Rochester Community and Technical College

ANNUAL FINANCIAL REPORT

for the years ended June 30, 2013 and 2012

Minnesota State Colleges and Universities

Rochester Community and Technical College
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ROCHESTER COMMUNITY AND TECHNICAL COLLEGE

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

Rochester Community and Technical College
851 30th Avenue SE
Rochester, MN 55904

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ROCHESTER COMMUNITY AND TECHNICAL COLLEGE

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

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Office of the President

November 15, 2013

Dear Chancellor Rosenstone and Honorable Trustees:

It is my pleasure to submit to you the audited Annual Financial Report for Rochester Community and Technical College (RCTC) for the fiscal years ending June 30, 2013 and 2012. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of our operation for these years. The financial statements are presented in accordance with generally accepted accounting principles in the United States, as prescribed by the Governmental Accounting Standards Board.

Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position; statements of revenue; expense and changes in net position; and statements of cash flows. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report. The management of the College is responsible for assuring the accuracy, reliability, fairness and completeness of the information in this report.

Rochester Community and Technical College provides accessible, affordable, quality, learning opportunities to serve a diverse and growing community; and it's my pleasure to highlight just a few of the College's successes from the past year.

- Developed a number of articulation agreements with private higher education providers.
- Increased the number of concurrent enrollment offerings being delivered in Rochester and area high schools.
- Achieved reaccreditation status for both Dental Hygiene and Dental Assisting programs.
- Implemented the use of iPads in both the Cashier's Office and Bookstore to better assist students.
- Implemented HigherOne financial aid distribution to improve services to students and reduce costs.
- Digitized student and personnel records to enhance department communications.
- Designed, in collaboration with DEED, Rochester WorkForce Center, and Workforce Development, Inc., an $8.7 million co-located Rochester WorkForce Center on the UCR campus.
- Garnered $12.5 million for campus projects through the passage of the half-cent city sales tax extension referendum ($6.5 million for the CTECH and STEM Village secondary career and technical education and teaching resource center and $6.0 million to complete the Rochester Regional Stadium).
- Served as a pilot for the new CEMRS (scheduling and space utilization) software.
- Improved the Composite Financial Index to 3.53 and Facilities Condition Index to .07.
- Partnered with the Rochester Diversity Council to deliver "Becoming the Solution" inclusivity training.
- Participated in the AQIP Baldrige Systems Portfolio option of the Higher Learning Commission, which commended RCTC as an exemplar of excellence and model for other institutions seeking an alternative accreditation pathway.
- Received a total of $19,000 in IBM grants to increase STEM enrollments and purchase equipment for physics, engineering and biology labs.
- Conducted two national searches and converted two interim dean positions into permanent appointments.

Respectfully,

Gail O'Kane

Gail O'Kane
Interim President

RCTC IS PART OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM (MNSCU) AND AN EQUAL OPPORTUNITY EMPLOYER/EDUCATOR

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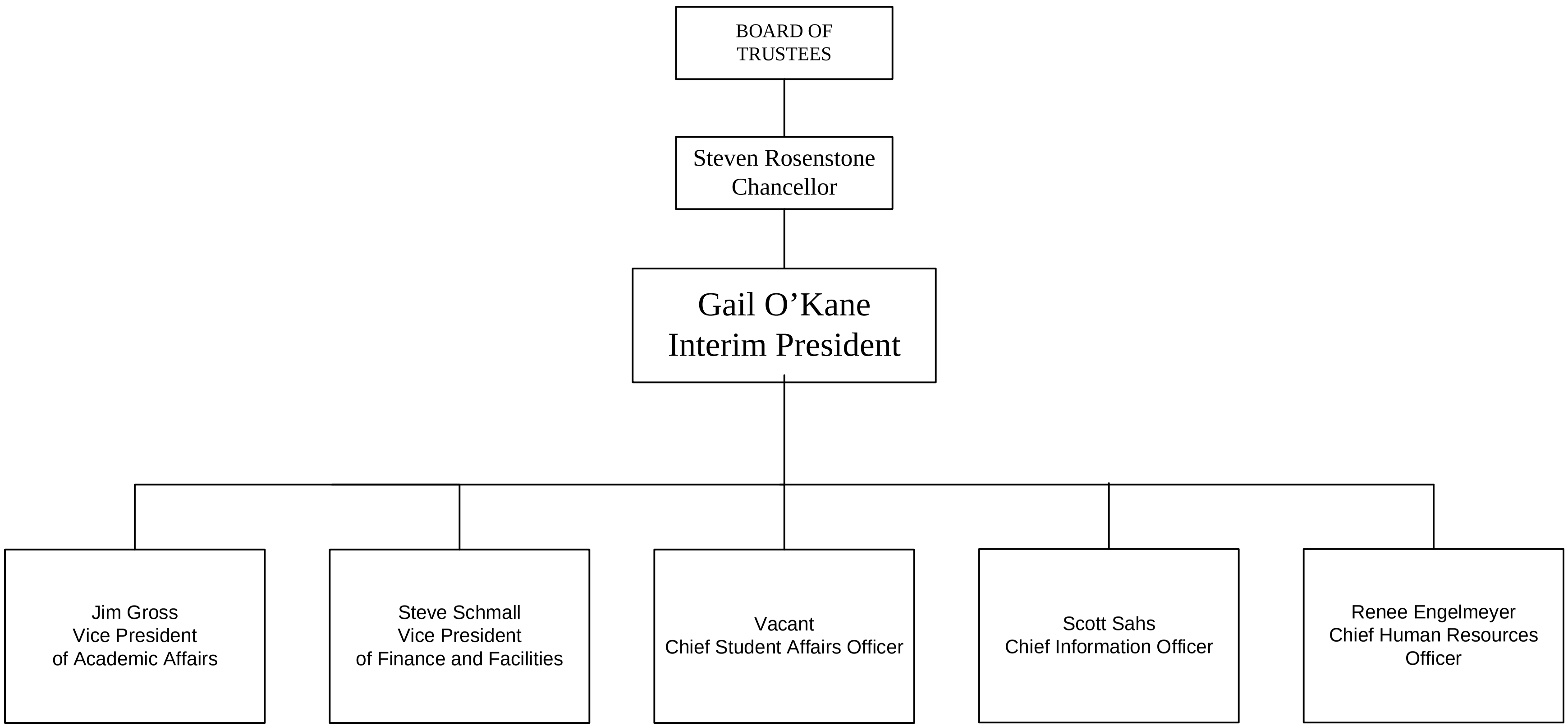
Rochester Community and Technical College

