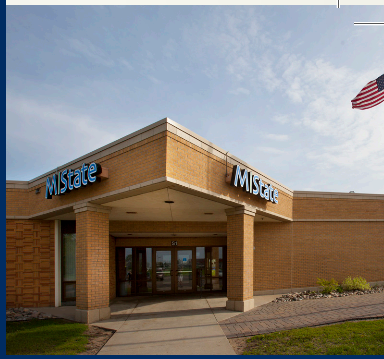

MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE

ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2013 and 2012

Minnesota State
Community and Technical College

MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

Minnesota State Community and Technical College
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Perham, MN 56573

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MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE

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

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Minnesota State
Community and Technical College

November 15, 2013

MnSCU Board of Trustees
Steven J. Rosenstone, Chancellor
350 Wells Fargo Place
30 East 7th Street
St. Paul, MN 55101

MnSCU Board of Trustees and Chancellor Rosenstone:

On behalf of Minnesota State Community and Technical College (M State), please accept this Audited Financial Report for the fiscal year ending June 30, 2013. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of our College operations for last year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Minnesota State Community and Technical College (M State) includes campuses in Detroit Lakes, Fergus Falls, Moorhead and Wadena, Minnesota. We also provide educational services on-site to a number of businesses and industries in greater Minnesota.

M State continues the implementation of its strategic plan which was developed during the 2011-12 academic year. The M State strategic plan is aligned with the Minnesota State Colleges and Universities (MnSCU) strategic framework which commits the College to ensuring access to an extraordinary education, being the partner of choice to meet workforce and community needs, and delivering the highest value and most affordable option for its constituents. The academic year 2012-13 began with an emphasis on the improvement our student success measures, preparation for both regional and professional accreditation, further collaboration with our university partners, the expansion of the customized training program throughout all of our regional communities, planning and preparing for capital bonding projects and significant renovation and rightsizing of all of our campuses, expanding partnerships with K-12, and pursuing increased revenue from outside sources.

Since 2011-12, M State continues to operate as one college under an organizational structure that appreciates the long and rich history of each of its campuses, yet values the efficiencies and stature of being one college which represents the fifth largest two-year college in the MnSCU System. M State remains fiscally viable, healthy and responsive in an ever-changing environment within uncertain economic conditions.

Ensure Access to an Extraordinary Education:

Enrollment for fiscal year 2012 and fiscal year 2013 remained relatively stable, but fiscal year 2014 saw an enrollment decline of approximately 5.4 percent. State and national trends reflect this trend as well. This was particularly true in rural areas. We credit our enrollment services strategy and staff for the slight decline in enrollment, as it could have been far worse. Much of the decline has been in the liberal arts and sciences—another national trend. The desire and need for careers has kept enrollment stable in most career programs. Our customized training and on-line education revenue continues to excel.

More than 1650 students graduated in 2013. The fall-to-fall persistence rate was at 54 percent. Within the past three years, 49 percent of M State students graduated or transferred to continue their education at another college. In 2013, health programs pass rates improved from the 70th percentile to the 90th percentile on certification exams.

M State is in the business of changing lives, and we have the privilege of serving and educating a much more diverse population than in the past. Twelve percent (up from 10 percent) of our students are of an ethnic background other than Caucasian/white, 46 percent have high financial need, 20 percent are first-generation students, and 55 percent are traditionally underrepresented. Improving the success rate of all of our students will remain challenging and at the forefront of our efforts. Numerous factors impact student success. Many of those factors cannot be addressed with existing resources, so we are making bold efforts to bring those services to the campus in an effort to improve student success. Remodeling, renovation and reimaging the campus environment will be necessary for this purpose. Although we already provide advising, crisis counseling, tutoring, learning communities, a robust and varied student life program, and an early alert process, much more focused attention will need to be provided to better ensure student retention and goal attainment. Financial advising has improved also.

The PSEO and concurrent enrollment programs continue to expand as well. Our *Center for College Readiness (CCR)* is designed to enroll and better prepare high-school students for college-level reading, writing and math. We have accelerated the emphasis of the CCR in our regional area now that the Access & Opportunity Grant funding has ended. It is our intent to expand use of this system locally to impact college readiness and success in our area of service. Students who complete the program while in high school may have the intake assessment (Accuplacer) requirement waived beginning in spring, 2014. We have had conversations with Minnesota Education Commissioner Casselius who realizes the value of the CCR products, and hopes we can work together to help improve college readiness across the State of Minnesota. If those efforts do not succeed, we will more than likely phase out the program.

M State is a member of the Academic Quality Improvement Program (AQIP), and its first system portfolio was submitted in June, 2013. The portfolio received an excellent evaluation, and the College will have HLC evaluators on campus in November, 2013. We expect the visit to go smoothly. This will be the first time in its history that the College will be accredited as one entire College.

In addition, we pursue professional accreditation for most of our health programs and other career programs. The Health Information Technology, Medical Lab Technician and Dental Hygiene and Assisting programs recently received continued accreditation. Our nursing programs are preparing for the nursing accreditation, and improved on nursing certification pass rates from the 70^{th} percentile to the $90 – 100^{th}$ percentile. We consider professional accreditation to be a distinction of quality in our programming, and a key relationship with the professional community.

We continue to focus on high quality transfer programs, and are working together with Minnesota State University - Moorhead to improve the preparedness of transfer students to the university through our new and innovative UP2U program designed by an M State faculty member as a sabbatical project.

Partnering to meet Workforce & Community Needs:

M State is committed to and invested in providing workforce education for our communities. From 2008 to 2013, M State has assisted in educating more than 8,736 graduates who are available for employment in their field of study. The last audited placement report indicated that approximately 84 percent of those students were placed in related employment. In addition, M State currently employs over 612 employees at locations across Minnesota, including the Moorhead, Fergus Falls, Detroit Lakes, and Wadena campuses plus the processing center in Perham, MN. M State partners with more than 50 high schools throughout the State to offer College Readiness programming and concurrent enrollment coursework.

The Customized Training program continues to grow and provided 95,463 training hours in fiscal year 2013, which was an increase of 37 percent over fiscal year 2012. The CT program is a very efficient operation which allows M State to reinvest back into the College to further pursue its goals and objectives. Customized training opportunities are now available at each campus community instead of just one.

The Business Entrepreneur Service (BES) program continues to provide business development and business incubator services to area emerging entrepreneurs. The BES program is a proud member of NACCE, the National Association of Community College Entrepreneurs. The M State BES Director was recently awarded a scholarship from NACCE to integrate a no-cost on-line business curriculum into the classroom. A free and very valuable on-line tool will be shared with classes and the community—HP LIFE (Learning Initiative for Entrepreneurs). This software allows those interested to learn business acumen and actively learn and enhance technology skills. It provides user access with over 50,000 users world-wide while working at their own pace to complete a variety of training modules in the areas of finance, operations, marketing and communications. The M State BES director is working with other faculty to incorporate this as a part of their curriculum where appropriate.

Delivering the Highest Value and Most Affordable Option to Constituents:

M State uses sound financial management practices and continually assesses how to productively meet current and future educational needs through innovation, efficiencies and shared services.

M State was the pioneer in payroll processing shared services and continues to serve additional clients.

Program performance is monitored annually for efficiency, and every three years on a rotational basis for effectiveness. Program costs are compared across the college from campus to campus to determine profitability, efficiency and effectiveness. Budgets are allocated accordingly.

New revenue is being generated from customized training, foundations, grant development and acquisition. We expect that we will continue to expand this area, as resource development will be key to our future success. Most recently, M State received a $2.25 million federal Title III grant. The purposes of the grant include:

- Improving business efficiencies and student access via immersive technologies
- Increasing faculty development and enhancing course and delivery formats
- Designing and implementing student support initiatives to improve student success in developmental and online courses
- Increasing data-driven decisions in support of Title III activities and College planning decisions.

