metropolitan 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 Metropolitan 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations as item 2013-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Metropolitan State University's Response to the Finding

Metropolitan State University's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. Metropolitan State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the University's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 15, 2013

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