June 30, 2013



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

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

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of Rochester Community and Technical College, 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 footnotes, which follow this section.

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

The College is a two-year institution providing technical, liberal arts, and lifelong learning, with approximately 4,444 full year equivalent students and over 8,374 unduplicated headcount. The College employs approximately 737 full and part-time faculty and staff members (unduplicated annual head count). The College is mandated by the Legislature of the State of Minnesota to be an open enrollment institution.

The College offers more than 70 programs of study with approximately 130 credential options in nursing and allied health, accounting and business, sciences and technical, public and human services and liberal arts programming. A variety of delivery approaches are utilized to support student learning. These include face-to-face, labs, online, internships, on-the-job training, clinical experiences, simulations, and cohorts. The College is located at University Center Rochester and partners with a sister institution, Winona State University.

FINANCIAL HIGHLIGHTS

The College's financial position remained steady in fiscal year 2013. The College's state appropriation remained stable at $14.9 million, or 41percent of appropriation and tuition revenue. The student tuition, fees and sales decreased slightly but remained at 59 percent of appropriation and tuition revenue. Management continued its emphasis on controlling operating costs. The fiscal year 2013 costs of salaries, benefits, supplies and services increased 2.1 percent from the fiscal year 2012 amounts, but were nevertheless 6.2 percent below the fiscal year 2011 amount.

For the fiscal year ended June 30, 2013, assets totaled $87.6 million compared to liabilities of $15.2 million. Net position, which represents the residual interest in the Rochester Community and Technical College's assets after liabilities are deducted, is comprised of net investment in capital assets, of $57.3 million; restricted net position of $0.7 million; and unrestricted net position of $14.4 million. The fiscal year 2013 net position total of $72.4 million represented an increase of $1.8 million over fiscal year 2012 and $4.9 million over fiscal year 2011. The fiscal year 2013 unrestricted net position total of $14.4 million represented a 19.2 percent increase from the fiscal year 2012 total of $12.1 million and a 75.6 percent increase from the fiscal year 2011 total of $8.2 million.

Fiscal year 2013 state appropriations revenue, excluding capital appropriations, totaled $14.9 million and represented no change from fiscal year 2012 and an 8.9 percent decrease from fiscal year 2011. Net tuition revenue in fiscal year 2013 dipped slightly to $13.7 million compared to $14.0 million and $14.2 million in fiscal years 2012 and 2011, respectively.

USING THE FINANCIAL STATEMENTS

The College's financial report includes three financial statements: the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These GASB statements establish standards for external financial reporting for public colleges and universities. A summary of significant accounting policies followed by the College is included in Note 1 to the financial statements.

STATEMENTS OF NET POSITION

The statements of net position present the financial position the College at the end of the fiscal year and include all assets and liabilities of the College as measured using the accrual basis of accounting. The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the College, 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 statements of revenues, expenses and changes in net position. A summary of the College's assets, liabilities and net position as of June 30, 2013, 2012, and 2011, respectively, is as follows:

Summarized Statements of Net Position as of June 30

(in Thousands)

	2013	2012	2011
Assets			
Current assets	$ 25,483	$ 22,108	$ 19,063
Restricted assets	25	509	179
Noncurrent assets			
Student loans receivable	114	84	159
Capital assets, net	61,988	62,979	64,180
Total assets	87,610	85,680	83,581
Liabilities			
Current liabilities	6,932	6,409	6,966
Noncurrent liabilities	8,256	8,690	9,164
Total liabilities	15,188	15,099	16,130
Net Position			
Net investment in capital assets	57,284	57,726	58,374
Restricted	739	780	845
Unrestricted	14,399	12,075	8,232
Total net position	$ 72,422	$ 70,581	$ 67,451

Current assets consist primarily of cash, cash equivalents, and investments totaling $20.6, $17.6, and $15.8 million at June 30, 2013, 2012 and 2011, respectively. Total current assets increased $3.4 million over the prior year and represents approximately 6.6 months of operating expenses (excluding depreciation).

Current liabilities consist primarily of accounts payable and salaries and benefits payable. Accounts payable totaled $1.0 million, $1.1 million, and $0.9 million, for fiscal years ended June 30, 2013, 2012, and 2011, respectively. Salaries and benefits payable totaled $3.0 million at June 30, 2013, an increase of $0.5 million compared to fiscal year 2012. Approximately $0.3 million of the increase is due to an adjustment between cash and salaries and benefits payable for benefit payments due to third party providers that were disbursed on July 1 versus the end of June in prior years. A second reason for the increase is due to retroactive pay adjustments processed after June 30, 2013 for employment contract settlements approved in fiscal year 2013.

