MINNESOTA STATE UNIVERSITY MANKATO

Annual Financial Report

For the Years Ended June 30, 2013 and 2012

A MEMBER OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

MINNESOTA STATE UNIVERSITY, MANKATO

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 University, Mankato
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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
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TABLE OF CONTENTS

INTRODUCTION

Page

Transmittal Letter 5

Organizational Chart 11

FINANCIAL SECTION

Independent Auditor's Report 14

Management's Discussion and Analysis 16

Basic Financial Statements

- Statements of Net Position 24
- Minnesota State University, Mankato Foundation, Inc. – Statements of Financial Position 25
- Statements of Revenues, Expenses, and Changes in Net Position 26
- Minnesota State University, Mankato Foundation, Inc. – Statements of Activities 27
- Statements of Cash Flows 28
- Notes to the Financial Statements 30

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Schedule of Funding Progress for Net Other Postemployment Benefits 55

SUPPLEMENTARY SECTION

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 58

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INTRODUCTION

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MINNESOTA STATE UNIVERSITY
MANKATO

November 15, 2013

Minnesota State Colleges and Universities Board of Trustees
Steven J. Rosenstone, Chancellor
Minnesota State Colleges and Universities
350 Wells Fargo Place
30 East 7th Street
St. Paul, MN 55101

Dear Members of the Board and Chancellor Rosenstone:

I am pleased to submit to you the audited annual financial statements for Minnesota State University, Mankato 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 operation for the year. The financial statements are presented in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board.

Minnesota State University, Mankato is one of 31 colleges and universities in the Minnesota State Colleges and Universities System. It has been my privilege to serve as president since July 1, 2002. Our faculty, staff and administrators strive to meet the highest standards of excellence in the overall management of the University, including fiscal, academic and student services. The following narrative demonstrates our success in achieving our expectations.

Now in its 145th year, Minnesota State Mankato serves approximately 15,700 students, the highest number since the 1990's with the second-largest first-year class in school history and the highest number of full-time students in the MnSCU System. Our student body includes over 650 international students from 84 countries. Our six academic colleges—Allied Health and Nursing; Arts and Humanities; Business; Education; Science, Engineering and Technology; and Social and Behavioral Sciences—feature more than 140 undergraduate programs of study and 69 graduate programs. The University employs close to 1,550 faculty and staff (447 full-time instructional faculty, 85 percent with terminal degrees). Minnesota State Mankato is accredited by The Higher Learning Commission (North Central Association of Colleges and Schools) and additionally, twenty-three national accrediting agencies have accredited programs at Minnesota State Mankato. Our alumni number over 111,000 worldwide. And, during the 2012-2013 academic year, the University awarded 3,121 degrees.

OFFICE OF THE PRESIDENT
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Minnesota State Mankato offers bachelors, masters, applied doctorate, associate, and specialist degrees, as well as undergraduate and graduate certificates. During 2012-2013, the University enrolled students in four applied doctoral programs.

The University houses several renowned centers for applied research, including the Center on Aging, Center for Applied Social Services, Center for School-University Partnerships, Minnesota Center for Automotive Research, Minnesota Center for Rapid Prototyping and Production, Kessel Institute for the Study of Peace and Change, Minnesota Center for Transportation Research and Implementation, International Renewable Energy Technology Institute, Center for Continuous Learning, Minnesota Center for Engineering and Manufacturing Excellence, Minnesota Modeling and Simulation Center, Space Image Processing Center, and Water Resources Center.

The University Department of Theatre and Dance continued its long tradition of performing high-quality theatre. In addition to nearly tops-in-the-nation attendance at performances, the department annually places student actors, designers and dancers among the best in the region and nation in competitions.

During the 2012-2013 academic year, Minnesota State Mankato fielded 18 intercollegiate athletic teams, including: NCAA Division I WCHA men's and women's hockey; NCAA Division II Northern Sun Intercollegiate Conference men's baseball, basketball, cross country, football, golf, track and wrestling; and NCAA Division II women's basketball, cross country, golf, soccer, softball, swimming, tennis, track and volleyball. Over 600 student athletes participated in athletic competitions. These teams are sources of great pride for students and community members. Maverick Athletics enjoyed a high level of success this year including:

- Winners of the conference all-sport trophy, the Mavericks earned six regular season conference championships and three conference postseason titles, to go along with six runner-up finishes.

- At the national level, Minnesota State Mankato hosted five NCAA regional events, winning three of those championships, in a year that saw 11 teams go on to finish in the top 20 nationally, including seven of those in the top 10.

- Three different coaches were recognized as "National Coach of the Year" (football, men's ice hockey, baseball).

- Minnesota State Mankato student- athletes also excelled outside of competition, contributing more than 2,000 hours of community service and with over 35% earning recognition on the Dean's List this past Spring semester.

Minnesota State Mankato is a vibrant campus with approximately 240 academic student groups, intramural and club sports, leadership and religious organizations, honorary, professional and social fraternities and sororities, and other special interest groups.

Our educational site in Edina at 7700 France continues to serve students in the metro area. Students are able to finish an undergraduate degree, earn a graduate degree or obtain licensure or certification in selected fields. It provides a convenient location to serve primarily nontraditional and graduate level students. The number of credit hours generated at this location during the 2012-2013 academic year totaled 4,903.

On Saturday, June 29, Minnesota State Mankato successfully demolished its 47-year old Gage residence hall towers by implosion. The demolition culminated a careful research and decision process that began in 1998 on what to do with the buildings. There was widespread community interest, as the Gage complex housed more than 50,000 students in its history, and the towers were a landmark on campus and in Mankato. On the date of the implosion, an estimated crowd of 6,000 was on hand to share memories and see the buildings come down. Alums and community members alike enjoyed the day, buying t-shirts and commemorative bricks, and taking pictures and video of the historic event, which received nationwide media attention.

Other capital improvements include a newly remodeled Dental Hygiene Simulation Lab in Morris Hall and improvements to our Brock-Otto Hall of Champions in the Taylor Center.

Thanks to generous contributions from alumni, friends, businesses and institutions, as of June 30, 2013, total private support for Minnesota State University, Mankato exceeded $11 million, including an impressive $8,229,971 million from 9,387 individual donors. The 2012-13 campus drive ended the year at $636,007, with 34 percent faculty and staff participation. Additionally, we received over $5.9 million in grants and contracts.

Minnesota State Mankato strives to be a good neighbor and community partner, serving as a regional economic and cultural hub in south central Minnesota. The Cities/Colleges/University Advisory Council consisting of the cities of Mankato/North Mankato, Minnesota State Mankato, Greater Mankato Growth, Mankato Public Schools, Bethany Lutheran College, Gustavus Adolphus College, South Central College and Rasmussen College continues to meet regularly to work together on community issues ranging from long-term planning to safety to diversity. Thousands of people from across southern Minnesota and northern Iowa travel to Minnesota State Mankato for our award-winning theatre and musical productions, readings by renowned poets and authors, presentations by business and industry leaders, art exhibitions, and nationally-known speakers. The University also hosts a wide variety of cultural and ethnic events which reflect the University's growing diversity.

We continued our strong relationship with the community – particularly Greater Mankato Growth, the business and economic development organization in Mankato. We see positive results from our Division of Strategic Business, Education and Regional Partnerships through expanding connections with education, business and industry. Strategic Partnerships managed state workforce training projects for five Southern Minnesota industries aimed at training 501 employees valued at over $2 million. The Division pre-developed four faculty/student applied research projects with industry and also fostered the partnership framework for the Minnesota Center of Engineering and Manufacturing Excellence (MnCEME) in the Twin Cities Global Robotics Innovation Park and three federal grant initiatives to help U.S.-based manufacturers close skills gaps. We are working closely with regional employers in developing partnerships that are beneficial to our students, faculty, and our regional employers.

The Small Business Development Center was awarded the 2013 U.S. Small Business Administration Center of Excellence and Innovation Award for the Upper Midwest Region, consisting of Minnesota, Illinois, Indiana, Michigan, Ohio and Wisconsin. The award is given annually to honor an SBDC for excellence in providing value to small businesses and advancing program delivery and management through innovation.