The College provides a cost-effective higher education option for our stakeholders by focusing on stable tuition rates and aggressively monitoring our spending. We continue to explore and implement more effective strategies to improve student completion rates leading to graduation, transfer and/or job placement—particularly with the underserved population. We have begun a program which will monitor progress beginning this year. Although many of the reasons students do not complete their studies have nothing to do with our practices and with the teaching and learning that occurs on each campus, declining funding that does not permit us to focus additional resources on student success may hinder our progress.

- The AQIP systems portfolio was submitted, reviewed, and returned to us. We are prepared for the HLC visit on November 13 – 15, 2013. We do not anticipate any unforeseen problems and hope to complete the visit successfully. The College assessment of student learning program has been revised by the new chief academic officer during the last three years. We expect some needed improvement in this area as a result of the visit. Faculty continue to request release time for accreditation activities which may become a point of disagreement in the future. We are not completely opposed, but the degree of work and the degree of release time is at issue.

- Our nursing programs (RN and LPN) are also preparing for accreditation visits in the near future. Due to some changes in intake assessment, the certification pass rates have improved significantly to the 90 – 100th percentile. These pass rate improvements are a part of the accreditation process.

- Reduced funding scenarios continue to be cause for concern. We are constantly weighing the effectiveness and efficiency of whatever we pursue, yet we fully understand that additional revenue sources are critical to our survival and growth. A combined college capital campaign is underway, as are scholarship campaigns.

- Negotiated contract settlements are of concern as well. We fear that drastic steps will need to be taken if revenues cannot meet new contract settlements. The attitude that fewer administrators would resolve these financial issues is not sound. Note that administrative reductions included four administrators at M State which saved over $500,000 in fiscal year 2012.

- We are concerned about the disconnect of the premise and contents of *Charting the Future* with which we agree, and the contractual realities that currently exist. We believe in thoughtful and careful progress over time, and including greater Minnesota colleges into the scenario. We are also cognizant that too much time between the planning stages and the implementation stages may be just as problematic to the colleges as moving too quickly would be.

Despite the challenges, we remain optimistic that M State can continue to prosper and become an even stronger college and even greater resource to our constituents, as the vitality of our region depends on it.

Within the financial statements, which were audited by the firm of Baker Tilly Virchow Krause, 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. You will note that the College ended fiscal year 2013 with total net position of $43.3 million. The change in net position from operations during fiscal year 2013 was a decrease of $0.1 million over fiscal year 2012. For a summary review and explanation of the financial statements please review the Management's Discussion and Analysis section of this report.

The management of the College is responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. The College president relies on the financial division of our organization for that assurance.

Sincerely,

Peggy D. Kennedy, Ed.D.
President

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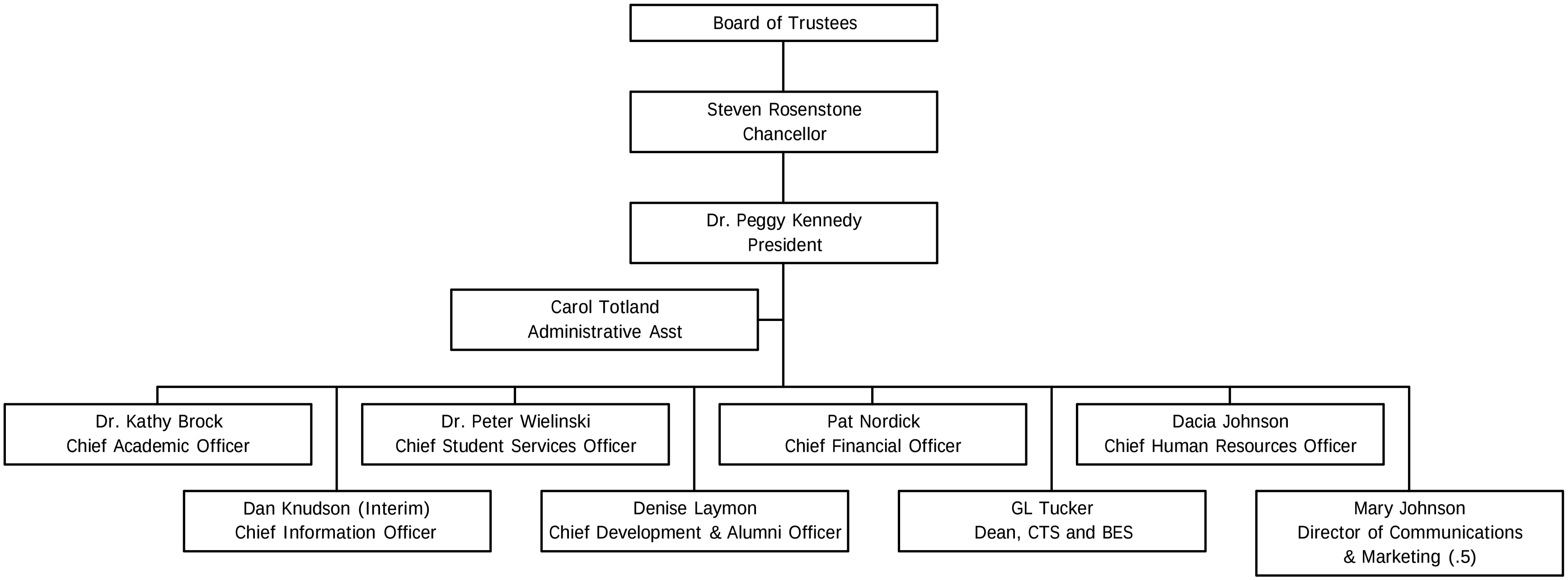
MINNESOTA STATE COLLEGES AND UNIVERSITIES
MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE



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

The College'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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VIRCHOW KRAUSE, LLP

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Fergus Area College Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Fergus Area College Foundation, is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Fergus Area College 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 College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Minnesota State Community and Technical College's basic financial statements. The introductory section identified in the table of contents has not been subjected to the auditing procedures applied by us or the other auditors in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of Minnesota State Community and Technical College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2013

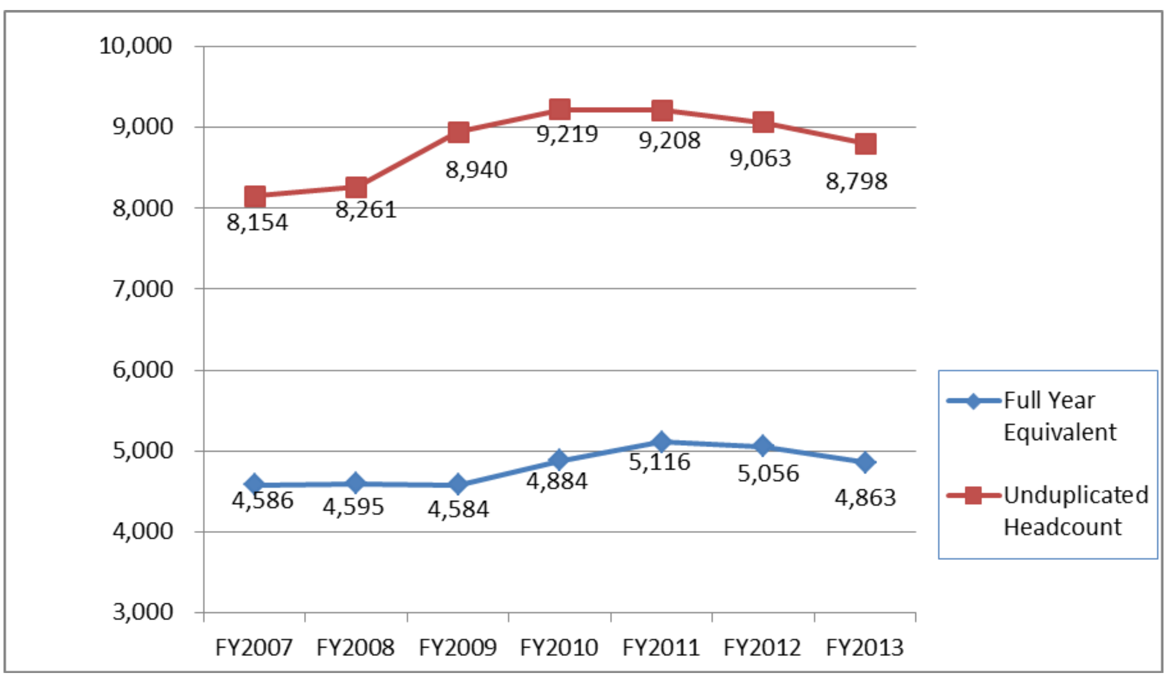
INTRODUCTION

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

The College is located in the northwest and west central portion of the state of Minnesota and has campuses located in the communities of Detroit Lakes, Fergus Falls, Moorhead, and Wadena. The College continues to receive strong support from the communities, businesses, and industries that reside in them and it plays an important role in each of the communities' economic success.