Net position represents the residual interest in the College's assets after liabilities are deducted. Unrestricted net position primarily consists of the College's general operating fund reserve. Board policy requires the College to maintain a general operating fund reserve. Accordingly, the College's general operating fund reserve balances, calculated on the budgetary basis of accounting, totaled $3.1 million for fiscal years ended June 30, 2013, 2012, and 2011, respectively.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the College's academic programs is the development and renewal of its capital assets. The College continues to implement its long-range plan to modernize its complement of older facilities, balanced with new construction. Capital assets as of June 30, 2013 and 2012, totaled $62.0 million, net of accumulated depreciation of $58.2 million and $63.0 million, net of accumulated depreciation, of $54.7 million, respectively. The College is periodically cycling new technology into the classrooms and replacing outdated equipment.

Capital outlays totaled $3.0 million in 2013 and $2.7 million in 2012. Capital outlays primarily consist of recently completed new buildings, replacement and renovation of existing facilities, as well as investments in equipment. In fiscal year 2013, major projects included progress on conversion of the electric heating system to a steam conversion system, continuing replacement of electrical distribution system, roof replacement at Singley Hall and the start of an addition that will house a co-located Workforce Center.

Bonds payable totaled $4.6 and $4.9 million at June 30, 2013 and 2012, respectively. This amount includes bonds issued in prior years and bonds issued in fiscal 2013 and 2012 to finance construction of buildings and improvements.

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

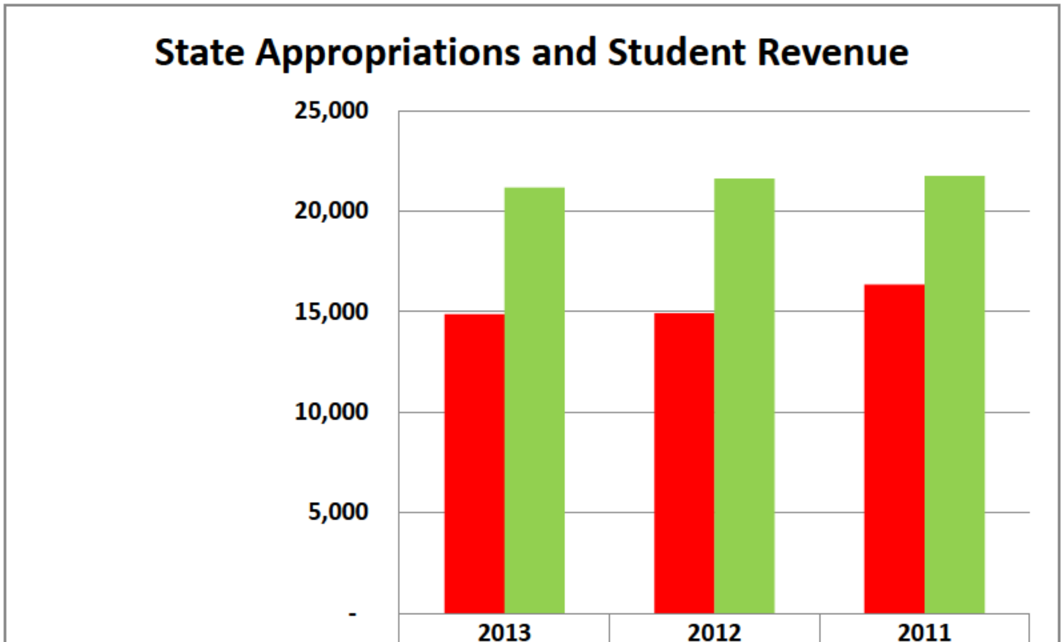
	2013	2012	2011
Operating revenues:			
Student tuition, fees, and sales, net	$ 21,167	$ 21,635	$ 21,753
Other revenue	451	1,954	1,342
Total operating revenues	21,618	23,589	23,095
Non-operating revenues:			
State appropriations	14,884	14,926	16,344
Federal and state grants	13,780	12,777	14,001
Capital appropriations	2,053	1,001	657
Other	111	263	230
Total non-operating revenues	30,828	28,967	31,232
Total revenues	52,446	52,556	54,327
Operating expenses:			
Salaries and benefits	32,029	31,914	33,942
Supplies, services, and other	12,981	12,172	14,020
Depreciation	3,961	3,841	3,763
Financial aid, net	1,353	1,194	1,780
Total operating expenses	50,324	49,121	53,505
Non-operating expenses:			
Interest expense and other	281	305	241
Total expenses	50,605	49,426	53,746
Change in net position	1,841	3,130	581
Net position, beginning of year	70,581	67,451	66,870
Net position, end of year	$ 72,422	$ 70,581	$ 67,451

Tuition and state appropriations are the primary sources of funding for the College's academic programs.

Enrollment levels totaled 4,444, 4,438, and 4,582 full year equivalent (FYE) for fiscal years ended June 30, 2013, 2012, and 2011, respectively. During the same time, the base tuition rate increased 3.5 percent in each fiscal year. The College reduced the number of differential tuition rates in 2013 and eliminated some fees. These combined factors created the drop in tuition and fee revenue between fiscal 2013 and 2011.