The Small Business Development Center added a full-time professional business consultant in July 2012 to strengthen its focus on financial management and loan packaging. The SBDC served 267 clients, delivered 1,921 hours of consulting, facilitated 28 business starts, and helped clients access over $3 million in capital from January to August 2013. The Turn-Around Assistant Program (TAP) continues to deliver in-depth, high-level technical assistance to distressed but viable businesses. To date, SBDC has helped 28 clients work to stabilize or save their businesses and retain employees. The Entrepreneur Doorway Program Partnership set up by the SBDC with la-Mano, Inc. Greater Mankato Diversity Council, Minnesota Department of Employment and Economic development (DEED) and Region Nine Development Commission to provide minority, immigrant and refugee clients and information and resources to develop and grow their business. Currently there are 10 clients in this program. The SBDC is also participating in the Veterans reintegration events, partnering with the WorkForce Center and providing scholarships to educational workshops for veterans.

We continue to make progress in enrolling ethnic minority students. In fiscal year 2012, 11.5% of our student population identified themselves as being a student of color, whereas, in fiscal year 2013, we were at 11.9%. For this current fall semester 2013, we are reflecting an increase to 13.1% of our student population identifying themselves as being a student of color.

The Minnesota State Mankato Twin Cities Engineering Program enrolled its first students in January 2013. This innovative, collaborative program leads to a professional four year engineering degree and is a collaborative program among Minnesota State Mankato and six state colleges that is based at Normandale Community College in Bloomington, MN. The program is modeled after the highly successful and recent ABET-accredited Iron Range Engineering Program that is hosted by Mesabi Range College in Virginia, MN. The project-based curriculum of both Iron Range Engineering and Twin Cities Engineering is the first of its kind in the state of Minnesota.

The University continues to make progress on our strategic priorities. We are working to:

- Change the world by collaboratively addressing our planet's most challenging problems.
- Foster the thriving and robust academic culture of a university with applied doctoral programs.
- Greatly expand the reach of our extended learning programs.
- Reinvigorate our physical home and build the campus of the future.
- Measure and continuously improve our work to ensure excellence in all that we do.

We point with pride at the following sample of notable accomplishments:

- Processed over 13,000 undergraduate admissions applications for first time. For second straight year, received more applications than any other MnSCU school during November's National College Application Week.

- Our university led the Midwest (with the exception of the host university) in student presentations (52) at the National Conference on Undergraduate Research (NCUR) and ranked 17th in number of student presentations out of 434 participating institutions.

- Forbes Magazine's 2011 "America's Best Colleges" list ranked Minnesota State among the top quartile of four-year public and private colleges and universities.

- Bronze recipient in NASPA Excellence Awards for transforming higher education through outstanding programs, innovative services, and effective administration in Housing, Residence Life, Contracted Services, Judicial and Related Category.

- For the sixth consecutive year, our MBA program was listed among the best in the Princeton Review's 2013 business school's guidebook, marking seven overall years in those rankings.

- First four students to receive Doctor of Nursing Practice degrees graduated in May 2013.

- As part of our Belize Service Abroad Initiative: Nine faculty and 29 students provided assessments, clinical services to more than 500 students and families at eight schools, a community dental clinic and the Education Center located in San Pedro, Belize.

- Undergraduate Nursing one of six recipients nationwide of 2013 National League of Nursing (NLN) Hearst Foundations Excellence in Geriatric Education Award.

- Seven new graduate programs: Communication and Composition (MS); Applied Statistics (MS); Museum Studies (GC); Spanish for the Professions (MS); Automotive Engineering (MS); Automotive Engineering (GC); Manufacturing Engineering and Technology (GC).

Minnesota State Mankato is an exceptional community with faculty, staff, administrators, and students who embody the qualities of creative thinking, excellence, consultation, high energy, innovation, and success. We are a university with successful alumni, good friends and eager partners to help move the University forward. Members of the University community work together in leading this University to new heights in affording superior experiences for our students and fostering an environment that welcomes collaborative partnerships – one that embraces change, recognizes accomplishments, and supports research and creative activity opportunities for faculty and for students while providing a sound, global education. Our faculty, staff, students and administrative leaders are striving to make a world of difference at Minnesota State University, Mankato and reflect positively on the Minnesota State Colleges and Universities system.

The University's financial statements were audited by Kern DeWenter Viere, Ltd. Included in these financial statements are statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The financial statements show that the University's financial position remained stable during fiscal year 2013. The University's net position decreased during fiscal year 2013 by $0.3 million and now totals $210.1 million. Additionally, the University ended fiscal year 2013 with a general operating fund reserve of $10.5 million. The general operating fund reserve is approximately 7.0 percent of the total general fund operating revenue from the prior fiscal year, and is at the high end of the required reserve range of 5.0 to 7.0 percent per board policy. This reserve serves to protect the University in case of financial hardship from unanticipated changes in operating expenses, operating revenue, enrollment or state appropriation. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report.

Responsibility for the accuracy, fairness, and completeness of the information in this report rests with Finance and Administration staff from Minnesota State University, Mankato and Finance Division staff from the System Office. The completion of this report truly represents a combined effort, and we rely on both units in providing this assurance. Accordingly, the many people who assisted in this effort are deserving of our appreciation.

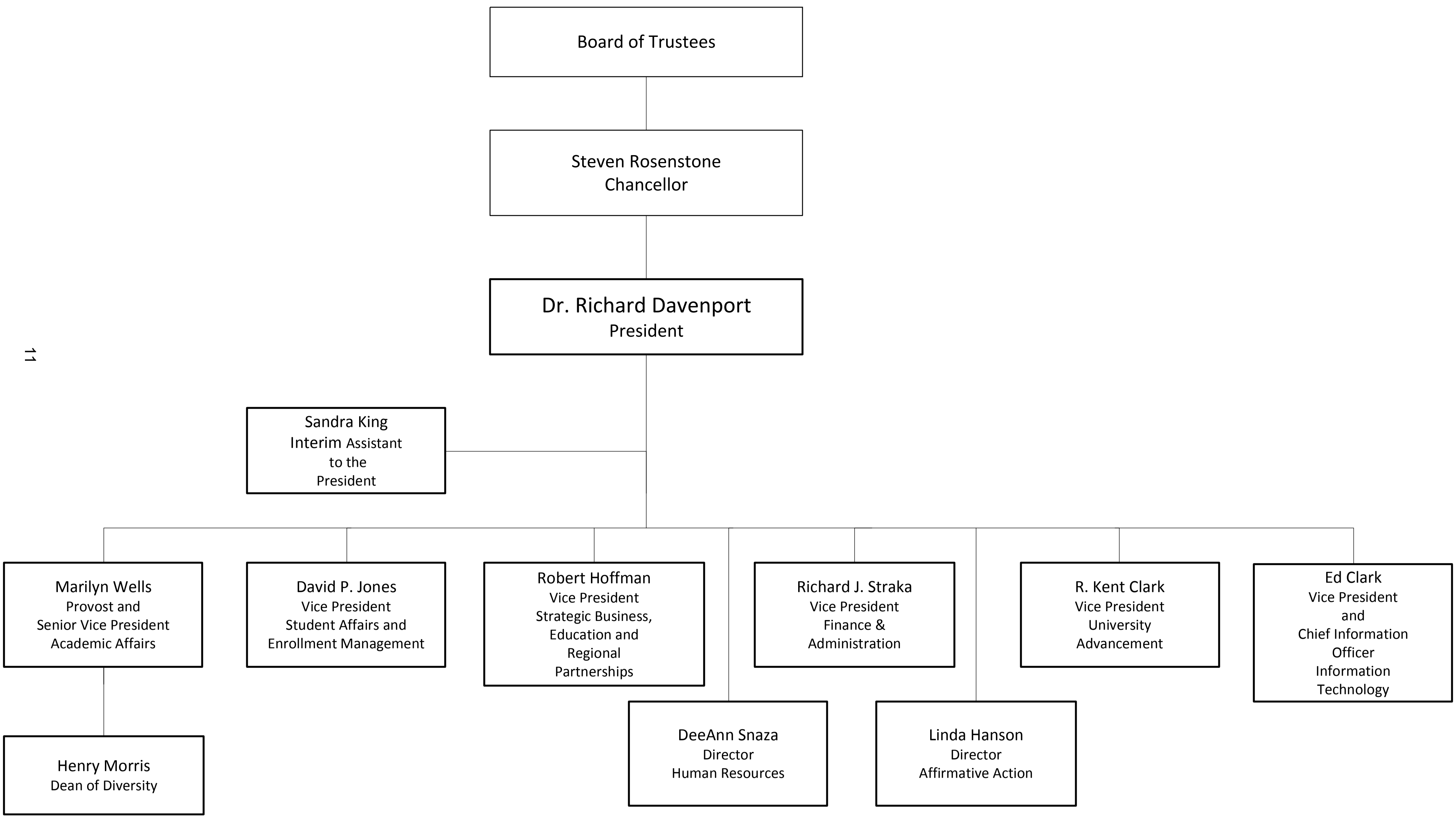
Respectfully submitted,

Richard Davenport
President

Enclosure

Minnesota State University, Mankato

June 30, 2013



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

The University's portion of the Revenue Fund is also included in this report. The Revenue Fund activity is included both in the Minnesota State Colleges and Universities Annual Financial Report and in a separately issued Revenue Fund Annual Financial Report.

