SOUTHWEST
MINNESOTA STATE UNIVERSITY

Annual Financial Report

For the Years Ended June 30, 2013 and 2012

Minnesota
STATE COLLEGES
& UNIVERSITIES

A MEMBER OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

SOUTHWEST MINNESOTA STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

Southwest Minnesota State University
1501 State Street
Marshall, Minnesota 56258

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SOUTHWEST MINNESOTA STATE UNIVERSITY

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

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INTRODUCTION

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INTRODUCTION

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SOUTHWEST MINNESOTA STATE UNIVERSITY
CONNIE J. GORES, PRESIDENT

November 15, 2013

Minnesota State Colleges and Universities
Members of the Board of Trustees
Chancellor Steven Rosenstone
Wells Fargo Place
30 7th St. E., Suite 350
St. Paul, MN 55101-7804

Dear Chancellor Rosenstone and Trustees:

I am pleased to submit the audited Annual Financial Report for Southwest Minnesota State University for the fiscal year ended June 30, 2013. The report is a compilation of financial statements and disclosures that accurately present the financial condition and results of our financial activities for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

The University's financial statements were audited by CliftonLarsonAllen LLP. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report. The management of Southwest Minnesota State University is responsible for assuring the accuracy, reliability, fairness, and completeness of the content in this report. The completion of this report represents a combined effort by the University finance and administrative staff as well as the finance staff from the System Office.

Southwest Minnesota State University is committed to our mission of preparing students to meet the complex challenges of this century as engaged citizens in their local and global communities. Our comprehensive degree programs, taught in the liberal arts tradition, are dedicated to connecting students' academic and practical professional development experiences in Southwestern Minnesota to the wider world.

As I begin my first year as President of the University, I am building on the progress of my predecessors. During fiscal year 2013, SMSU saw an enrollment increase of 2.4% of full-year equivalent students while the system saw a decrease of 2.3% in the same category. SMSU served approximately 8,285 students of whom 4,753 were post-secondary education students. As the largest provider of concurrent enrollment courses to high school students in Minnesota, and with our accreditation by the National Alliance of Concurrent Enrollment, SMSU concurrent enrollment students earn both high school and college credit.

During the past year, the University initiated an RN to BSN degree program, and our first students enrolled in the program this fall. Progress was made on additional program offerings to be offered in the School of Agriculture and more work is currently underway to enhance our Ag

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program. These programs, which were developed in partnership with business and community leaders as well as the area community and technical colleges, highlight the importance of collaboration and partnerships across the region to provide access and meet the needs of Southwest Minnesota and beyond.

Another great partnership took shape this year with the Marshall school district. SMSU entered into a joint powers agreement with the Marshall school district to build, maintain, and operate a new Marshall Regional Track and Field Complex to be located at the University. The existing stadium has received updating and new seating. Work on the track and field event space will begin in this academic year. This partnership demonstrates our strong and positive relationship with our local school district as well as our mutual interest in being conscientious stewards of public resources.

In this current fiscal year, I am challenging the University community to focus on three primary themes:

1. Academic Excellence and Distinctiveness
   We must build capacity within signature programs that are in demand and meet the needs of the workforce though such programs as Culinology, Nursing, Exercise Science, and Agriculture.
2. Student Learning and Success
   We must access and build capacity to enhance the overall student experience, in the classroom and out of the classroom.
3. Meaningful Partnerships and Engagement
   SMSU must also continue to develop partnerships and collaborations within Marshall, across the region, and throughout the MnSCU system, building strong relationships with institutions and key leaders.

Much groundwork has already begun on each of these areas. It is important that the University also build a long-term financial stability through strategic enrollment planning that focuses on attracting new students, retaining current students, making data-driven decisions, and increasing the diversity of the student body.

We take our fiduciary responsibilities seriously and we know that we must continue to earn the trust of the people of this region and the state of Minnesota. We are proud of the efforts of the teaching faculty, the service faculty, and the staff of Southwest Minnesota State University and our commitment to provide an extraordinary academic and leadership experience for all students.