Over the last three years, other operating revenues have fluctuated greatly. They decreased $1.5 million in fiscal year 2013 after increases of $0.6 million in fiscal year 2012 and $0.8 million in fiscal year 2011. In fiscal year 2012, the inter-agency revenue between the College and Winona State University was adjusted to reflect the appropriate receivable under the occupancy contract as of June 30, 2012. Fiscal year 2013 more closely reflects the anticipated fiscal year income from other revenues.

The College consistently relies more on student tuition revenue and cost management, as state appropriations have continued to decline.

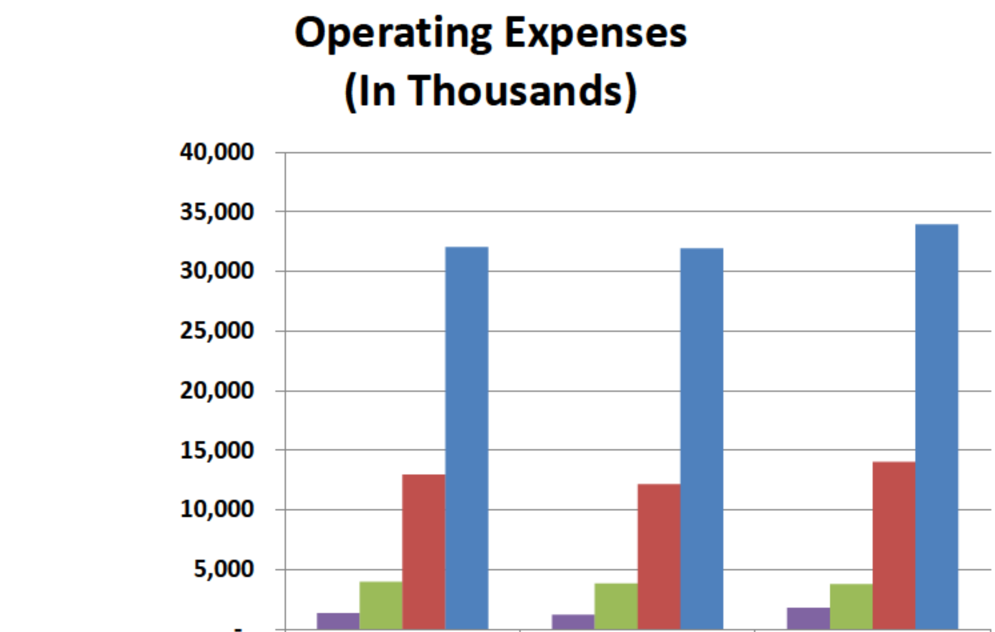


	2013	2012	2011
State appropriations	14,884	14,926	16,344
Student tuition, fees & sales	21,167	21,635	21,753

Capital appropriations have fluctuated the past three fiscal years with the College receiving $2.0 million, $1.0 million, and $0.7 million for the fiscal years ended June 30, 2013, 2012, and 2011, respectively.

Salary and benefits decreased from fiscal year 2011 to fiscal year 2013. In fiscal year 2011, the College engaged in fewer adjuncts, increased class sizes and improved fill rates. In fiscal year 2013 and 2012, continued management of personnel and improvement of operational efficiencies, the College reduced full time equivalent (FTE) employees by 17 and 32, respectively. This resulted in a reduction during the three-year period of $1.9 million or 5.6 percent of the fiscal year 2011 amount. The increase in salaries and benefit costs realized between fiscal year 2013 and 2012 resulted from settlement of bargaining unit contracts.

Operating expenses for supplies and services have decreased by $1.1 million over the past three fiscal years. Effective cost management has led to this reduction.



	2013	2012	2011
Financial aid, net	1,353	1,194	1,780
Depreciation	3,961	3,841	3,763
Supplies and services	12,981	12,172	14,020
Salaries and benefits	32,029	31,914	33,942

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, the College has made steady progress on improving its financial condition but will face continuing challenges including:

1) Limitations on the amount of state appropriation revenue
2) No allowable tuition rates increase for fiscal years 2014 and 2015
3) Pattern of decreasing full-time and increasing part-time student demographics
4) Collective bargaining settlements impact on salaries and benefits
5) Demand increase of support services with changing demographic population
6) Disruptive education models and new market forces

Enrollment management, while presenting challenges for the College, will remain a primary strategic initiative. In Fall 2014, the College realized a 5 percent decline in FYE enrollment and administration made appropriate budget-year adjustments to compensate for this decrease. Looking forward to fiscal year 2015, the College has preliminarily projected another 5percent decline in enrollment. This decline is based on current demographic trends and the reduction in number of credit hours being attempted by students. With this projected decline in enrollment, management is making a concerted effort to focus on retention of our existing students through initiatives focused on improving student retention and success, especially among under-represented and under-prepared students.

With help of $8.7 million in State capital bonding, the College and the Minnesota Department of Employment and Economic Development (DEED) are constructing a 20,000- plus- square foot facility to support work force development and improve the current Heintz Center. This project, scheduled for completion in August 2014, will benefit the clients of DEED and the students of the College. The passage of the City of Rochester Sales

Tax Extension, directly benefits higher education through two projects: $6.5 million for a Career and Technical Education Center at Heintz (CTECH) and Science Technology Engineering and Math (STEM) Village, and $6.0 million for completion of the final phase of the Rochester Regional Stadium, housed on the University Center Rochester campus. The Stadium project is scheduled for completion in August 2014. The CTECH and STEM village is scheduled for completion in August 2015.