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

The College is a comprehensive public institution of higher learning with 4,863 full year equivalent students and 779 employees that equate to 486 full time equivalent employees. Although it has experienced enrollment growth from fiscal year 2007 the past two years has seen a decrease of 253 full year equivalent students from it's all time high in fiscal year 2011. Headcount has also seen a decrease over the recent past with a decrease of 5 percent since 2010. Enrollment is very often greatly affected by the economic condition of the region. The stronger the economy, the greater the opportunity for employment and therefore enrollments grow much slower. When the economy struggles and employment becomes scarce, the College's enrollment grows. Enrollment trends since fiscal year 2007 are reflected below.



The College offers programs in the areas of health, technology, trades, business, environmental studies, and general education. These programs are offered through traditional on campus delivery as well as internet, corporate university, and post-secondary options in the high school.

FINANCIAL HIGHLIGHTS

The College's financial position remained constant during fiscal year 2013 ending the year on June 30, 2013 with assets of $63.1 million, a decrease of $0.1 million over June 30, 2012, and liabilities of $19.7 million, a decrease of $0.1 million over June 30, 2012. These changes caused net position to decrease, going from $43.33 million on June 30, 2012 to $43.30 million on June 30, 2013.

- Loss before other revenues, expenses, gains, or losses which represents the College's net results from operations experienced a significant loss of $1.5 million. This compares to a loss of $0.1 million and a gain of $0.8 million in fiscal years 2012 and 2011 respectively. The loss is the result of lower revenues caused by lower enrollment along with contracts being settled in fiscal year 2013 for the two year contract period of fiscal year 2012 and 2013 which resulted in both fiscal year increases being realized in fiscal year 2013.

- Total revenues experienced a significant decrease of $2.0 million between fiscal years 2012 and 2013. Operating revenue decreased by 3 percent and the nonoperating revenue decreased by 4 percent. The decreases in both operating and nonoperating revenues are the result of lower enrollment. General appropriations increased slightly by $0.2 million and the capital appropriation decreased by $1.1 million. The increase in the general appropriation was the result of an overall base funding increase from the State of Minnesota. The reduction in the capital appropriation was a result of fewer capital improvement projects funded and the completion of a large $5.5 million dollar expansion on the Moorhead campus. The reduction in the grant area is mainly from the lower enrollment which impacted our financial aid grants.

- Total expenses experienced an increase between fiscal years. Operating expenses increased by 1.2 percent from fiscal year 2012 to fiscal year 2013. The largest increase is supplies and services which saw an increase of $1.0 million. The increase was caused by several small repair projects that did not meet the capitalization threshold as well as an increase in laptop purchases. Salaries and benefits, the largest cost category of the college decreased in fiscal year 2013 by $0.9 million from fiscal year 2012. This cost constitutes 65.6 percent of total operating expenses.

- Total net position decreased slightly, decreasing from $43.33 million in fiscal year 2012 to $43.30 in fiscal year 2013. The unrestricted portion of the College's net position decreased from fiscal year 2012 to fiscal year 2013 by $0.6 million.

USING THE FINANCIAL STATEMENTS

The 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 the Generally Accepted Accounting Principles (GAAP) as established by the Government Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the College at the end of each fiscal year and include all assets and liabilities as measured under 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 College. Capital assets are stated at historical cost less an allowance for depreciation with current year depreciation reflected as a period expense on the statements of revenues, expenses, and changes in net position. A summary of assets, liabilities and net position at June 30, 2013, 2012 and 2011follows (in thousands):

Assets, Liabilities, and Net Position

	2013	2012	2011
Current assets	$ 20,037	$ 19,420	$ 20,630
Current restricted assets	324	1,977	2,620
Noncurrent restricted assets	—	486	14
Noncurrent assets	141	135	148
Capital assets, net	42,550	41,183	39,432
Total assets	63,052	63,201	62,844
Current liabilities	6,598	6,355	8,656
Noncurrent liabilities	13,151	13,521	13,226
Total liabilities	19,749	19,876	21,882
Net investment in capital assets	33,403	33,007	31,285
Restricted	1,078	912	953
Unrestricted	8,822	9,406	8,724
Total net position	$ 43,303	$ 43,325	$ 40,962

The primary component of current assets is cash and cash equivalents, which totaled $15.9 million at June 30, 2013, reflecting a $0.7 million increase over the prior year. This represents approximately 3.6 months of total expenses (excluding depreciation). This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the College's revenues. The other large current asset is accounts receivable which totaled $2.3 million at June 30, 2013 which is a $0.3 million decrease from June 30, 2012. The decrease is a result of lower enrollment.

Noncurrent assets consist mainly of land, buildings, construction in progress, equipment, and library collections and is reduced by accumulated depreciation. Noncurrent assets increased by $1.4 million over June 30, 2012 as a result of capitalizing of six smaller building renovation projects.

Current liabilities consist primarily of salaries and benefits payable, accounts payable, unearned revenue and the current portion of long term debt. Salaries and benefits payable totaled $3.1 million at June 30, 2013, an increase of $0.6 million from June 30, 2012. Approximately $0.4 million of the increase is due to an adjustment between cash and salaries and benefits payable for benefit payments due to third party providers that were disbursed on July 1 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. Accounts payable, including payables from restricted assets, decreased $0.3 million from June 30, 2012.

Unearned revenue, another large current liability, is primarily the portion of summer session tuition received, but not yet earned as well as grants received but not yet earned. The summer tuition revenue is allocated based upon the number of session days in each fiscal year. Summer tuition revenues received that are in excess of the calculated amount earned are considered unearned revenue for the purposes of these statements. Unearned revenue decreased from June 30, 2012 to June 30, 2013 by $0.1 million.

Noncurrent liabilities had a slight decrease in fiscal year 2013 compared to fiscal year 2012. The largest components of noncurrent liabilities are long term debt owed on general obligation bonds, and compensated absences, which represent vacation and sick leave balances earned by employees.

Net position represents the residual interest in the assets after liabilities are deducted. Net investment in capital assets represents the largest portion of net position. Capital assets are carried at historical cost. Restricted net position has constraints placed on its use by external creditors, grantors, contributors, laws or regulations and consists primarily of those assets restricted for debt service of $0.1 million. The College's net position decreased by $0.1 million during fiscal year 2013 decreasing from $43.3 million on June 30, 2012 to $43.2 million on June 30, 2013. The unrestricted portion of net position decreased by $0.6 million.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the College's academic programs is the development and renewal of its capital assets. The College continues to implement its long range plan to modernize its complement of older facilities, balanced with new construction. Capital assets, as of June 30, 2013, totaled $42.6 million, net of accumulated depreciation of $34.6 million. This compares to $41.7 million as of June 30, 2012, net of accumulated depreciation of $32.5 million. Capital expenses are primarily comprised of new construction, renovations to existing facilities and investments in equipment. Capital assets are primarily financed by long term debt through issuance of general obligation and revenue bonds. The College is responsible for paying one third of the debt service for the general obligation bonds and 100 percent of debt service for the revenue bonds. The College recognizes as capital appropriation revenue any portion of the general obligation bonds sold for which the college has no debt service responsibility.