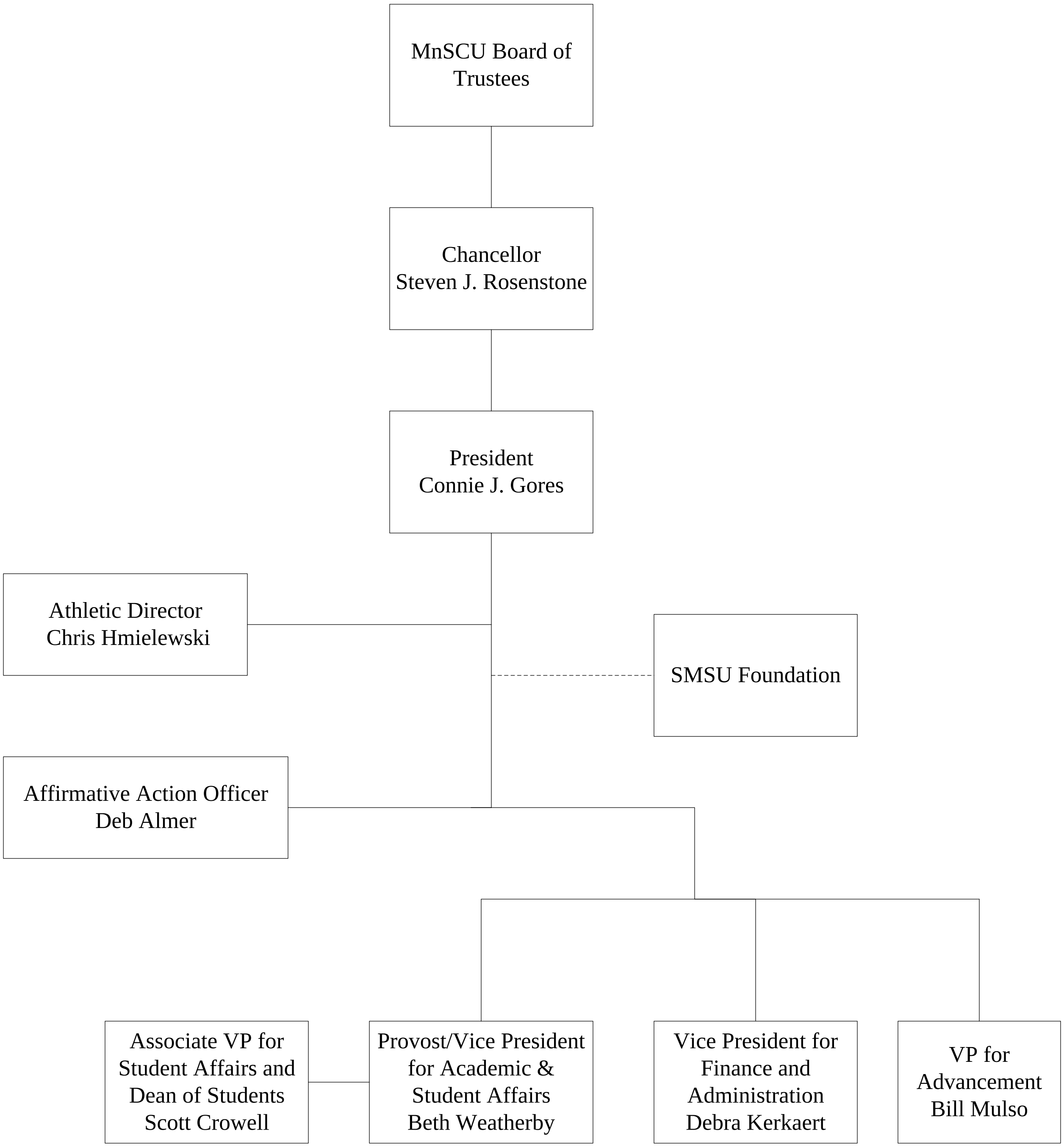
Sincerely,

Connie J. Gores

Connie J. Gores
President

/cra

SOUTHWEST
MINNESOTA STATE UNIVERSITY



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

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

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

FINANCIAL SECTION

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 Southwest Minnesota State University (the University), 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 listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Southwest Minnesota State University Foundation, which represents 100% of the total assets and total revenues of the discretely presented component unit of Southwest Minnesota State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Southwest Minnesota State University Foundation were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2013 and 2012, and the results of its operations and its cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University'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 provides an overview of the financial position and activities of Southwest Minnesota State University, a member of the Minnesota State Colleges and Universities system, at June 30, 2013, and 2012, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes, which follow this section.