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

FINANCIAL SECTION

KDV

Expert advice. When you need it.SM

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Minnesota State University, Mankato Foundation Inc., a component unit of the University, which statements reflect total assets of $ 48,185,000 and $ 44,734,000 at June 30, 2013 and 2012, respectively, and total revenues of $ 10,089,000 and $ 4,171,000, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Minnesota State University, Mankato Foundation Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The accompanying introductory sections identified in the Table of Contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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

Kern, DeWenter

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

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

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

The University is a comprehensive public institution of higher learning that serves more than 15,000 students including 1,700 graduate and professional students. Approximately 1,550 faculty and staff members are employed by the University. Additionally, the University has more than 109,000 alumni.

The eight colleges that comprise the University's academic programs are as follows.

- Allied Health & Nursing
- Arts and Humanities
- Business
- Education
- Extended Learning
- Graduate Studies and Research
- Science, Engineering and Technology
- Social and Behavioral Science

The University offers students opportunities for bachelor's, master's, applied doctorate, associate, and specialist degrees, as well as graduate certificates. Students can choose from over 140 undergraduate study programs, including 13 pre-professional programs, 69 graduate study programs, and 4 applied doctorate degree programs. The University is accredited by the Higher Learning Commission (North Central Association of Colleges and Schools). Additionally, 23 national accrediting agencies have accredited university programs including AACSB International.

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2013. Although the University's net position experienced a slight decline of $0.3 million during fiscal year 2013, this transpired primarily from the implementation of strategic plans involving one-time expenditures. During fiscal year 2013, approximately $5.7 million of nonrecurring or one-time expenditures were incurred to implement various university strategic plans and for the demolition of the Gage Residence Hall complex. To fund these projects, $2.0 million of revenue bonds were issued to partially offset the Gage demolition project, and the rest of the funding came from university reserves.

For the fiscal year ended June 30, 2013, assets totaled $352.6 million compared to liabilities of $142.5 million. Net position, which represents the residual interest in the University's assets after liabilities are deducted, is comprised of net investments in capital assets of $146.5 million; restricted net position of $18.4 million; and unrestricted net position of $45.2 million. The fiscal year 2013 net position total of $210.1 million represents a decrease of $0.3 million over fiscal year 2012 and an increase of $10.0 million over fiscal year 2011. The fiscal year 2013 unrestricted net position total of $45.2 million represents a 13.6 percent increase from the fiscal year 2012 total of $39.8 million and a 37.0 percent increase compared to the fiscal year 2011 total of $33.0 million.

Fiscal year 2013 state appropriations revenue, excluding capital appropriations, totaled $47.0 million and represents a 0.6 percent decrease from fiscal year 2012 and a 9.9 percent decrease from fiscal year 2011. Net tuition revenue in fiscal year 2013 reached $75.3 million which is a 5.9 percent increase over fiscal year 2012 and a 10.6 percent increase over fiscal year 2011.

USING THE FINANCIAL STATEMENTS

This annual 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 three financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net position categories. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements.

STATEMENTS OF NET POSITION

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

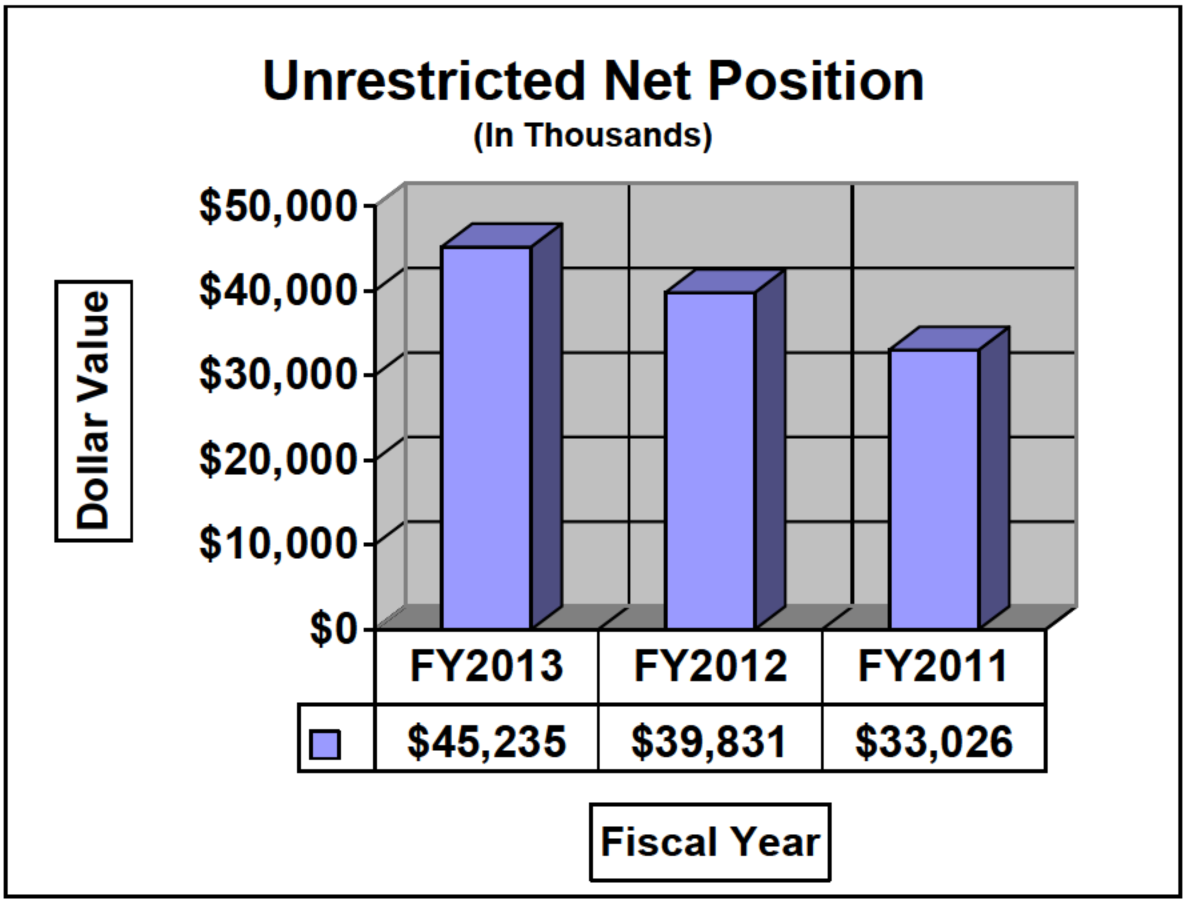
Statements of Net Position
(In Thousands)

	2013	2012	2011
Assets			
Current assets	$ 97,437	$ 92,225	$ 90,080
Restricted assets	14,797	40,062	41,183
Noncurrent assets			
Student loan receivables/other	5,345	5,317	5,647
Capital assets, net	234,976	215,823	212,651
Total assets	352,555	353,427	349,561
Liabilities			
Current liabilities	29,434	28,490	30,572
Noncurrent liabilities	113,035	114,574	118,888
Total liabilities	142,469	143,064	149,460
Net Position			
Net investment in capital assets	146,475	147,174	145,165
Restricted	18,376	23,358	21,910
Unrestricted	45,235	39,831	33,026
Total net position	$ 210,086	$ 210,363	$ 200,101

Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $88.7 million at June 30, 2013. This is an increase of $5.1 million over fiscal year 2012 and represents approximately 5.8 months of operating expenses (excluding depreciation). This is compared to 5.9 months and 5.6 months for the fiscal years ended June 30, 2012 and 2011, respectively.

Current liabilities primarily consist of accounts payable and salaries and benefits payable. Salaries and benefits payable totaled $12.0 million at June 30, 2013, which was $2.6 million higher than the previous fiscal year. Approximately, $1.4 million of the increase is due to an adjustment between cash and salaries payable for benefit payments due to third party providers that were disbursed on July 1 versus the end of June in prior fiscal years. Included within the salaries and benefits payable accrual is $6.7 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 20, 2012 – August 16, 2013. Accounts payable totaled $5.5 million, $7.1 million, and $5.9 million for fiscal years ended June 30, 2013, 2012, and 2011 respectively.