Additional information on capital activities and long term debt can be found in Notes 6 and 8.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the College's results of operations for each year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue.

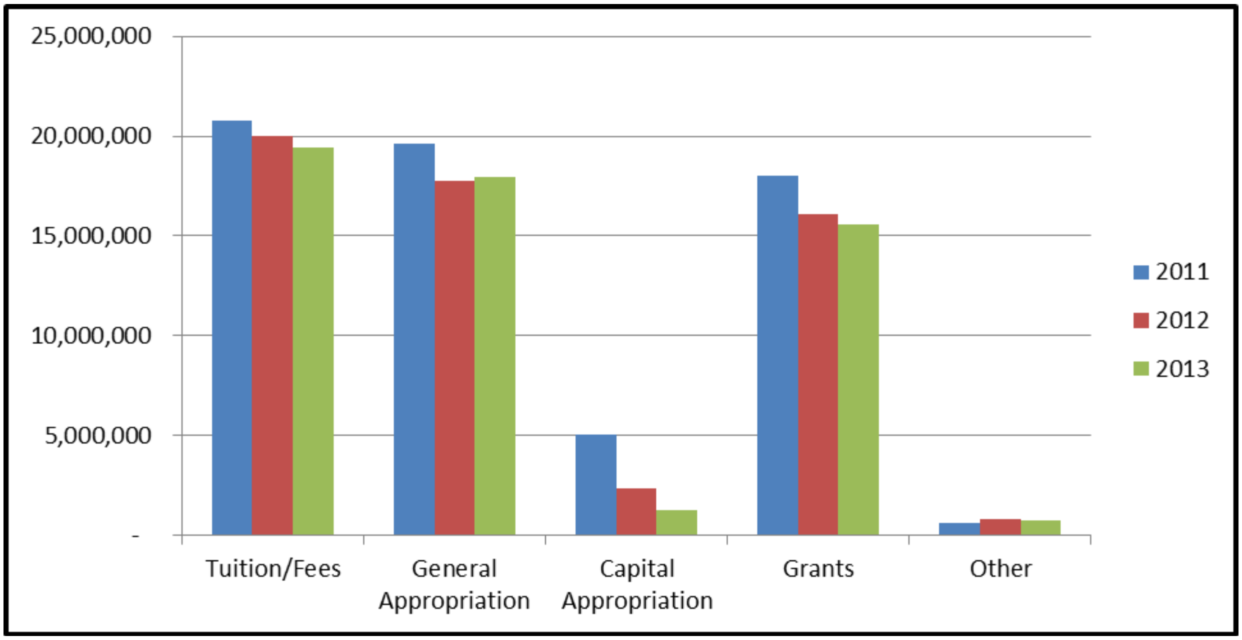
Summarized statements for the years ending June 30, 2013, 2012 and 2011 follow (in thousands):

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenue:			
Tuition, fees, books, net	$ 19,446	$ 20,004	$ 20,783
Restricted student payments, net	124	130	106
Other revenue	291	312	180
Total operating revenue	19,861	20,446	21,069
Nonoperating revenue:			
State appropriations	17,929	17,749	19,618
Federal and state grants	14,945	15,474	17,257
Private grants	605	632	738
Capital appropriations	1,269	2,314	5,042
Gain on disposal of assets	—	—	2,560
Other	331	355	339
Total nonoperating revenue	35,079	36,524	45,554
Total revenue	54,940	56,970	66,623
Operating expense:			
Salaries and benefits	35,825	36,759	36,292
Supplies and services	12,385	11,396	14,456
Depreciation	2,265	2,113	2,114
Financial aid, net	1,027	852	1,885
Other	3,062	2,828	2,921
Total operating expense	54,564	53,948	57,668
Nonoperating expense:			
Loss on disposal of assets	10	122	—
Grants to other organizations	—	80	26
Interest expense	388	457	337
Total nonoperating expense	398	659	363
Total expense	54,962	54,607	58,031
Change in net position	(22)	2,363	8,592
Net position, beginning of year	43,325	40,962	32,370
Net position, end of year	$ 43,303	$ 43,325	$ 40,962

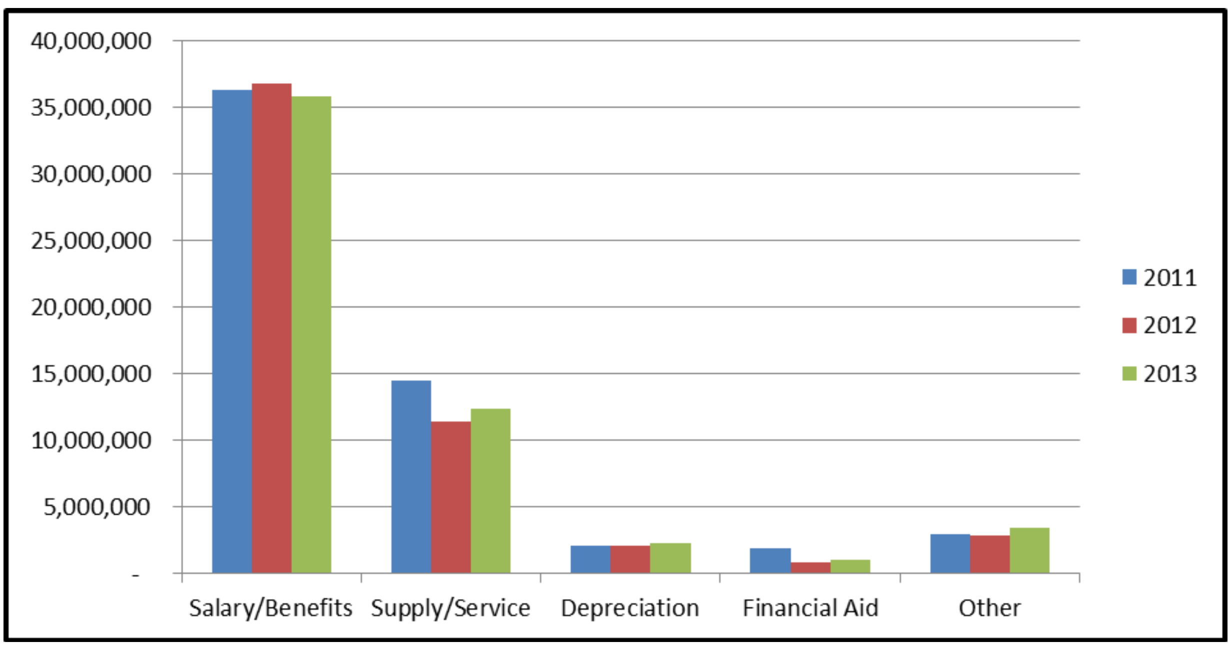
Tuition and state appropriations are the primary sources of funding for academic programs and college operations. Operating revenues experienced a decrease of $0.6 million from fiscal year 2012 largely due to a downturn in student enrollment. The College experienced a reduction in student enrollment of 193 full year equivalents (FYE) between fiscal year 2012 and 2013. The other main source of revenue for annual operations is general state appropriations which increased $0.2 million from fiscal year 2012. Federal and state grants decreased slightly mainly because of a reduction of financial aid caused by lower enrollments. The remaining large variance was from capital appropriations which decreased by $1.1 million from June 30, 2012 as a result of a decrease in construction activity.