The greatest challenges facing the College in the 2014-2015 biennium are the prohibition on increasing tuition, the projected reduction in enrollment, the continued changing demographics and the increased costs for settling the collective bargaining agreements. On a positive note, the State appropriation has increased slightly for the biennium. The combination of these events creates an added focus on controlling costs, utilizing reserves and managing enrollment.

In summary, the College has made significant structural changes to its base operating budget during the last three years. The future biennium poses unique challenges with enrollment, state funding, revenue streams, and increasing personnel costs. The College is actively engaged in preparing for these financial possibilities. The College believes it is well positioned to respond effectively to the current and future challenges.

REQUESTS FOR INFORMATION

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

Stephen J. Schmall
Vice President of Finance and Facilities
Rochester Community and Technical College
851 30th Avenue Southeast
Rochester, MN 55904-4999

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

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 19,938	$ 16,652
Investments	704	990
Grants receivable	649	466
Accounts receivable, net	3,136	2,873
Prepaid expense	563	613
Inventory	410	315
Student loans, net	51	100
Other assets	32	99
Total current assets	25,483	22,108
Current Restricted Assets		
Cash and cash equivalents	25	509
Total restricted assets	25	509
Noncurrent Assets		
Student loans, net	114	84
Capital assets, net	61,988	62,979
Total noncurrent assets	62,102	63,063
Total Assets	87,610	85,680
Liabilities		
Current Liabilities		
Salaries and benefits payable	3,006	2,462
Accounts payable	953	1,094
Unearned revenue	1,389	1,016
Payable from restricted assets	250	551
Funds held for others	324	268
Current portion of long-term debt	522	565
Other compensation benefits	483	453
Advances to other schools	5	-
Total current liabilities	6,932	6,409
Noncurrent Liabilities		
Noncurrent portion of long-term debt	4,182	4,687
Other compensation benefits	3,763	3,660
Capital contributions payable	311	343
Total noncurrent liabilities	8,256	8,690
Total Liabilities	15,188	15,099
Net Position		
Net investment in capital assets	57,284	57,726
Restricted expendable, other	739	780
Unrestricted	14,399	12,075
Total Net Position	$ 72,422	$ 70,581

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Revenues		
Tuition, net	$ 13,719	$ 13,973
Fees, net	2,587	2,665
Sales, net	4,861	4,997
Other income	451	1,954
Total operating revenues	21,618	23,589
Operating Expenses		
Salaries and benefits	32,029	31,914
Purchased services	4,080	3,628
Supplies	5,294	4,870
Repairs and maintenance	1,128	616
Depreciation	3,961	3,841
Financial aid, net	1,353	1,194
Other expense	2,479	3,058
Total operating expenses	50,324	49,121
Operating loss	(28,706)	(25,532)
Nonoperating Revenues (Expenses)		
Appropriations	14,884	14,926
Federal grants	11,308	10,601
State grants	2,472	2,176
Private grants	54	156
Interest income	57	107
Interest expense	(231)	(252)
Total nonoperating revenues (expenses)	28,544	27,714
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(162)	2,182
Capital appropriations	2,053	1,001
Loss on disposal of capital assets	(50)	(53)
Change in net position	1,841	3,130
Total Net Position, Beginning of Year	70,581	67,451
Total Net Position, End of Year	$ 72,422	$ 70,581

The notes are an integral part of the financial statements.

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

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	$ 21,684	$ 22,169
Cash repayment of program loans	57	70
Cash paid to suppliers for goods or services	(13,202)	(11,940)
Cash payments for employees	(31,353)	(32,876)
Financial aid disbursements	(1,385)	(1,255)
Net cash flows used in operating activities	(24,199)	(23,832)
Cash Flows from Noncapital Financing Activities		
Appropriations	14,884	14,926
Federal grants	11,169	10,526
State grants	2,472	2,176
Private grants	54	156
Agency activity	56	165
Net cash flows provided by noncapital financing activities	28,635	27,949
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(3,310)	(2,347)
Capital appropriation	2,053	1,001
Proceeds from the sale of capital assets	-	27
Proceeds from borrowing	127	85
Proceeds from bond premium	1	-
Interest paid	(215)	(233)
Repayment of lease principal	(214)	(138)
Repayment of bond principal	(379)	(423)
Net cash flows used in capital and related financing activities	(1,937)	(2,028)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	286	-
Purchase of investments	-	(519)
Investment earnings	17	68
Net cash flows provided by (used in) investing activities	303	(451)
Net Increase in Cash and Cash Equivalents	2,802	1,638
Cash and Cash Equivalents, Beginning of Year	17,161	15,523
Cash and Cash Equivalents, End of Year	$ 19,963	$ 17,161

The notes are an integral part of the consolidated financial statements.