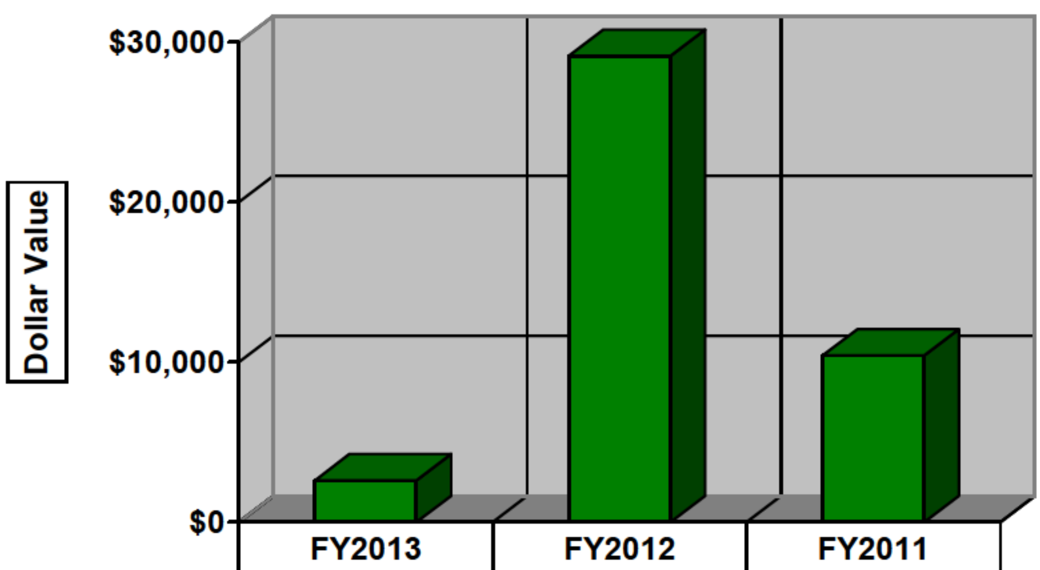
Net position represents the residual interest in the University's assets after liabilities are deducted. Unrestricted net position includes the University's general operating fund reserve. Board policy requires the University to maintain a general operating fund reserve. Accordingly, the University's general operating fund reserve balances, calculated on the budgetary basis of accounting, totaled $10.5 million, $10.5 million, and $10.9 million for fiscal years ended June 30, 2013, 2012, and 2011, respectively.



Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position primarily includes funding received for specific purposes, bond covenants, debt service, and funds reserved for legislatively mandated purposes.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic and student life programs is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its older facilities while planning for new construction. Capital assets, net of accumulated depreciation of $152.8 million, totaled $235.0 million as of June 30, 2013. This represents a decrease of $5.3 million from June 30, 2012, and an increase of $16.0 million from June 30, 2011. Capital outlays are primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment and library materials. Capital outlays totaled $8.9 million in fiscal year 2013, a decrease of $25.2 million from fiscal year 2012. Significant capital outlays made in fiscal year 2013 included $2.0 million for the Preska Residence Community project, $1.1 million for Crawford and McElroy Hall renovation projects, and $1.0 million for the Morris Hall HVAC renovation project. Significant capital outlays made in fiscal year 2012 included $19.4 million for the Preska Residence Community project, $4.6 million for various other residence hall renovations, $2.2 million for the Centennial Student Union Ballroom renovation project, and $1.4 million for the Memorial Library Roof renovation project. Significant capital outlays made in fiscal year 2011 included $4.4 million for the Preska Residence Community project, $2.8 million for the Trafton Science Center renovation project, $2.4 million for McElroy Hall renovation projects, and $1.9 million for the Centennial Student Union Ballroom renovation project. Construction in progress totaled $2.6 million, $29.1 million, and $10.4 million for fiscal years ended June 30, 2013, 2012, and 2011, respectively. Capital appropriations totaled $1.1 million, $2.3 million, and $3.1 million for fiscal years ended June 30, 2013, 2012, and 2011, respectively.



	FY2013	FY2012	FY2011
■	$2,618	$29,134	$10,427

Note: Figures above include restricted construction in progress.

Revenue and general obligation bonds payable totaled $95.4 million at June 30, 2013. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from three general obligation fund projects and six revenue fund projects. General obligation bonds payable includes $8.2 million for Ford Hall which was completed in 2009, $7.0 million for the Trafton Science Center Renovation project which was completed in October 2010, and $2.7 million for athletic facility renovations completed between 2002 and 2007.

Revenue bonds payable includes $5.5 million for the Centennial Student Union south entrance and food service renovation project which was completed in 2005, $30.5 million for Sears Residence Hall which was completed in 2009, $6.1 million for the outdoor recreation renovation project which was completed in October 2010, $25.7 million for the Preska Residence Community which was completed in August 2012, $2.6 million for the Centennial Student Union Ballroom renovation which was completed in October 2011, and $2.0 million for the Gage Residence Hall complex demolition which is expected to be completed in October 2013. Additional information on capital and debt activities can be found in Notes 6 and 8 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue. A summarized statement for the years ended June 30, 2013, 2012, and 2011, respectively, follows:

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

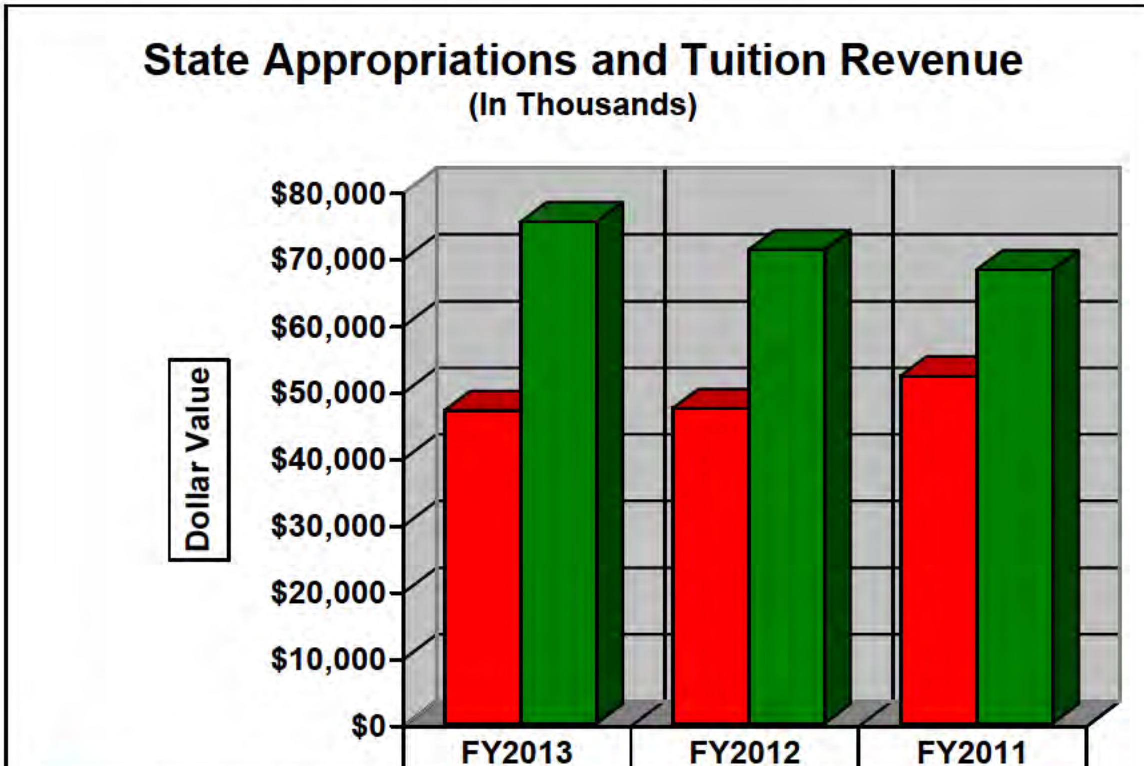
	2013	2012	2011
Operating revenues:			
Tuition, net	$ 75,299	$ 71,093	$ 68,069
Fees, net	8,861	7,994	7,751
Sales, net	11,831	10,616	10,529
Restricted student payments, net	24,950	27,428	26,401
Other income	880	1,009	448
Total operating revenues	121,821	118,140	113,198
Nonoperating revenues:			
State appropriations	47,002	47,290	52,149
Federal, state, and private grants	32,062	29,024	32,837
Capital appropriations and capital grants	1,133	2,722	3,561
Other	693	844	660
Total nonoperating revenues	80,890	79,880	89,207
Total revenues	202,711	198,020	202,405
Operating expenses:			
Salaries and benefits	128,213	120,746	125,539
Supplies, services and other	52,716	47,733	43,826
Depreciation	13,922	12,987	12,185
Financial aid, net	3,929	2,242	3,880
Total operating expenses	198,780	183,708	185,430
Nonoperating expenses:			
Loss on disposal of capital assets	151	113	162
Grants to other organizations	—	—	8
Interest expense	4,057	3,937	3,805
Total nonoperating expenses	4,208	4,050	3,975
Total expenses	202,988	187,758	189,405
Change in net position	(277)	10,262	13,000
Net position, beginning of year	210,363	200,101	187,101
Net position, end of year	$ 210,086	$ 210,363	$ 200,101

Tuition and state appropriations are the primary sources of funding for University operations. Student enrollment declined by 249 full year equivalents (FYE) from fiscal year 2012 to fiscal year 2013 which represents a 1.7 percent decrease.