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

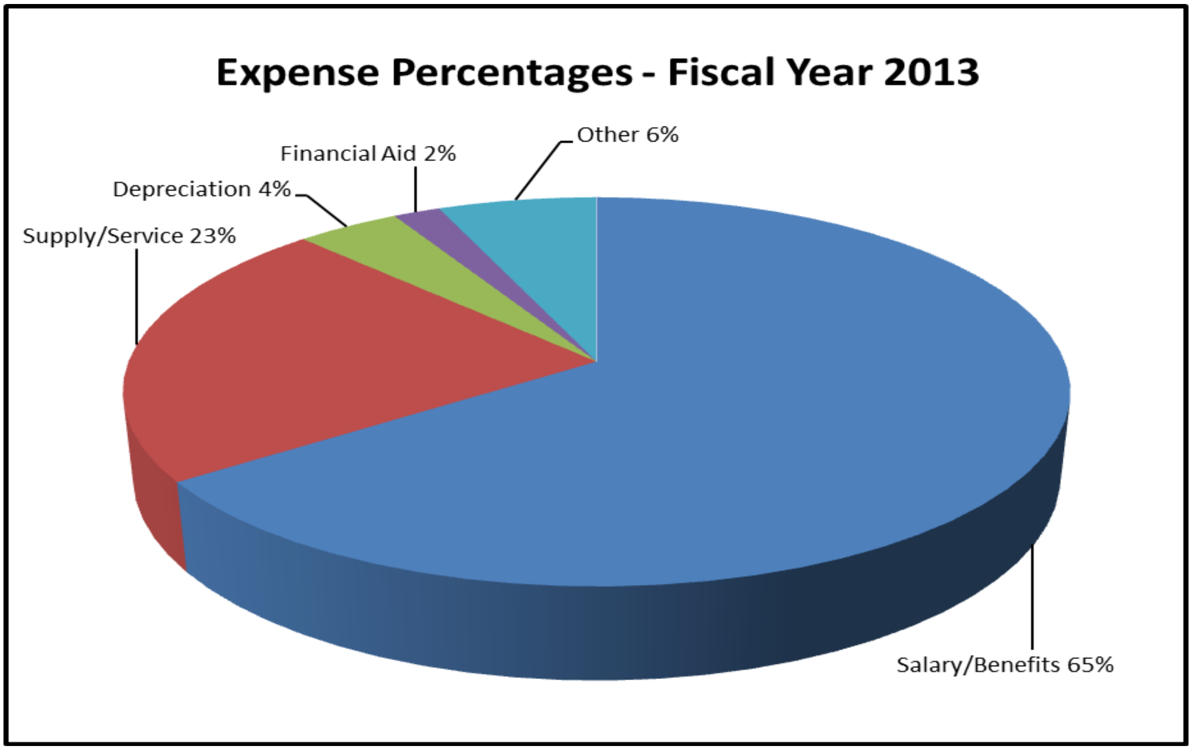


The primary categories for resources spent are compensation and benefits, along with supplies and services. Compensation and benefits decreased from $36.8 million on June 30, 2012 to $35.8 million on June 30, 2013. Supplies and services increased by $1.0 million from fiscal year 2012. This increase is mainly due to several small repair projects that did not meet the capitalization threshold, along with increased technology purchases.

The following graph depicts the expense trends by expense type for fiscal years 2013, 2012, and 2011.



The following graph depicts the breakdown of operating expenses by expense type for fiscal year 2013.



FOUNDATIONS

Included with the financial statements are the statement of financial position and statement of activities for the Fergus Area College Foundation. The Foundation saw an improvement in its total net assets of $0.4 million over June 30, 2012. In addition to the Fergus Area College Foundation, the College has three other small foundations that are in early development at the campuses in Detroit Lakes, Moorhead, and Wadena. Once their activity reaches a level of materiality the College will include their financial activity as part of future financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the College needs to continue to be vigilant in preparing for the programs, services, and educational changes that will be needed in the next decade. The College continues to invest in programs and services for the online learner. The College believes this mode of academic delivery will continue to increase in the foreseeable future. With the ever increasing competition for enrollment, the College will continue to explore new growth opportunities by looking at alternative delivery methods and modalities as well as looking for new market penetration. The enrollment demographics for the College's service area continue to show that traditional high school graduates will be fewer in the foreseeable future. The College believes that the best strategy to maintain current enrollments is to work on student retention and persistence and will continue to invest in initiatives focusing in that area. In addition, the college will continue to work closely with regional school districts in order to increase enrollments through concurrent enrollment and post-secondary enrollment option (PSEO) programs.

State appropriation will continue to be a concern for fiscal years 2014 and beyond and the College remains concerned that future appropriation funding will not keep pace with inflationary growth. Although the financial condition of the state of Minnesota is improving, the level of state appropriation per full year equivalent student in fiscal year 2013 continued to be much lower than in fiscal year 2005 and earlier. This trend, along with continued pressures to maintain low tuition increases will put extreme pressure on the College to reallocate current expenditures in order to be able to invest in new programs and services that current and future students and industry will demand. It will be imperative to continue to be vigilant in financial planning, including continued review of all programs and services to ensure efficient delivery as well as searching out new program opportunities. In addition, the College will continue to look at shared programs and services to ensure that all resources are being used as efficiently as possible.

Across the nation, higher education organizations are moving towards new, creative methods of delivery. These trends along with the mobility of today's students make it imperative for the College to stay current on higher education trends and needs. Delivering education in the same manner as it has been done in the past will no longer be sustainable because the student customer will find a more efficient method other places.

REQUESTS FOR INFORMATION

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

Chief Financial Officer
Minnesota State Community and Technical College
150 2nd Street Southwest
Perham, MN 56573

MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 15,550	$ 14,880
Grants receivable	273	225
Accounts receivable, net	2,341	2,631
Prepaid expense	765	732
Inventory	1,045	898
Student loans, net	20	30
Other assets	43	24
Total current assets	20,037	19,420
Current Restricted Assets		
Cash and cash equivalents	324	1,977
Total current restricted assets	324	1,977
Noncurrent Restricted Assets		
Construction in progress	-	486
Total noncurrent restricted assets	-	486
Total restricted assets	324	2,463
Noncurrent Assets		
Student loans, net	141	135
Capital assets, net	42,550	41,183
Total noncurrent assets	42,691	41,318
Total Assets	63,052	63,201
Liabilities		
Current Liabilities		
Salaries and benefits payable	3,136	2,551
Accounts payable	1,202	778
Unearned revenue	768	818
Payable from restricted assets	76	790
Interest payable	16	16
Funds held for others	161	151
Current portion of long-term debt	723	723
Other compensation benefits	503	528
Advances to other schools	13	-
Total current liabilities	6,598	6,355
Noncurrent Liabilities		
Noncurrent portion of long-term debt	8,575	9,030
Other compensation benefits	4,385	4,301
Capital contributions payable	191	190
Total noncurrent liabilities	13,151	13,521
Total Liabilities	19,749	19,876
Net Position		
Net investment in capital assets	33,403	33,007
Restricted expendable, bond covenants	178	27
Restricted expendable, other	900	885
Unrestricted	8,822	9,406
Total Net Position	$ 43,303	$ 43,325

The notes are an integral part of the financial statements.

FERGUS AREA COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 130	$ 60
Investments	3,971	3,582
Other receivables	3	5
Total Assets	$ 4,104	$ 3,647
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	43	-
Total Liabilities	43	-
Net Assets		
Unrestricted	121	105
Temporarily restricted	959	659
Permanently restricted	2,981	2,883
Total Net Assets	4,061	3,647
Total Liabilities and Net Assets	$ 4,104	$ 3,647

The notes are an integral part of the financial statements.

MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Operating Revenues		
Tuition, net	$ 12,628	$ 13,040
Fees, net	1,978	1,961
Sales and room and board, net	4,840	5,003
Restricted student payments, net	124	130
Other income	291	312
Total operating revenues	19,861	20,446
Operating Expenses		
Salaries and benefits	35,825	36,759
Purchased services	4,398	4,110
Supplies	6,900	6,360
Repairs and maintenance	1,087	926
Depreciation	2,265	2,113
Financial aid, net	1,027	852
Other expense	3,062	2,828
Total operating expenses	54,564	53,948
Operating loss	(34,703)	(33,502)
Nonoperating Revenues (Expenses)		
Appropriations	17,929	17,749
Federal grants	12,932	13,595
State grants	2,013	1,879
Private grants	605	632
Interest income	136	114
Interest expense	(388)	(457)
Grants to other organizations	-	(80)
Total nonoperating revenues (expenses)	33,227	33,432
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,476)	(70)
Capital appropriations	1,269	2,314
Donated assets and supplies	195	241
Loss on disposal of capital assets	(10)	(122)
Change in net position	(22)	2,363
Total Net Position, Beginning of Year	43,325	40,962
Total Net Position, End of Year	$ 43,303	$ 43,325

The notes are an integral part of the financial statements.

FERGUS AREA COLLEGE 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					
Endowment gifts	$ -	$ -	$ 98	$ 98	$ 50
Program income	-	94	-	94	68
Investment income	42	89	-	131	127
Donated services and facilities	65	-	-	65	-
Fundraising income	53	-	-	53	64
Unrealized gains	-	272	-	272	86
Net assets released from restrictions	155	(155)	-	-	-
Total support and revenue	315	300	98	713	395
Expenses					
Program services					
Scholarships	166	-	-	166	141
Total program services	166	-	-	166	141
Supporting services					
Management and general	128	-	-	128	79
Fundraising	5	-	-	5	-
Total supporting services	133	-	-	133	79
Total expenses	299	-	-	299	220
Change in Net Assets	16	300	98	414	175
Net Assets, Beginning of Year	105	659	2,883	3,647	3,472
Net Assets, End of Year	$ 121	$ 959	$ 2,981	$ 4,061	$ 3,647

The notes are an integral part of the financial statements.

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

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	$ 20,070	$ 20,573
Cash repayment of program loans	22	13
Cash paid to suppliers for goods or services	(15,124)	(15,467)
Cash payments to employees salaries	(25,575)	(28,541)
Cash payments to employees benefits	(9,608)	(9,372)
Financial aid disbursements	(1,026)	(858)
Cash payments of program loans	(22)	(5)
Net cash flows used in operating activities	(31,263)	(33,657)
Cash Flows from Noncapital Financing Activities		
Appropriations	17,929	17,749
Federal grants	12,915	13,899
State grants	2,013	1,879
Private grants	605	632
Agency activity	10	145
Loans to other schools	13	-
Grants to other organizations	-	(80)
Net cash flows provided by noncapital financing activities	33,485	34,224
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(3,733)	(4,341)
Capital appropriation	1,269	2,280
Proceeds from sale of capital assets	-	2
Proceeds from insurance	-	833
Proceeds from borrowing	279	813
Proceeds from bond premium	57	21
Interest paid	(383)	(426)
Repayment of lease principal	(60)	(58)
Repayment of note principal	(138)	(148)
Repayment of bond principal	(564)	(455)
Net cash flows used in capital and related financing activities	(3,273)	(1,479)
Cash Flows from Investing Activities		
Investment earnings	68	49
Net cash flows provided by investing activities	68	49
Net Decrease in Cash and Cash Equivalents	(983)	(863)
Cash and Cash Equivalents, Beginning of Year	16,857	17,720
Cash and Cash Equivalents, End of Year	$ 15,874	$ 16,857

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Loss	$ (34,703)	$ (33,502)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	2,265	2,113
Provision for loan defaults	(1)	3
Loan principal repayments	22	13
Loans issued	(22)	(5)
Loans forgiven	5	2
Donated supplies	80	21
Change in assets and liabilities		
Inventory	(147)	(290)
Accounts receivable	290	106
Accounts payable	424	(927)
Salaries and benefits payable	585	(1,392)
Other compensation benefits	59	292
Capital contributions payable	1	(6)
Unearned revenues	(81)	21
Other assets and liabilities	(40)	(106)
Net reconciling items to be added to operating loss	3,440	(155)
Net cash flow used in operating activities	$ (31,263)	$ (33,657)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 76	$ 790
Donated equipment	115	220
Loss on retirement of capital assets	(10)	(145)
Amortization of bond premium	68	65

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State Community and Technical College (the College), a member of 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 Minnesota State Community and Technical College.

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Minnesota State Community and Technical College receives a portion of 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.

Minnesota State Community and Technical College began on July 1, 2004, and is comprised of four campuses located in the Minnesota communities of Detroit Lakes, Fergus Falls, Moorhead and Wadena.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Fergus Area College Foundation is considered significant to the College and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Fergus Area College Foundation, 1414 College Way, Fergus Falls, MN 56537.

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

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

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

The state appropriations do not lapse at year end. Any unexpended appropriation from the first year of a biennium is available for the second year. Any unexpended balance may also carry over into future bienniums.

Capital Appropriation Revenue — Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. The portion of general obligation bond debt service that is payable by the state of Minnesota is recognized by Minnesota State Colleges and Universities as capital appropriation revenue when the related expenses are incurred. Individual colleges and universities are allocated cash, capital appropriation revenue, and debt based on capital project expenses.

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

Restricted cash is cash held for capital projects and cash in the Revenue Fund for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net position of revenue producing facilities, which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. The College also has six accounts in local banks. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

Investments — The Minnesota State Board of Investment invests the College'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 as part of the appropriation allocation process.

Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services. Investments are reported at fair value. Restricted investments are investment held in Revenue Fund for capital projects and debt service.

Information about the cash in the state treasury and invested by the State Board of Investment, including deposit and investment risk disclosures, can be obtained from the State of Minnesota Comprehensive Annual Financial Report, Minnesota Management and Budget, 400 Centennial Building, 658 Cedar Street, St. Paul, MN 55155.

Receivables — Receivables are shown net of an allowance for uncollectibles.

Inventories — Inventories are valued at cost using the retail cost method.

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

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

Estimated useful lives are as follows:

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

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

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

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The College is responsible for a portion of the debt service on the bonds sold for some College projects.

Minnesota State College and Universities may finance the construction, renovation and acquisition of facilities for student residencies, student wellness centers, and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund included herein. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund annual financial report. Copies are available from the Financial Reporting System Director, Minnesota State College and Universities, 30 7th St. E., Suite 350, St. Paul, Minnesota 55101-7804.

The College may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, other postemployment benefits, workers' compensation claims, and notes payable.

Operating Activities — Operating activities as reported in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

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

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

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

Federal Grants — The College participates in several federal grant programs. The largest programs include Pell, 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 College will record such disallowance at the time the determination is made.

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

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

  Restricted for bond covenants – revenue bond restrictions

  Restricted for other — includes restrictions for the following:

  Donations — restricted per donor requests.

  Loans — College capital contributed for Perkins loans.

  Capital Projects/Debt service– restricted for completion of capital projects or bond debt payments

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

Net Position Restricted for Other
(In Thousands)

	2013	2012
Donations	$ 31	$ 8
Loans	31	31
Capital Projects/Debt service	825	823
Faculty contract obligations	13	23
Total	$ 900	$ 885

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

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

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition and most fees are in the state treasury. In addition, the College has six accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands)		
Carrying Amount	2013	2012
Cash, in bank	$ 1,137	$ 919
Cash, trustee account (US Bank)	122	922
Money market	29	29
Cash, local accounts	1,288	1,870
Cash, treasury account	14,586	14,987
Total cash and cash equivalents	$ 15,874	$ 16,857

At June 30, 2013 and 2012, the College's bank balances were $953,093 and $946,954, respectively. These balances were adjusted by items in transit to arrive at the College's cash in bank balance. The College's balance in the treasury, except for the revenue fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

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

Investments — The Minnesota State Board of Investment manages the majority of the state's investments. All investments managed by 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.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the College 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 College'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 College's policy for reducing this risk of loss is to comply with Board procedure 7.5.1 that 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 College complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term investments.