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

	2013	2012
Operating Loss	$ (28,706)	$ (25,532)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	3,961	3,841
Provision for loan defaults	(55)	9
Loan principal repayments	74	70
Loans forgiven	-	(3)
Change in assets and liabilities		
Inventory	(95)	63
Accounts receivable	(263)	(1,279)
Accounts payable	(142)	166
Salaries and benefits payable	544	(998)
Other compensation benefits	132	36
Capital contributions payable	(32)	(61)
Unearned revenues	329	(140)
Other assets and liabilities	54	(4)
Net reconciling items to be added to operating loss	4,507	1,700
Net cash flow used in operating activities	$ (24,199)	$ (23,832)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 250	$ 551

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

Jointly Governed Organizations — Rochester Community and Technical College participates in a jointly constructed 114,000 square foot sports facility with the City of Rochester, Minnesota for the University Center Rochester (UCR) Regional Sports Complex. The College retains full ownership of the complex and shares the use of the complex with the city based on a joint use agreement. Under the joint use agreement, the City has priority use of the complex on weekday evenings and weekends. The City shall not pay any amounts to Rochester Community and Technical College for this use. The College and the City shall jointly establish an annual operating budget for the complex. All revenues generated by the Facility will be used to pay all expenditures for operation and maintenance of the complex. Rochester Community and Technical College incurred total operating expenses of $668,850 and $551,120 for fiscal years 2013 and 2012, respectively. In fiscal years 2013 and 2012, the total revenue offsetting these expenses was $227,412 and $217,866, respectively

The College participates in multiple joint use agreements with the City of Rochester for various athletic fields on the grounds of the College. These athletic fields include six softball fields, six baseball fields, six football fields and seven soccer fields. The College retains full ownership of the fields and shares the use of the fields with the City based multiple joint use agreements. Under these agreements, the City shall operate, manage, control and maintain the fields. The College has priority use during its competitive seasons; otherwise the City maintains priority use. The City shall not pay any amounts to the College for its use.

The University Center Rochester was a partnership of three institutions of higher education: the University of Minnesota Rochester, Winona State University, and Rochester Community and Technical College. All three were co-located on one campus, known as the University Center Rochester, with Rochester Community and Technical College being the landlord. In August 2007, the University of Minnesota Rochester moved its operations to a new location in downtown Rochester. As a consequence, the joint powers agreement between the two systems became null and void; however the University of Minnesota still has debt service payments that were agreed to in previous fiscal years. The debt service payments were all paid off in fiscal year 2012. Although, the University of Minnesota has moved their operations, the Regional Extension Office remains on campus as a tenant. Rochester Community and Technical College still has agreements with both institutions to pay for academic and facilities uses. Winona State University paid $844,739 and $719,752 in fiscal years 2013 and 2012, respectively, while the University of Minnesota Regional Extension Office paid $56,136 and $57,140 respectively.

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

Eliminations have been made to minimize the double-counting of internal activities. Inter-fund receivables and payables have been eliminated in the statements of net position.

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

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

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

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 biennium.

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

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

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

Investments — The Minnesota State Board of Investment invests the College's balances in the state treasury as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is allocated to the colleges and universities. Information about the cash in the state treasury and invested by the State Board of Investment, including deposit and investment risk disclosures, can be obtained from the state of Minnesota Comprehensive Annual Financial Report, Minnesota Management and Budget, 400 Centennial Building, 658 Cedar Street, Saint Paul, MN 55155. Investments are reported at fair value.

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

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

Prepaid Expense — Prepaid expense consists of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments and prepaid funds for software maintenance.

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

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

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

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

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

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

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

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

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

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

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable, other:* Net position subject to externally imposed stipulations. Net position restrictions for Rochester Community and Technical College are as follows:

  Debt service — legally restricted for bond repayments.
  Faculty contract obligations — faculty development and travel required by contracts.
  Loans — the College's contributed capital for Perkins loans.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Debt service	$ 511	$ 581
Faculty contract obligations	29	24
Loans	199	175
Total	$ 739	$ 780

- *Unrestricted:* Net position that is subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management, the System Office, or the Board of Trustees.

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

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

The Minnesota State Colleges and Universities adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. There was no impact on the financial statements as a result of this adoption.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

The following table summarizes cash and cash equivalents:

Carrying Amount	2013	2012
	Year Ended June 30 (In Thousands)	
Cash, in bank	$ 3,662	$ 4,037
Money markets	604	295
Cash, treasury account	15,697	12,829
Total cash and cash equivalents	$ 19,963	$ 17,161

At June 30, 2013 and 2012, the College's bank balance was $4,322,843 and $4,498,108, respectively. These balances were adjusted by items in transit to arrive at the College's cash in bank balance.

The College's balance in the treasury is invested by the Minnesota State Board of Investment as part of the state investment pool. This cash is reported as a cash equivalent.

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

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

Within statutory parameters, the Minnesota State Board of Investment has established investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards. The State Board of Investment has conducted detailed analyses of each of the funds under its control. These studies guide the ongoing management of the funds and are updated periodically.

The College had certificates of deposit of $703,863 and $990,299 at June 30, 2013 and 2012, respectively.

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

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

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

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

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2013 and 2012, the total accounts receivable balances for the College were $3,618,560 and $3,321,773 respectively, less an allowance for uncollectible receivables of $482,139 and $448,313, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 909	$ 943
Fees	229	228
Sales and services	273	127
Third party obligations	66	20
Other	2,141	2,003
Total accounts receivable	3,618	3,321
Allowance for uncollectible accounts	(482)	(448)
Net accounts receivable	$ 3,136	$ 2,873