Enrollment levels totaled 14,194, 14,443, and 14,388 FYE for fiscal years ended June 30, 2013, 2012, and 2011, respectively. Taking into account enrollment fluctuations over the past two fiscal years, tuition revenue increased in fiscal years 2013 and 2012 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 7.1 percent from fiscal year 2011 to fiscal year 2012 and 5.0 percent from fiscal year 2012 to fiscal year 2013. State appropriations decreased by $0.3 million during fiscal year 2013 to $47.0 million representing a 0.6 percent decrease and a 9.9 percent decrease from fiscal years ending June 30, 2012, and 2011 respectively.

Capital appropriations have fluctuated the past three fiscal years with the University receiving of $1.1 million, $2.3 million, and $3.1 million for the fiscal years ended June 30, 2013, 2012, and 2011, respectively.

Resources expended for employee compensation totaled $128.2 million for the fiscal year ended June 30, 2013, which represents an increase of $7.5 million over the prior year. Employee salary increases, which included back pay from fiscal year 2012, averaged approximately 5.0 percent, and the University added approximately 32 full time equivalent (FTE) employees during fiscal year 2013. Both of these factors contributed to the increase in employee compensation for the fiscal year ended June 30, 2013.



	FY2013	FY2012	FY2011
State Appropriations	$47,002	$47,290	$52,149
Tuition, net	$75,299	$71,093	$68,069

Fiscal Year

FOUNDATION

The Minnesota State University, Mankato Foundation, Inc. is a component unit of Minnesota State University, Mankato. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. Additional information regarding the Foundation can be found in Note 18 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking to the future, enrollment management looms as the primary fiscal challenge for the University. As tuition revenues have become a higher percentage of the University's total revenues, changes in student enrollments have a larger and more immediate impact on the University's budget. Consequently, enrollment management is crucial to ensure stability in the University's budget.

Enrollment management is a challenge for a number of reasons. Demographics related to tracking first-year students project a significant decline in the number of high school graduates within the University's current primary service areas over the next five years. Additionally, while the national economic downturn may have lead to a short-term increase in demand for higher education from the incumbent work force and the increased numbers of unemployed workers, that demand may lessen over the next few years. Enrollment management remains the University's primary strategic initiative. The University continues to commit resources toward maintaining the goal of steady enrollment growth of approximately 1.0 – 2.0 percent per year. Enrollment is projected to remain fairly stable for fiscal year 2014. The University plans to increase future enrollment through the implementation of a university-wide, integrated enrollment management plan that encompasses graduate, transfer, international, and extending learning enrollment targets in addition to enrollment targets for traditional first-year students or high school graduates.

The University faces other economic factors in addition to enrollment management including:

1) State appropriation revenues increasing for fiscal year 2014 and fiscal year 2015 to supplant a previously proposed 3.0 percent tuition increase
2) Undergraduate tuition rates for fiscal year 2014 and fiscal year 2015 have been frozen at fiscal year 2013 levels
3) Collective bargaining pressure to increase employee salaries as bargaining agreements are only partially settled as of late fall 2013
4) Increasing employer and employee paid health insurance premiums for employees
5) Impact of the federal budget deficit on higher education and financial markets
6) Continued inflation in utility rates, software, and technology infrastructure costs

Collective bargaining for the 2014-2015 biennium has only been partially settled. The competitiveness of faculty compensation will be a factor in negotiations as faculty compensation has declined in national competitiveness over the last decade despite a boost in the 2013-2014 biennium. Additionally, health insurance costs are anticipated to continue to increase during the next two years for both the employer and the employee.

Attempts to address the looming federal budget deficit could result in far-reaching federal budget implications that could negatively impact higher education and financial markets.

In summary, these factors, along with anticipated cost increases for purchased services, may result in financial challenges for the University in fiscal years 2014, 2015 and beyond. In light of these financial challenges, the University expects to face pressure to continuously reallocate internal resources to fund inflation and strategic investments. The University has an open budget planning process which incorporates a shared governance philosophy into decision making. This process positions the University to respond effectively to current and future financial challenges.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Minnesota State University, Mankato's financial position. Questions concerning information provided in this report or requests for additional financial information should be addressed to:

Steve W. Smith
Assistant Vice President for Budget and Business Services
Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, MN 56001
steven.smith@mnsu.edu

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

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 83,240	$ 82,842
Investments	5,444	740
Grants receivable	878	758
Accounts receivable, net	4,412	4,410
Prepaid expense	2,205	2,207
Inventory	89	115
Student loans, net	935	888
Other assets	234	265
Total current assets	97,437	92,225
Current Restricted Assets		
Cash and cash equivalents	14,797	15,615
Total current restricted assets	14,797	15,615
Noncurrent Restricted Assets		
Other assets	-	19
Construction in progress	-	24,428
Total noncurrent restricted assets	-	24,447
Total restricted assets	14,797	40,062
Noncurrent Assets		
Student loans, net	5,345	5,317
Capital assets, net	234,976	215,823
Total noncurrent assets	240,321	221,140
Total Assets	352,555	353,427
Liabilities		
Current Liabilities		
Salaries and benefits payable	11,955	9,355
Accounts payable	3,903	4,783
Unearned revenue	4,454	4,522
Payable from restricted assets	1,615	2,315
Interest payable	806	859
Funds held for others	394	305
Current portion of long-term debt	4,382	4,269
Other compensation benefits	1,918	2,082
Advances	7	-
Total current liabilities	29,434	28,490
Noncurrent Liabilities		
Noncurrent portion of long-term debt	92,297	94,432
Other compensation benefits	14,598	13,869
Capital contributions payable	6,140	6,273
Total noncurrent liabilities	113,035	114,574
Total Liabilities	142,469	143,064
Net Position		
Net investment in capital assets	146,475	147,174
Restricted expendable, bond covenants	8,078	12,058
Restricted expendable, other	10,298	11,300
Unrestricted	45,235	39,831
Total Net Position	$ 210,086	$ 210,363

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 2,256	$ 2,330
Pledges and contributions receivable, net	1,119	965
Other receivables	58	72
Total current assets	3,433	3,367
Noncurrent Assets		
Long-term pledges receivable	804	1,041
Investments	42,944	39,322
Property and equipment, net	1,004	1,004
Total noncurrent assets	44,752	41,367
Total Assets	$ 48,185	$ 44,734
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 158	$ 277
Bonds payable	-	227
Total current liabilities	158	504
Noncurrent Liabilities		
Annuities payable	981	932
Total noncurrent liabilities	981	932
Total Liabilities	1,139	1,436
Net Assets		
Unrestricted	11,520	8,833
Temporarily restricted	2,288	2,093
Permanently restricted	33,238	32,372
Total Net Assets	47,046	43,298
Total Liabilities and Net Assets	$ 48,185	$ 44,734

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
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	$ 75,299	$ 71,093
Fees, net	8,861	7,994
Sales, net	11,831	10,616
Restricted student payments, net	24,950	27,428
Other income	880	1,009
Total operating revenues	121,821	118,140
Operating Expenses		
Salaries and benefits	128,213	120,746
Purchased services	27,103	23,382
Supplies	11,860	12,479
Repairs and maintenance	4,502	2,842
Depreciation	13,922	12,987
Financial aid, net	3,929	2,242
Other expense	9,251	9,030
Total operating expenses	198,780	183,708
Operating loss	(76,959)	(65,568)
Nonoperating Revenues (Expenses)		
Appropriations	47,002	47,290
Federal grants	19,727	19,059
State grants	9,634	7,669
Private grants	2,701	2,296
Interest income	360	743
Interest expense	(4,057)	(3,937)
Total nonoperating revenues (expenses)	75,367	73,120
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,592)	7,552
Capital appropriations	1,109	2,311
Capital grants	24	411
Donated assets and supplies	333	101
Loss on disposal of capital assets	(151)	(113)
Change in net position	(277)	10,262
Total Net Position, Beginning of Year	210,363	200,101
Total Net Position, End of Year	$ 210,086	$ 210,363