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals. At June 30, 2013 and 2012, the total accounts receivable balances for the College were $3,476,242 and $3,659,601, less an allowance for uncollectible receivables of $1,134,783 and $1,028,904, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 2,158	$ 2,018
Due from other campus	300	287
Sales and services	307	463
Fees	320	349
Room and board	41	34
Third party obligations	210	415
Other	140	94
Total accounts receivable	3,476	3,660
Allowance for uncollectible accounts	(1,135)	(1,029)
Net accounts receivable	$ 2,341	$ 2,631

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $714,444 and $695,418 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 year. Also included in prepaid expense for fiscal years 2013 and 2012 is $50,964 and $36,166, respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities loans collection unit is responsible for loan collections. As of June 30, 2013 and June 30, 2012, the loans receivable for this program totaled $198,488 and $203,471, respectively, less an allowance for uncollectible loans of $37,473 and $38,357, respectively.

6. CAPITAL ASSETS

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,321	$ —	$ —	$ —	$ 1,321
Construction in progress	6,705	2,713	—	(9,109)	309
Total capital assets, not depreciated	8,026	2,713	—	(9,109)	1,630
Capital assets, depreciated:					
Buildings and improvements	59,945	—	—	9,109	69,054
Equipment	5,730	367	116	—	5,981
Library collections	512	76	73	—	515
Total capital assets, depreciated	66,187	443	189	9,109	75,550
Less accumulated depreciation:					
Buildings and improvements	28,786	1,775	—	—	30,561
Equipment	3,479	416	106	—	3,789
Library collections	279	74	73	—	280
Total accumulated depreciation	32,544	2,265	179	—	34,630
Total capital assets, depreciated, net	33,643	(1,822)	10	9,109	40,920
Total capital assets, net	$ 41,669	$ 891	$ 10	$ —	$ 42,550

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,321	$ —	$ —	$ —	$ 1,321
Construction in progress	3,958	3,806	—	(1,059)	6,705
Total capital assets, not depreciated	5,279	3,806	—	(1,059)	8,026
Capital assets, depreciated:					
Buildings and improvements	58,886	—	—	1,059	59,945
Equipment	5,860	589	719	—	5,730
Library collections	523	81	92	—	512
Total capital assets, depreciated	65,269	670	811	1,059	66,187
Less accumulated depreciation:					
Buildings and improvements	27,155	1,631	—	—	28,786
Equipment	3,649	409	579	—	3,479
Library collections	298	73	92	—	279
Total accumulated depreciation	31,102	2,113	671	—	32,544
Total capital assets, depreciated, net	34,167	(1,443)	140	1,059	33,643
Total capital assets, net	$ 39,446	$ 2,363	$ 140	$ —	$ 41,669

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2013	2012
Purchased services	$ 592	$ 381
Supplies	274	162
Employee benefits	—	2
Inventory	24	29
Repairs and maintenance	173	152
Other	139	52
Total	$ 1,202	$ 778

In addition, as of June 30, 2013 and 2012, the College had payable from restricted assets in the amounts of $75,979 and $790,418, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 542	$ 57	$ 68	$ 531	$ —
General obligation bonds	6,952	279	470	6,761	484
Capital leases	184	—	60	124	62
Notes payable	515	—	138	377	117
Revenue bonds	1,560	—	55	1,505	60
Total long term debt	$ 9,753	$ 336	$ 791	$ 9,298	$ 723

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 586	$ 21	$ 65	$ 542	$ —
General obligation bonds	6,674	813	535	6,952	470
Capital leases	242	—	58	184	60
Notes payable	663	—	148	515	138
Revenue bonds	1,560	—	—	1,560	55
Total long term debt	$ 9,725	$ 834	$ 806	$ 9,753	$ 723

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,512	$ 398	$ 420	$ 3,490	$ 445
Early termination benefits	104	17	71	50	34
Net other postemployment benefits	1,132	264	97	1,299	—
Workers' compensation	81	49	81	49	24
Total other compensation benefits	$ 4,829	$ 728	$ 669	$ 4,888	$ 503

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,411	$ 476	$ 375	$ 3,512	$ 420
Early termination benefits	186	36	118	104	71
Net other postemployment benefits	889	398	155	1,132	—
Workers' compensation	51	70	40	81	37
Total other compensation benefits	$ 4,537	$ 980	$ 688	$ 4,829	$ 528

Bond Premium— In fiscal years 2013 and 2012 bonds were issued, resulting in premiums of $57,600 and $21,007, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

General Obligation Bonds— The state of Minnesota sells general obligation bonds to finance most 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 their capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bonds liability included in these financial statements represents the College's share.

Capital Leases – Liabilities for capital leases include those leases that meet the criteria in the FASB Accounting Standards Codification (ASC) 840, *Leases*. See Note 11 for details.

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 construction of a student wellness center. Revenue bonds currently outstanding have interest rates between 3 percent and 5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2026. Annual principal and interest payments on the bonds are expected to require less than 47.93 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $2,228,935. Principal and interest paid for the current year and total customer net revenues were $118,944 and $123,594, respectively.

Notes Payable — Notes payable consist of state energy efficiency program loans. Some loans received under this program are interest free while others charge interest. The loans are granted by energy companies in order to improve energy efficiency in college and university buildings. The College has only interest charging loans at the present time with interest rates ranging from 4.81 percent to 8.98 percent.

Projects completed under Minnesota Statutes, Section 16C.14 have an interest component. The interest rate is tied to the prime interest rate at the time of the project. The range of interest rates charged to the current notes is 4.81 to 9.90 percent.

Compensated Absences — College employees accrue vacation leave, sick leave and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated only at the time of termination from state employment.

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

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

Workers' Compensation — The Minnesota Management and Budget manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $48,825 and $81,346 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.

Capital Contributions — The liability of $191,060 and $190,353 at June 30, 2013 and 2012, respectively, represents the amount the College would owe the federal government if it were to discontinue the Perkins loan program. The net change was an increase of $707 in fiscal year 2013, and a decrease of $5,564 in fiscal year 2012.

Principal and interest payment schedules are provided in the following table for general obligation bonds, revenue bonds, capital leases, and notes payable. There are no payment schedules for compensated absences, early termination benefits, net other postemployment benefits, workers' compensation, or capital contributions.

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds		Revenue Bonds		Capital Leases		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 484	$ 327	$ 60	$ 62	$ 62	$ 3	$ 117	$ 16
2015	463	298	60	60	62	1	45	12
2016	460	274	60	59	—	—	49	10
2017	459	251	65	57	—	—	54	7
2018	459	229	65	55	—	—	59	5
2019-2023	2,279	802	355	235	—	—	53	1
2024-2028	1,697	272	425	154	—	—	—	—
2029-2033	460	29	415	42	—	—	—	—
Total	$ 6,761	$ 2,482	$ 1,505	$ 724	$ 124	$ 4	$ 377	$ 51

9. EARLY TERMINATION BENEFITS

Minnesota State College Faculty (MSCF) contract

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. The MSCF contract allows former United Technical College Educators (UTCE) faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early termination incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments.

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

Fiscal Year	Number of Faculty		Future Liability (In Thousands)
2013	5	$	50
2012	5		104

10. NET OTHER POSTEMPLOYMENT BENEFITS

The College 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 12 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost 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)	$ 255	$ 390
Interest on net OPEB obligation	54	42
Adjustment to ARC	(45)	(34)
Annual OPEB Cost	264	398
Contributions during the year	(97)	(155)
Increase in net OPEB obligation	167	243
Net OPEB obligation, beginning of year	1,132	889
Net OPEB obligation, end of year	$ 1,299	$ 1,132

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

Year Ended June 30 (In Thousands)	2013	2012
Beginning of year net OPEB obligation	$ 1,132	$ 889
Annual OPEB Cost	264	398
Employer contribution	(97)	(155)
End of year net OPEB obligation	$ 1,299	$ 1,132
Percentage contributed	36.74%	38.94%

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2012	$ —	$ 2,285	$ 2,285	0.00%	$ 27,018	8.46 %

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

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

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

11. LEASE AGREEMENTS

Operating Leases — The College is committed under various leases primarily for building space and office equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the years ended June 30, 2013 and 2012, totaled approximately $504,999 and $503,930, respectively.