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

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

4. PREPAID EXPENSE

Prepaid expense consists of $516,601 and $580,631 for fiscal years 2013 and 2012, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on December 1, of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year. Additionally, included in prepaid expense for fiscal years 2013 and 2012, respectively, is $46,720 and $31,997, consisting of prepaid funds for software maintenance.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities loans collection unit is responsible for loan collections. As of June 30, 2013 and 2012, the loans receivable for this program totaled $289,509 and $363,205, respectively, less an allowance for uncollectible loans of $124,025 and $179,224 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	$ 2,991	$ —	$ —	$ —	$ 2,991
Construction in progress	2,130	2,227	—	(3,162)	1,195
Total capital assets, not depreciated	5,121	2,227	—	(3,162)	4,186
Capital assets, depreciated:					
Buildings and improvements	106,022	—	—	3,162	109,184
Equipment	4,808	491	308	—	4,991
Library collections	1,757	302	214	—	1,845
Total capital assets, depreciated	112,587	793	522	3,162	116,020
Less accumulated depreciation:					
Buildings and improvements	50,384	3,313	—	—	53,697
Equipment	3,353	384	258	—	3,479
Library collections	992	264	214	—	1,042
Total accumulated depreciation	54,729	3,961	472	—	58,218
Total capital assets depreciated, net	57,858	(3,168)	50	3,162	57,802
Total capital assets, net	$ 62,979	$ (941)	$ 50	$ —	$ 61,988

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 2,991	$ —	$ —	$ —	$ 2,991
Construction in progress	2,619	2,114	—	(2,603)	2,130
Total capital assets, not depreciated	5,610	2,114	—	(2,603)	5,121
Capital assets, depreciated:					
Buildings and improvements	103,419	—	—	2,603	106,022
Equipment	5,296	372	860	—	4,808
Library collections	1,750	233	226	—	1,757
Total capital assets, depreciated	110,465	605	1,086	2,603	112,587
Less accumulated depreciation:					
Buildings and improvements	47,197	3,187	—	—	50,384
Equipment	3,731	403	781	—	3,353
Library collections	967	251	226	—	992
Total accumulated depreciation	51,895	3,841	1,007	—	54,729
Total capital assets depreciated, net	58,570	(3,236)	79	2,603	57,858
Total capital assets, net	$ 64,180	$ (1,122)	$ 79	$ —	$ 62,979

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
Supplies	$ 230	$ 115
Purchased services	413	371
Employee benefits	9	12
Inventory	—	140
Repair and maintenance	238	402
Other	63	54
Total	$ 953	$ 1,094

In addition, as of June 30, 2013 and 2012, the College had payable from restricted assets in the amounts of $250,484 and $550,771, respectively, which were related to capital projects, financed by general obligation 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/discount	$ 305	$ 1	$ 39	$ 267	$ —
Capital leases	357	—	214	143	143
General obligation bonds	4,590	127	423	4,294	379
Total long term debt	$ 5,252	$ 128	$ 676	$ 4,704	$ 522

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 345	$ —	$ 40	$ 305	$ —
Capital leases	495	—	138	357	142
General obligation bonds	4,966	85	461	4,590	423
Total long term debt	$ 5,806	$ 85	$ 639	$ 5,252	$ 565

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,134	$ 395	$ 353	$ 3,176	$ 376
Early termination benefits	48	69	48	69	69
Net other postemployment benefits	816	222	116	922	—
Workers' compensation	115	67	103	79	38
Total other compensation benefits	$ 4,113	$ 753	$ 620	$ 4,246	$ 483

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,260	$ 233	$ 359	$ 3,134	$ 353
Early termination benefits	155	48	155	48	48
Net other postemployment benefits	616	321	121	816	—
Workers' compensation	47	115	47	115	52
Total other compensation benefits	$ 4,078	$ 717	$ 682	$ 4,113	$ 453

Bond Premium/Discount — In fiscal years 2013 and 2012, bonds were issued resulting in premiums of $841 and $186, respectively, which will be amortized over the average remaining life of the bonds refunded. Amortization is calculated using the straight-line method.

Capital Leases — Liabilities for capital leases include those leases that meet the criteria in FASB ACS 840, Leases. See Note 11 for additional information.

General Obligation Bonds — The state of Minnesota sells general obligation bonds to finance most capital projects. The interest rate on these bonds ranges from 2.0 to 5.5 percent. Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for 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 bonds liability included in these financial statements represents the College's share.

Compensated Absences — College employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated only at the time of termination from state employment. Technical college faculty members that had ten years of service prior to July 1, 1995 will have a choice, at the time of retirement, to choose the state retirement provisions or the early retirement and severance provisions of their member district 1993-1995 contract from which they transferred to the state on July 1, 1995.

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

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

Workers' Compensation —The state of Minnesota Management and Budget manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $78,556 and $114,844 at June 30, 2013 and 2012, respectively, is based on claims filed for injuries to state employees occurring prior to June 30, and is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $310,701 and $342,629 at June 30, 2013 and 2012, respectively, represent the amounts the College would owe the federal government if it were to discontinue the Perkins loan program. The net decrease was $31,928 and $61,044 for fiscal years 2013 and 2012, respectively.

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

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	$ 143	$ 4	$ 379	$ 205
2015	—	—	350	185
2016	—	—	343	168
2017	—	—	336	151
2018	—	—	336	135
2019-2023	—	—	1,577	433
2024-2028	—	—	909	106
2029-2033	—	—	64	5
Total	$ 143	$ 4	$ 4,294	$ 1,388

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. The Minnesota State College Faculty (MSCF) bargaining unit contract provides for this benefit. The following is a description of the benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2013 and 2012.

Minnesota State College Faculty (MSCF) contract

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	2	$ 69
2012	3	48

10. NET OTHER POSTEMPLOYMENT BENEFITS

The College provides health insurance benefits for certain retired employees under a single-employer fully-insured plan, as required by Minnesota Statute, 471.61A, 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 18 retirees receiving health benefits from the health plan.