The notes are an integral part of the financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Support and Revenue					
Contributions, net	$ 2,432	$ 267	$ 1,054	$ 3,753	$ 2,564
In-kind contributions	2,441	-	-	2,441	1,872
Investment income	1,112	101	-	1,213	1,169
Realized gains (losses)	2,698	-	-	2,698	(1,431)
Unrealized gains (losses)	35	(4)	(85)	(54)	(78)
Other income	41	(3)	-	38	75
Net assets released from restrictions	269	(166)	(103)	-	-
Total support and revenue	9,028	195	866	10,089	4,171
Expenses					
Program services					
Scholarships	4,003	-	-	4,003	3,307
Total program services	4,003	-	-	4,003	3,307
Supporting services					
Interest expense	5	-	-	5	17
Management and general	546	-	-	546	553
Fundraising	1,780	-	-	1,780	1,779
Property and equipment expenses	7	-	-	7	8
Total supporting services	2,338	-	-	2,338	2,357
Total expenses	6,341	-	-	6,341	5,664
Change in Net Assets	2,687	195	866	3,748	(1,493)
Net Assets, Beginning of Year	8,833	2,093	32,372	43,298	44,791
Net Assets, End of Year	$ 11,520	$ 2,288	$ 33,238	$ 47,046	$ 43,298

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
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	$ 121,750	$ 118,959
Cash repayment of program loans	938	898
Cash paid to suppliers for goods or services	(52,533)	(47,668)
Cash payments for employees	(125,039)	(125,782)
Financial aid disbursements	(4,062)	(2,348)
Cash payments for program loans	(1,152)	(743)
Net cash flows used in operating activities	(60,098)	(56,684)
Cash Flows from Noncapital Financing Activities		
Appropriations	47,002	47,290
Federal grants	19,607	19,890
State grants	9,634	7,669
Private grants	2,701	2,296
Agency activity	88	215
Loans from other schools	7	-
Net cash flows provided by noncapital financing activities	79,039	77,360
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(10,353)	(33,105)
Capital appropriation	1,109	2,311
Capital grants	24	411
Proceeds from sale of capital assets	272	71
Proceeds from issuance of debt	8,312	89
Proceeds from bond premium	1,148	1
Interest paid	(4,053)	(3,979)
Repayment of lease principal	(156)	(150)
Repayment of bond principal	(11,061)	(2,977)
Net cash flows used in capital and related financing activities	(14,758)	(37,328)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	100	6,633
Purchase of investments	(5,000)	-
Investment earnings	297	504
Net cash flows provided by (used in) investing activities	(4,603)	7,137
Net Decrease in Cash and Cash Equivalents	(420)	(9,515)
Cash and Cash Equivalents, Beginning of Year	98,457	107,972
Cash and Cash Equivalents, End of Year	$ 98,037	$ 98,457

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Loss	$ (76,959)	$ (65,568)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	13,922	12,987
Provision for loan defaults	76	45
Loan principal repayments	938	898
Loans issued	(1,152)	(743)
Forgiven loans	64	81
Change in assets and liabilities		
Inventory	26	26
Accounts receivable	(2)	69
Accounts payable	(69)	261
Salaries and benefits payable	2,600	(5,097)
Other compensation benefits	565	42
Capital contributions payable	(133)	(105)
Unearned revenues	(68)	751
Other	94	(331)
Net reconciling items to be added to operating loss	16,861	8,884
Net cash flows used in operating activities	$ (60,098)	$ (56,684)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 2,331	$ 3,778
Equipment purchased on account	54	85
Donated equipment	333	101
Loss on retirement of capital assets	(423)	(184)
Change in fair marker value of investment	(196)	77
Investment earnings on account	46	57
Amortization of bond premium	270	216
Grants receivable	(120)	831

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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 University, Mankato receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Minnesota State University, Mankato Foundation, Inc. is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Minnesota State University, Mankato Foundation, Inc., 224 Alumni Foundation Center, 1536 Warren Street, Mankato, Minnesota 56001.

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

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

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

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

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

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

Cash and Cash Equivalents —The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, 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 University also has three accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

Investments — The Minnesota State Board of Investment invests the University’s balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is retained by the Minnesota State Colleges and Universities system office and allocated to the colleges and universities.

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

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

Inventories — Inventories are valued at cost using the first in, first out and actual cost methods.

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

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

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

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

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

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The University is responsible for a portion of the debt service on the bonds sold for some University projects. The University may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, early termination benefits, net other postemployment benefits, and workers' compensation claims.

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

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

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

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

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

Federal Grants — The University participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, and TRIO. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transaction.* Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

Capital Grants — The University receives federal, state, and private grants which are restricted for the acquisition or construction of capital assets.

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 subject to externally imposed stipulations. Net position restrictions for the University are as follows:

  Restricted for bond covenants — revenue bond restrictions.
  Restricted for other — includes restrictions for the following:
  Donations — restricted per donor requests.
  Loans — University capital contributed for Perkins loans.
  Capital projects/Debt service — restricted for completion of capital projects or bond debt repayments.
  Faculty contract obligations — faculty development and travel required by contracts.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Donations	$ 174	$ 181
Loans	711	726
Capital projects/Debt service	7,792	8,770
Faculty contract obligations	1,621	1,623
Total	$ 10,298	$ 11,300

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

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

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

The Minnesota State Colleges and Universities adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. More specifically, the statement requires costs related to the issuance of debt to no longer be recorded as a deferred charge and amortized, but to be recognized as an expense in the period incurred. 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. Additionally the fiscal year 2013 income statement reflects another $.01 million of expense related to current year bond issuance costs.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

At June 30, 2013 and 2012, the University's local bank balances were $6,729,460 and $10,932,191, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance. The University's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands)		
Carrying Amount	2013	2012
Cash, in bank	$ 5,174	$ 10,131
Money markets	25	36
Change fund	13	12
Cash, trustee account (US Bank)	6,087	6,244
Total local cash and cash equivalents	11,299	16,423
Total treasury cash accounts	86,738	82,034
Grand Total	$ 98,037	$ 98,457

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

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

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

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

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

At June 30, the University's debt securities were rated equivalent to *Standard and Poor's* AAA.

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

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

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

Year Ended June 30
(In Thousands)

	2013		2012	
Investment Type	Fair Value	Weighted Maturities (In Years)	Fair Value	Weighted Maturities (In Years)
US agencies	$ 5,444	6.70	$ 740	11.27

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2013 and 2012, the total accounts receivable balances for the University were $6,531,723 and $6,449,217, respectively, less an allowance for uncollectible receivables of $2,120,062 and $2,039,425, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 2,294	$ 2,395
Sales and services	1,916	1,725
Fees	587	582
Room and board	668	621
Other	1,067	1,126
Total accounts receivable	6,532	6,449
Allowance for uncollectible accounts	(2,120)	(2,039)
Net accounts receivable	$ 4,412	$ 4,410

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligations bond payments in the amounts of $1,973,900 and $2,025,215 for fiscal years 2013 and 2012, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on December 1 of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year. Also, included in prepaid expense for fiscal years 2013 and 2012 respectively, is $231,407 and $182,170, stemming from prepaid software maintenance agreements and prepaid conference registrations.