Future minimum lease payments for existing lease agreements are listed in the following table.

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2014	$ 295
2015	85
2016	81
2017	18
2018	1
Total	$ 480

Capital Leases – During fiscal year 2011 the College entered into one capital lease in the amount of $300,000 for the purchase of a telephone system. The lease meets the criteria of a capital lease as defined by FASB ASC 840, *Leases*. The term of the lease is for five years. See Note 8.

Income Leases —The College has entered into several income lease agreements primarily for building space. Lease income for the years ended June 30, 2013 and 2012, totaled $31,171 and $33,816, respectively, and is included in other income in the statements of revenues, expenses, and changes in net position.

Future expected income receipts for existing lease agreements are listed in the following table.

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2014	$ 24
2015	6
Total	$ 30

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

	2013			2012		
Description	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 24,123	$ (11,495)	$ 12,628	$ 24,928	$ (11,888)	$ 13,040
Fees	2,837	(859)	1,978	2,877	(916)	1,961
Room and board and sales	5,791	(951)	4,840	6,054	(1,051)	5,003
Restricted student payments	124	—	124	130	—	130
Total	$ 32,875	$ (13,305)	$ 19,570	$ 33,989	$ (13,855)	$ 20,134

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2013
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 3,716	$ 1,370	$ 3,437	$ 57	$ 8,580
Institutional support	2,229	959	2,838	36	6,062
Instruction	16,302	5,524	4,621	244	26,691
Public service	76	31	87	1	195
Student services	3,009	1,469	1,668	50	6,196
Auxiliary enterprises	827	313	5,061	—	6,201
Scholarships & fellowships	—	—	1,027	—	1,027
Less interest expense	—	—	—	(388)	(388)
Total operating expenses	$ 26,159	$ 9,666	$ 18,739	$ —	$ 54,564

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 3,241	$ 1,130	$ 3,218	$ 54	$ 7,643
Institutional support	2,386	1,134	1,903	43	5,466
Instruction	16,759	5,408	3,618	277	26,062
Public service	135	62	163	2	362
Student services	3,853	1,676	2,623	69	8,221
Auxiliary enterprises	775	200	4,812	12	5,799
Scholarships & fellowships	—	—	852	—	852
Less interest expense	—	—	—	(457)	(457)
Total operating expenses	$ 27,149	$ 9,610	$ 17,189	$ —	$ 53,948

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

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

Required contributions for the College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 318
2012	330
2011	325

Teachers Retirement Fund (TRF)

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

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

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

The statutory authority for TRF is Minnesota Statutes, Chapter 354. For fiscal year 2011 the funding requirement was 5.5 percent for both employer and employee coordinated members. For fiscal year 2012 the funding requirement was 6 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 the College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 231
2012	189
2011	165

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for the College were:

	(In Thousands)	
Fiscal Year	Employer	Employee
2013	$ 982	$ 733
2012	1,022	765
2011	1,039	782

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	Maximum Annual Contributions
Minnesota Association of Professional Employees Unclassified	$ 6,000 to $40,000	$ 1,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Administrators	6,000 to 60,000	2,700
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for the College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 542
2012	509
2011	546

Voluntary Retirement Savings Plans

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

Minnesota Deferred Compensation Plan is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2013, the plan had 157 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 43 participants.

15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately.

Minnesota State Colleges and Universities issued $1,560,000 of revenue bonds during fiscal year 2012 to finance Minnesota State Community and Technical College's wellness center located on the Moorhead campus.

Minnesota State Community and Technical College Portion of
the Revenue Fund
(In Thousands)

		2013		2012
CONDENSED STATEMENTS OF NET POSITION				
Assets:				
Current assets	$	201	$	45
Current restricted assets		322		1,601
Noncurrent restricted assets		1,360		486
Total assets		1,883		2,132
Liabilities:				
Current liabilities		130		455
Noncurrent liabilities		1,478		1,522
Total liabilities		1,608		1,977
Net Position:				
Restricted		275		155
Total net position	$	275	$	155
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION				
Operating revenues	$	254	$	135
Operating expenses		(105)		(3)
Net operating income		149		132
Nonoperating revenues (expenses)		(29)		(61)
Changes in net position		120		71
Net position, beginning of year		155		84
Net position, end of year	$	275	$	155
CONDENSED STATEMENTS OF CASH FLOWS				
Net cash provided (used) by:				
Operating activities	$	188	$	124
Investing activities		1		2
Capital and related financing activities		(1,313)		(161)
Net decrease		(1,124)		(35)
Cash and cash equivalents, beginning of year		1,637		1,672
Cash and cash equivalents, end of year	$	513	$	1,637

16. COMMITMENTS AND CONTINGENCIES

New commitments made by the College during fiscal year 2013 include a $350 thousand fire alarm retrofit in Wadena and a $535 thousand biology lab renovation project in Moorhead. Both of these projects are funded through general obligation bonds.

17. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities manage these risks through Minnesota insurance plans including the state of Minnesota Risk Management Fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. The College also purchased optional physical damage coverage for their newest or most expensive vehicles.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The College has selected optional coverage for student health services professional liability.

Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage Type	Amount
Institution deductible	$50,000
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 College retains the risk of loss. The College did not have any settlements in excess of coverage the last three years.

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

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

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

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

(In Thousands)	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 06/30/13	$ 81	$ 49	$ 81	$ 49
Fiscal Year Ended 06/30/12	51	70	40	81

18. COMPONENT UNITS

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

The Fergus Area College Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the College. The College 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 College. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the College's financial statements to be misleading or incomplete. The Foundation is considered a component unit of the College and their statements are discretely presented in the College's financial statements.

The value of scholarships and equipment contributed by or passed through the Foundation was $165,874 and $141,172 for the fiscal years ended June 30, 2013 and 2012, respectively.

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 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 that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets:* Net assets subject to donor imposed restrictions as to how the assets 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.

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

Schedule of Investments at June 30
(In Thousands)

	2013	2012
Common stock	$ 115	$ 87
Mutual funds	3,293	2,942
Fixed income securities / Bonds	259	301
Other investments	304	252
Total investments	$ 3,971	$ 3,582

Endowment Funds— The Foundation's endowment includes donor-restricted funds. 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	$ —	$ 499	$ 2,883	$ 3,383
Contributions	—	—	97	97
Investment income	—	89	1	90
Net appreciation	—	—	—	—
Reclassifications	—	(64)	—	(64)
Amounts appropriated for expenditures	—	(112)	—	(112)
Net Assets, End of Year	$ —	$ 412	$ 2,981	$ 3,394

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	$ —	$ 395	$ 2,823	$ 3,218
Contributions	—	53	51	105
Investment income	41	85	—	126
Net appreciation	—	92	—	92
Reclassifications	—	(9)	9	—
Amounts appropriated for expenditures	(41)	(117)	—	(158)
Net Assets, End of Year	$ —	$ 499	$ 2,883	$ 3,383

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 2,788	$ 2,788	0.00%	$ 26,105	10.68%
July 1, 2008	—	2,788	2,788	0.00	26,216	10.63
July 1, 2010	—	3,103	3,103	0.00	27,364	11.34
July 1, 2012	—	2,285	2,285	0.00	27,018	8.46

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SUPPLEMENTARY SECTION

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

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Minnesota State Community and Technical College, a member of the Minnesota State College and University system of the State of Minnesota, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2013. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of Fergus Area College Foundation, a discretely presented component unit of Minnesota State Community and Technical College, as described in our report on Minnesota State Community and Technical College's financial statements. The financial statements of the Fergus Area College 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 Minnesota State Community and Technical College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnesota State Community and Technical College's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnesota State Community and Technical College's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2013

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