Southwest Minnesota State University (SMSU) 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.

The University is a comprehensive public institution of higher learning with a fall 2013 enrollment of 6,704 students including 444 graduate students. Southwest Minnesota State University's full year 2012/2013 equivalent enrollment is 3,769 students. The University has approximately 450 full and part-time employees.

Southwest Minnesota State University offers a portfolio of broad and diverse educational opportunities, ranging from programs guided by a liberal arts tradition, complimented with a purposeful selection of professional and graduate programs that align with the needs, resources and expertise of the region. The University offers 50 undergraduate degree programs, 16 pre-professional programs, 4 Master's degree programs, and numerous licensure and specialist degree programs. Southwest Minnesota State University is accredited by The Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools; the National Association of Schools of Music; the Minnesota Board of Teaching; the American Chemical Society; the Council on Social Work Education; and National Association of Concurrent Enrollment Programs. Southwest Minnesota State University received a 10 year accreditation from the HLC in August 2004. The campus is preparing for reaffirmation of accreditation since the 10 year accreditation is ending. The HLC has extended the University's accreditation and site visit by one year so that SMSU's new president, Connie J. Gores, has a chance to become familiar with the campus prior to the site visit which will now occur in October of 2014.

Built primarily in the late 1960's and early 1970's, the 215 acre campus consists of 26 accessible buildings, and an interconnected core of academic and student services buildings. The campus has undergone extensive renovation in the last 10 years. A new student and conference center and a major library renovation were completed in 2005. The Southwest Minnesota State University Foundation constructed student apartments which opened in 2007. That same year, several science labs were renovated and the softball and football practice fields were constructed. A $16 million Regional Event Center opened in 2008, and in 2009 Sweetland Hall, SMSU's newest residence hall, opened. Culinology, hospitality management, and science labs underwent a $9 million renovation that was completed in summer 2011. An additional $1.2 million of infrastructure upgrades, including greener and more efficient light fixtures, was completed in 2012.

FINANCIAL HIGHLIGHTS

After several years of decreasing appropriations, the University's fiscal year 2013 state appropriation increased modestly from 2012 levels, and flowed partly from an increase of 88 full year equivalents (FYE) from fiscal year 2012 to fiscal year 2013. Tuition rates increased 4.6 percent from fiscal year 2012 to fiscal year 2013, but rising costs for personnel and utilities continue to put pressure on the University budget.

	FY13	Change	FY12	Change	FY11
Student FYE	3,769	2.4%	3,681	(2.2)%	3,764
State appropriation	$ 14,513,693	2.8%	$ 14,120,324	(9.83)%	$ 15,660,289
State appropriation per student	$ 3,850	0.4%	$ 3,836	(7.81)%	$ 4,161

Assets totaled $98.4 million in fiscal year 2013 compared to $99.8 million in fiscal year 2012 and $100.6 million in fiscal year 2011. Net position, which represents the residual interest in the University's assets after liabilities are deducted, totaled $66.8 million in fiscal year 2013 compared to $67.0 million in fiscal year 2012 and $67.2 million in fiscal year 2011. As of June 30, 2013, net position is comprised of net investment in capital assets of $56.6 million, restricted net position of $1.8 million, and unrestricted net position of $8.4 million.

Operating revenues increased $1.2 million from fiscal year 2012 to fiscal year 2013 and decreased $0.7 million from fiscal year 2011 to fiscal year 2012. There were increases in tuition rates in fiscal year 2012, however student FYE and housing occupancy rates decreased. In 2013, student FYE's increased 2.4 percent, as did rates for tuition, 4.6 percent, and room and board, 4.0 percent. Housing occupancy also increased in fiscal year 2013.