5. LOANS RECEIVABLE

Loans receivable balances primarily consist of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University. At June 30, 2013 and 2012, the total loans receivable were $6,653,393 and $6,503,001, respectively, less an allowance for uncollectible loans of $373,297 and $297,568, 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	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	29,134	5,924	—	(32,440)	2,618
Total capital assets, not depreciated	30,045	5,924	—	(32,440)	3,529
Capital assets, depreciated:					
Buildings and improvements	324,678	—	5,300	32,440	351,818
Equipment	23,246	1,872	1,257	—	23,861
Internally developed software	138	—	—	—	138
Library collections	8,648	1,140	1,392	—	8,396
Total capital assets, depreciated	356,710	3,012	7,949	32,440	384,213
Less accumulated depreciation:					
Buildings and improvements	125,703	11,158	4,988	—	131,873
Equipment	15,786	1,544	1,280	—	16,050
Internally developed software	79	20	—	—	99
Library collections	4,936	1,200	1,392	—	4,744
Total accumulated depreciation	146,504	13,922	7,660	—	152,766
Total capital assets, depreciated, net	210,206	(10,910)	289	32,440	231,447
Total capital assets, net	$ 240,251	$ (4,986)	$ 289	$ —	$ 234,976

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	10,427	31,059	—	(12,352)	29,134
Total capital assets, not depreciated	11,338	31,059	—	(12,352)	30,045
Capital assets, depreciated:					
Buildings and improvements	312,326	—	—	12,352	324,678
Equipment	23,593	1,811	2,158	—	23,246
Internally developed software	138	—	—	—	138
Library collections	8,725	1,259	1,336	—	8,648
Total capital assets, depreciated	344,782	3,070	3,494	12,352	356,710
Less accumulated depreciation:					
Buildings and improvements	115,525	10,178	—	—	125,703
Equipment	16,473	1,554	2,241	—	15,786
Internally developed software	60	19	—	—	79
Library collections	5,036	1,236	1,336	—	4,936
Total accumulated depreciation	137,094	12,987	3,577	—	146,504
Total capital assets, depreciated, net	207,688	(9,917)	(83)	12,352	210,206
Total capital assets, net	$ 219,026	$ 21,142	$ (83)	$ —	$ 240,251

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2013	2012
Purchased services	$ 1,249	$ 1,055
Supplies	1,103	1,178
Salaries	302	294
Repairs and maintenance	364	428
Capital projects	716	1,463
Equipment	54	86
Library materials	47	79
Inventory	3	10
Other	65	190
Total	$ 3,903	$ 4,783

In addition, as of June 30, 2013 and 2012, the university had payables from restricted assets in the amounts of $1,615,079 and $2,315,076, respectively, 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	**$** 2,729	$ 1,148	$ 270	$ 3,607	$ —
Capital leases	1,396	—	156	1,240	164
General obligation bonds	19,954	123	1,349	18,728	1,354
Revenue bonds	74,622	8,189	9,707	73,104	2,864
Total long term debt	$ 98,701	$ 9,460	$ 11,482	$ 96,679	$ 4,382

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 2,944	$ 1	$ 216	$ 2,729	$ —
Capital leases	1,546	—	150	1,396	157
General obligation bonds	21,259	89	1,394	19,954	1,348
Revenue bonds	76,251	—	1,629	74,622	2,764
Total long term debt	$ 102,000	$ 90	$ 3,389	$ 98,701	$ 4,269

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	$ 12,413	$ 2,538	$ 1,484	$ 13,467	$ 1,662
Early termination benefits	46	—	46	—	—
Net other postemployment benefits	2,265	723	472	2,516	—
Workers' compensation	1,227	262	956	533	256
Total other compensation benefits	$ 15,951	$ 3,523	$ 2,958	$ 16,516	$ 1,918

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 12,407	$ 1,371	$ 1,365	$ 12,413	$ 1,484
Early termination benefits	299	46	299	46	46
Net other postemployment benefits	1,922	1,054	711	2,265	—
Workers' compensation	1,281	736	790	1,227	552
Total other compensation benefits	$ 15,909	$ 3,207	$ 3,165	$ 15,951	$ 2,082

Bond Premium — General obligation bonds were issued in fiscal years 2013 and 2012, resulting in premiums of $613 and $649, respectively. In fiscal year 2013, revenue bonds were issued resulting in a premium of $1,147,738. Prior to that in fiscal years 2011, 2009 and 2006, revenue bonds were issued resulting in premiums of $379,717, $16,536 and $1,640,942, respectively. Amortization of the bond premium is calculated using the straight line method and amortized over the remaining life of the bonds.

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.

General Obligation Bonds — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.0 to 5.5 percent. The Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bond liability in these financial statements represents the University's share.

Revenue Bonds— The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for residence hall, food service, student union, wellness facility, and other revenue-producing facilities at institutions within the Minnesota State Colleges and Universities system. Revenue bonds currently outstanding have interest rates between 0.45 percent and 5.0 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 2034. Annual principal and interest payments on the bonds are expected to require less than 24.10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $108,777,910. Principal and interest paid for the current year and total customer net revenues were $13,034,424 and $25,437,000, respectively.

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

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

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

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $533,441 and $1,226,778, 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 liabilities of $6,140,400 and $6,272,586, at June 30, 2013 and 2012, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is a $132,186 decrease and a $105,520 decrease for the fiscal years 2013 and 2012, respectively.

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

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 164	$ 54	$ 1,354	$ 860	$ 2,864	$ 3,172
2015	172	46	1,305	810	3,062	3,069
2016	181	38	1,291	746	3,139	2,960
2017	189	29	1,277	682	3,261	2,847
2018	199	20	1,277	618	3,322	2,726
2019-2023	335	14	6,294	2,150	18,701	11,387
2024-2028	—	—	5,145	735	18,745	7,232
2029-2033	—	—	785	31	19,875	2,279
2034	—	—	—	—	135	2
Total	$ 1,240	$ 201	$ 18,728	$ 6,632	$ 73,104	$ 35,674

9. EARLY TERMINATION BENEFITS

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

Inter Faculty Organization (IFO) contract

The IFO contract allows faculty members, who meet certain eligibility and combination of age and years of service requirements, to receive an early retirement incentive.

A 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, are deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2013 and 2012 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	—	$ —
2012	4	46

Minnesota State University Association of Administrative Service Faculty (MSUAASF) contract

The MSUAASF contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. As of the end of fiscal years 2013 and 2012, no retired faculty are receiving this benefit.

10. NET OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012, there were approximately 63 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 (expense) for 2013 and 2012, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2013	2012
Annual required contribution (ARC)	$ 706	$ 1,037
Interest on net OPEB obligation	108	91
Adjustment to ARC	(91)	(74)
Annual OPEB cost	723	1,054
Contributions during the year	(472)	(711)
Increase in net OPEB obligation	251	343
Net OPEB cost, beginning of year	2,265	1,922
Net OPEB cost, end of year	$ 2,516	$ 2,265

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

Year Ended June 30
(In Thousands)

	2013	2012
Beginning of year net OPEB obligation	$ 2,265	$ 1,922
Annual OPEB cost	723	1,054
Employer contribution	(472)	(711)
End of year net OPEB obligation	$ 2,516	$ 2,265
Percentage contributed	65.28%	67.46%

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	$ —	$7,084	$7,084	0.00%	$94,057	7.53%

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

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

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

11. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2013 and 2012, totaled approximately $2,639,647 and $1,199,998, respectively. Future minimum lease payments for existing lease agreements are as follows.

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2014	$ 2,317
2015	988
2016	652
2017	649
2018	54
Total	$ 4,660

Capital Leases — In fiscal year 2005, the University entered into a 15 year, $3,281,428 (principal and interest) capital lease for an emergency generator. This lease meets the criteria of a capital lease as defined by the FASB ASC 840, *Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. See Note 8 for principal and interest payment schedules.

Income Leases — The University has entered into several income lease agreements, primarily for building space. Lease income for the years ended June 30, 2013 and 2012, totaled $196,601 and $186,994, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position. Future expected income receipts for existing lease agreements are as follows:

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2014	$ 185
2015	94
2016	41
2017	31
2018	30
2019-2022	25
Total	$ 406

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	$ 100,278	$ (24,979)	$ 75,299	$ 95,156	$ (24,063)	$ 71,093
Fees	9,971	(1,110)	8,861	9,159	(1,165)	7,994
Sales	11,831	—	11,831	10,616	—	10,616
Restricted student payments	25,327	(377)	24,950	27,844	(416)	27,428
Total	$ 147,407	$ (26,466)	$ 120,941	$ 142,775	$ (25,644)	$ 117,131

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2013
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 14,676	$ 4,228	$ 10,324	$ 160	$ 29,388
Institutional support	7,806	3,335	7,208	85	18,434
Instruction	51,076	14,714	13,198	557	79,545
Public service	1,553	265	1,305	17	3,140
Research	1,286	232	1,323	14	2,855
Student services	14,377	4,518	11,146	157	30,198
Auxiliary enterprises	8,016	2,131	22,134	3,067	35,348
Scholarships & fellowships	—	—	3,929	—	3,929
Less interest expense	—	—	—	(4,057)	(4,057)
Total operating expenses	$ 98,790	$ 29,423	$ 70,567	$ —	$ 198,780

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 13,813	$ 3,859	$ 10,386	$ 166	$ 28,224
Institutional support	7,934	3,184	7,202	95	18,415
Instruction	48,175	13,761	12,335	582	74,853
Public service	1,475	247	1,092	18	2,832
Research	1,222	283	1,398	15	2,918
Student services	12,729	4,005	9,485	154	26,373
Auxiliary enterprises	8,134	1,925	18,822	2,907	31,788
Scholarships & fellowships	—	—	2,242	—	2,242
Less interest expense	—	—	—	(3,937)	(3,937)
Total operating expenses	$ 93,482	$ 27,264	$ 62,962	$ —	$ 183,708

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

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

Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 1,183
2012	1,127
2011	1,173

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 University, 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 Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 638
2012	514
2011	547

General Employees Retirement Fund (GERF)

Pension fund information is provided by the Public Employees Retirement Association of Minnesota, which prepares and publishes its own standalone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from Public Employee Retirement Association at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103.