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

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

Components of the Annual OPEB Cost
(In Thousands)

	2013	2012
Annual required contribution (ARC)	$ 216	$ 316
Interest on net OPEB obligation	39	29
Adjustment to ARC	(33)	(24)
Annual OPEB cost	222	321
Contributions during the year	(116)	(121)
Increase in net OPEB obligation	106	200
Net OPEB obligation, beginning of year	816	616
Net OPEB obligation, end of year	$ 922	$ 816

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

Year Ended June 30
(In Thousands)

	2013	2012
Beginning of year net OPEB obligation	$ 816	$ 616
Annual OPEB cost	222	321
Employer contribution	(116)	(121)
End of year net OPEB obligation	$ 922	$ 816
Percentage contributed	52.25 %	37.69 %

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2012	$ —	$ 2,296	$ 2,296	0.00%	$ 24,373	9.42%

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 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

Capital Leases — In fiscal year 2010, the College entered into a capital lease with Rochester Community and Technical College Foundation. The Foundation installed a fabric bubble over the artificial turf field of the Regional Stadium and will lease the facilities to the College for operation. The lease is for five years with lease payments totaling $759,202 with a bargain purchase option at the end of the lease.

This lease meets the criteria of a capital lease as defined by the FASB ACS 840, *Leases* which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee.

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	$ 22,871	$ (9,152)	$ 13,719	$ 22,422	$ (8,449)	$ 13,973
Fees	3,433	(846)	2,587	3,500	(835)	2,665
Sales	4,874	(13)	4,861	5,009	(12)	4,997
Total	$ 31,178	$ (10,011)	$ 21,167	$ 30,931	$ (9,296)	$ 21,635

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	$ 3,593	$ 1,280	$ 2,610	$ 33	$ 7,516
Institutional support	2,028	845	2,653	19	5,545
Instruction	14,048	4,396	5,300	127	23,871
Public service	581	191	689	5	1,466
Student services	3,449	1,065	2,015	30	6,559
Auxiliary enterprises	425	128	3,675	17	4,245
Scholarships & fellowships	—	—	1,353	—	1,353
Less interest expense	—	—	—	(231)	(231)
Total operating expenses	$ 24,124	$ 7,905	$ 18,295	$ —	$ 50,324

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 3,567	$ 1,259	$ 2,592	$ 35	$ 7,453
Institutional support	1,651	707	2,567	17	4,942
Instruction	14,464	4,421	4,933	144	23,962
Public service	554	168	490	5	1,217
Student services	3,522	1,056	1,909	33	6,520
Auxiliary enterprises	452	93	3,522	18	4,085
Scholarships & fellowships	—	—	1,194	—	1,194
Less interest expense	—	—	—	(252)	(252)
Total operating expenses	$ 24,210	$ 7,704	$ 17,207	$ —	$ 49,121

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

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

Required contributions for Rochester Community and Technical College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 290
2012	282
2011	310

Teachers Retirement Fund (TRF)

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

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

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

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

Required contributions for Rochester Community and Technical College were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 323
2012	272
2011	259

General Employees Retirement Fund (GERF)

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

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

The statutory authority for GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6 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 Rochester Community and Technical College were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 29	$ 24
2012	29	24
2011	31	26

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 faculty and administrators both, 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 Rochester Community and Technical College were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 699	$ 528
2012	674	507
2011	723	545

Supplemental Retirement Plan (SRP)

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

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

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

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

Required contributions for Rochester Community and Technical College were:

In Thousands)	
Fiscal Year	Amount
2013	$ 413
2012	411
2011	434

Voluntary Retirement Savings Plans

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

Minnesota Deferred Compensation Plan is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2013, the plan had 124 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 74 participants.

15. COMMITMENTS AND CONTINGENCIES

During fiscal year 2013, the College started an addition to the Heintz Center for the co-location of facilities for the Rochester Workforce Center. Projects that began in fiscal year 2013 and are continuing as construction in progress include the conversion of the heating system and multiple building improvement projects.

16. RISK MANAGEMENT

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

While property and casualty coverage is required by Minnesota State Colleges and Universities policy, the College also selected optional coverage for international accident, international liability, and student health services professional liability.

Property coverages offered by the Minnesota Risk Management Fund are as follows:

Coverage Type	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	Deductible to $1,000,000
Primary reinsurer coverage	$1,000,001 to $25,000,000
Multiple reinsurers' coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by reinsurer	$2,500,000
Maintenance deductible for additional claims	$25,000

The College retains the risk of loss. The College did not have any settlements in excess of coverage the last three years.

The Minnesota Risk Management Fund also purchased travel insurance for travel within the United States on the open market for the College.

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

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

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

(In Thousands)

Description	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	$ 115	$ 67	$ 103	$ 79
Fiscal Year Ended 6/30/12	47	115	47	115

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 2,510	$ 2,510	0.00%	$ 24,733	10.15%
July 1, 2008	—	2,153	2,153	0.00	25,103	8.58
July 1, 2010	—	2,942	2,942	0.00	27,463	10.71
July 1, 2012	—	2,296	2,296	0.00	24,373	9.42

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SUPPLEMENTARY SECTION

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

Board of Trustees
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 Rochester Community and Technical College (the College), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified one deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations as item 2013-01 to be a significant deficiency.

Compliance and Other Matters

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

Rochester Community and Technical College's Response to the Finding

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 15, 2013

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