Total operating expenses, excluding depreciation, decreased $3.1 million from fiscal year 2011 to fiscal year 2012, but increased by $1.8 million between fiscal year 2012 and fiscal year 2013. Salary and benefit costs accounted for most of this increase, rising $1.7 million between fiscal year 2012 and fiscal year 2013.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET POSITION

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

(In Thousands)

	2013	2012	2011
Current assets	$ 20,161	$ 18,181	$ 17,064
Restricted assets	3,037	3,583	3,425
Noncurrent assets:			
Student loans receivable, net	843	820	858
Capital assets, net	74,409	77,258	79,258
Total assets	98,450	99,842	100,605
Current liabilities	6,752	6,602	6,526
Noncurrent liabilities	24,942	26,247	26,831
Total liabilities	31,694	32,849	33,357
Net position	$ 66,756	$ 66,993	$ 67,248

Current assets consist primarily of cash, cash equivalents and investments totaling $18.1, $16.3 and $15.4 million at June 30, 2013, 2012 and 2011, respectively. This represents approximately 5.1 months of operating expenses (excluding depreciation) compared to 4.8 months at June 30, 2012 and 4.2 months at June 30, 2011.

Current liabilities consist primarily of accounts payable, salaries and related benefits payable. Included are restricted accounts payable for capital projects of $13 thousand at June 30, 2013, $601 thousand at June 30, 2012 and $279 thousand at June 30, 2011. Faculty contracts paid over twelve months on a nine month school year account for the majority of the salaries payable.

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

The University's net position as of June 30, 2013, 2012 and 2011, respectively, is summarized as follows:

(In Thousands)

Net Position	2013	2012	2011
Net investment in capital assets	$ 56,558	$ 58,223	$ 59,038
Restricted	1,758	1,409	1,447
Unrestricted	8,440	7,361	6,763
Total net position	$ 66,756	$ 66,993	$ 67,248

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 include primarily funds for capital projects, donations received for specific purposes, bond covenants, debt service, and faculty contracts.

Unrestricted net position may be designated for specific purposes by action of management, the System Office or the Board of Trustees.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University provides good stewardship of university facilities through planning and execution of projects that reduce deferred maintenance, updating interiors, reviewing the utilization of space and creating preventative maintenance plans. Capital assets as of June 30, 2013, totaled $74.4 million, net of accumulated depreciation of $60.6 million.

Capital outlays totaled $900 thousand, $1.8 million and $3.1 million in fiscal years 2013, 2012 and 2011, respectively. Capital appropriations of $410 thousand, $1.2 million and $1.9 million were received in fiscal years 2013, 2012 and 2011, respectively. During fiscal year 2013, improvements were completed to Founders Hall roof and campus wide lighting. Renovation of the old football stadium into a new track and field complex began in the fall of 2013.

Bonds and notes are also issued for construction and renovations projects. Additional information on capital and debt activities can be found in the 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 statements, users should note that certain revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

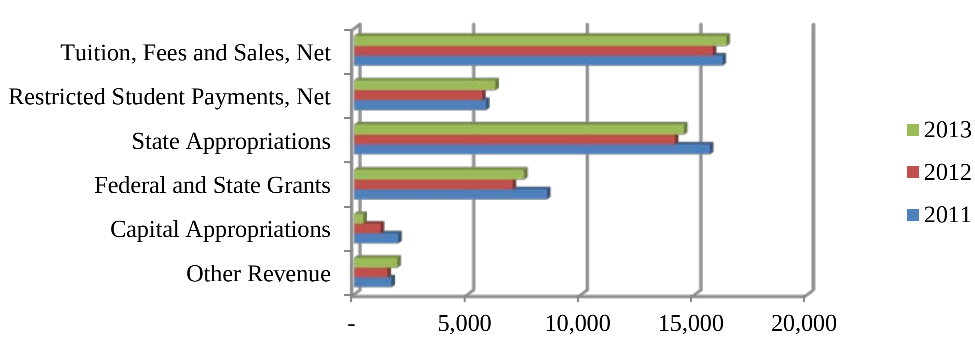
Summarized statements for the years ended June 30, 2013, 2012 and 2011, respectively, follow:

(In Thousands)