The GERF is a cost sharing, multiple employer defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts and related organizations participate in the plan. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for members are 1.2 percent and 1.7 percent. The University, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. For the period January 1, 2009 through December 31, 2009, employee and employer contribution rates were 6 percent and 6.75 percent, respectively. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6 percent and 7 percent, respectively. Effective January 1, 2011 and thereafter, employee and employer contribution rates were 6.25 percent and 7.25 percent, respectively. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State University, Mankato were as follows:

	(In Thousands)	
Fiscal Year	Employer	Employee
2013	$ —	$ —
2012	—	—
2011	3	2

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 Minnesota State University, Mankato were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 3,169	$ 2,362
2012	2,919	2,180
2011	2,965	2,195

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 Contribution
Inter Faculty Organization	$6,000 to $51,000	$2,250
Minnesota State University Association of Administrative & Service	6,000 to 50,000	2,200
Administrators	6,000 to 60,000	2,700

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

Required contributions for Minnesota State University, Mankato were as follows:

Required Contributions (In Thousands)	
Fiscal Year	Amount
2013	$ 1,388
2012	1,318
2011	1,386

Voluntary Retirement Savings Plans

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

Minnesota Deferred Compensation Plan is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax 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 406 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 238 participants.

15. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance the University dormitories and student unions.

Minnesota State University, Mankato Portion of the Revenue Fund
(In Thousands)

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets:		
Current assets	$ 11,435	$ 14,494
Current restricted assets	14,073	15,367
Noncurrent restricted assets	—	24,447
Noncurrent capital assets, net	100,242	77,729
Total assets	125,750	132,037
Liabilities:		
Current liabilities	5,771	7,753
Noncurrent liabilities	73,366	73,914
Total liabilities	79,137	81,667
Net Position:		
Net investment in capital assets	32,712	31,567
Restricted	13,901	18,803
Total net position	$ 46,613	$ 50,370
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 25,434	$ 27,980
Operating expenses	(25,917)	(21,730)
Net operating income (loss)	(483)	6,250
Nonoperating revenues (expenses)	(2,962)	(2,770)
Loss on disposal of capital assets	(312)	(56)
Change in net position	(3,757)	3,424
Net position, beginning of year	50,370	46,946
Net position, end of year	$ 46,613	$ 50,370
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 6,061	$ 10,088
Investing activities	(13)	57
Capital and related financing activities	(9,252)	(30,802)
Net decrease	(3,204)	(20,657)
Cash, beginning of year	28,787	49,444
Cash, end of year	$ 25,583	$ 28,787

16. COMMITMENTS AND CONTINGENCIES

New commitments made by the University during fiscal year 2013 include multiple building improvement projects. New commitments for building projects, worth approximately $5.4 million, are for projects such as a new building design, residence hall renovations, and other miscellaneous building improvements.

Most of the smaller building improvement projects are expected to be completed during fiscal year 2014. The three largest building construction and improvement commitments made during fiscal year 2013 were for the Gage residence hall demolition and parking lot construction, the student union counseling center renovation, and the fountain restoration project.

The Gage residence hall demolition and parking lot construction project, funded by revenue fund bonds, revenue fund operating funds, and general fund operating funds, is expected to be completed in June 2014 at a cost of $4.8 million. The counseling center renovation project, funded by revenue fund operating funds, is expected to be completed in December 2013 at a cost of $0.4 million. The fountain restoration project, funded by general fund operating funds, is expected to be completed in October 2013 at a cost of $0.3 million.

17. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. The University purchased optional physical damage coverage for all vehicles.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also selected professional liability insurance for employed physicians and student health services professional liability insurance. The Minnesota Risk Management Fund provides the following coverage levels.

Coverage	Amount
Institution deductible (Academic & Residential Life)	$100,000
Institution deductible (Centennial Student Union)	$25,000
Fund responsibility	Deductible to $1,000,000
Primary reinsurer coverage	$1,000,001 to $25,000,000
Catastrophic Insurance	$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

Minnesota State University, Mankato retains the risk of loss. The University did not have any settlements in excess of coverage in the last three years.

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

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

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self insurance for which Minnesota State Colleges and Universities pays the cost of claims through the state Workers' Compensation Fund.

A Minnesota State Colleges and Universities' workers' compensation payment pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars and claims history. From this pool, all workers' compensation claims are paid to the state Workers' Compensation Fund.

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

(In Thousands)

	Beginning Liability	Net Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	$ 1,227	$ 262	$ 956	$ 533
Fiscal Year Ended 6/30/12	1,281	736	790	1,227

18. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with Minnesota State University, Mankato is a legally separate, tax exempt entity and reported as a component unit.

The Minnesota State University, Mankato Foundation, Inc. is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete.

The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the 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 subject to donor imposed restrictions as to how the assets are to be used.
- *Permanently Restricted*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The University has an agreement with the Minnesota State University, Mankato Foundation, Inc. whereby the University has agreed to furnish services for the operation of the Foundation. The values of such services are estimated at $1,575,955 and $1,397,595, for fiscal years 2013 and 2012, respectively, and are included in the university's expenses.

During fiscal years 2013 and 2012, the foundation expended $4,001,967 and $3,306,565, respectively, for University educational program purposes. Approximately $1,234,382 and $1,017,186 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2013 and 2012, respectively.

In addition to providing the University with supplemental funds for current operations, the Foundation's net assets increased by $3,747,579 and decreased by $1,492,891, for fiscal years 2013 and 2012, respectively.

An estimated $1,189,498 and $750,885, of revenues and expenditures in fiscal years 2013 and 2012, respectively, are included in both the Foundation's and the University's revenues and expenditures. This situation results from planned transfers of Foundation funds to the University, whereby actual subsequent purchases are made from University accounts.

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

Schedule of Investments at June 30
(In Thousands)

	2013	2012
Money market funds	$ 54	$ 26
Common stock	291	3,583
Mutual funds	42,419	35,491
U.S. government securities	42	84
Life insurance and other investments	138	138
Total investments	$ 42,944	$ 39,322

Property and Equipment—Summaries of the Foundation's property and equipment for fiscal years 2013 and 2012 are:

Schedule of Property and Equipment at June 30
(In Thousands)

	2013	2012
Land	$ 1,004	$ 1,004
Equipment	246	246
Accumulated depreciation	(246)	(246)
Total property and equipment, net	$ 1,004	$ 1,004

Long Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $0. The final payment on the bonds was paid in fiscal year 2013.

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

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

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

	Unrestricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 397	$ 32,372	$ 32,769
Change in value of trusts	—	(85)	(85)
Contributions	7	1,054	1,061
Amounts appropriated for expenditures	500	(103)	397
Net assets, end of year	$ 904	$ 33,238	$ 34,142

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	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 409	$ 31,846	$ 32,255
Change in value of trusts	—	(60)	(60)
Contributions	8	612	620
Amounts appropriated for expenditures	(20)	(26)	(46)
Net assets, end of year	$ 397	$ 32,372	$ 32,769

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE UNIVERSITY, MANKATO
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	$ —	$ 8,008	$ 8,008	0.00%	$ 91,738	8.73%
July 1, 2008	—	9,405	9,405	0.00	91,822	10.24
July 1, 2010	—	9,869	9,869	0.00	101,968	9.68
July 1, 2012	—	7,084	7,084	0.00	94,057	7.53

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SUPPLEMENTARY SECTION

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 AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Minnesota State University, Mankato, a campus of Minnesota State Colleges and Universities, as of and for the year ending June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of Minnesota State University, Mankato Foundation Inc., as described in our report on the University's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

KDV

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

Compliance and Other Matters

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

Purpose of this Report

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

Kern, DeWenter

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

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