	2013	2012	2011
Operating revenues:			
Tuition, auxiliary and sales, net	$ 16,395	$ 15,793	$ 16,219
Restricted student payments, net	6,215	5,639	5,808
Other revenues	110	47	126
Total operating revenues	22,720	21,479	22,153
Nonoperating revenues:			
State appropriations	14,514	14,120	15,660
Capital appropriations	410	1,172	1,943
Federal grants	5,173	5,044	6,828
State grants	2,303	1,933	1,655
Private and capital grants	1,324	969	1,105
Interest income	127	124	151
Other nonoperating revenues	339	328	262
Total nonoperating revenues	24,190	23,690	27,604
Total revenues	46,910	45,169	49,757
Operating expenses:			
Salaries and benefits	30,555	28,864	30,977
Supplies and services	9,140	9,286	9,688
Depreciation	3,740	3,780	3,565
Financial aid, net	653	321	769
Other	2,167	2,205	2,323
Total operating expenses	46,255	44,456	47,322
Nonoperating expenses	892	968	1,010
Total expenses	47,147	45,424	48,332
Change in net position	(237)	(255)	1,425
Net position, beginning of year	66,993	67,248	65,823
Net position, end of year	$ 66,756	$ 66,993	$ 67,248

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Tuition rate increases, state appropriation funding, operating revenues and operating expenses are discussed above in the Financial Highlights section. The increase in state grant revenues from fiscal year 2012 to fiscal year 2013 is due to additional state grant-eligible students receiving aid. The increase in private grant revenue from fiscal year 2012 to fiscal year 2013 reflects additional grants from the University Foundation.

Revenue by Source (In Thousands)



FOUNDATION

The Southwest Minnesota State University Foundation is a component unit of Southwest Minnesota State University and includes the University's Alumni Association and Mustang Booster Club (athletics) in its assets. 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. The Foundation contributed $827,321, $614,697, and $670,649 to SMSU scholarships for the years ended June 30, 2013, 2012 and 2011, respectively.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Southwest Minnesota State University faculty, staff and administration are working diligently to position the University for success in the future. With a new presidency comes new energy and optimism to reshape the University to meet the changing needs of tomorrow.

The economic conditions for Minnesota and the rest of the nation are improving slowly, but there is still much uncertainty in the recovery. Considerable challenges face the University including a long-term trend of decreasing appropriations, limited outside resources, competition for students, and changing demographics within the University's traditional recruitment territory. In addition, tuition rates have been frozen for the fiscal years 2014 and 2015, but commitments for salary and benefits through collective bargaining are increasing.

During fiscal year 2013, Southwest Minnesota State University continued to work diligently to reduce expenditures and look toward ways to conserve funds. In some ways, this was successful: enrollment increased, as did occupancy in the residence halls; revenues grew modestly; carryover and expenditure policy changes achieved significant savings; and Revenue Fund ended positively. However, commitments to salary and benefits outpaced increases in revenues from tuition, appropriation and room and board.

The diminished financial resources of the University's portion of the Revenue Fund, particularly Residential Life, continue to be of concern. The debt service and depreciation added from the building of Sweetland Hall in fiscal year 2009 along with occupancy issues have burdened the financial resources of the Revenue Fund. The lower-than-expected freshmen classes of fiscal year 2012 and fiscal year 2014, combined with long-term debt service commitments, translate into long-range challenges for the University's Revenue Fund. The administration is committed to do all that is necessary to make this a prosperous operation and understand that it will take time and a concerted effort.

Enrollment growth and revenue enhancements are keys to future financial success. An RN to BSN degree program was initiated this past year and the first students enrolled in the program this fall. Progress was made on additional program offerings to be offered in the School of Agriculture and more work is currently underway to enhance the Agriculture program. These programs, which were developed in partnership with business and community leaders as well as the area community and technical colleges, highlight the importance of collaboration and partnerships across the region to provide access and meet the needs of southwest Minnesota and beyond. To explore options for new sources of revenue, strengthening and developing partnerships with regional businesses and key leaders is imperative. Existing programs have been positioned for growth, and admissions efforts are strategically focused on identified groups of potential students. Building upon current efforts to enhance the University's academic reputation, reducing operating costs, and effectively managing financial risks are commitments of the University. To help in retention efforts, the Office of Student Success opened in the Fall of 2012 and is focused on advancing a shared sense of responsibility for student learning and is dedicated to supporting the success of students. Through these efforts, Southwest Minnesota State University will continue to maintain a sound financial position.

REQUESTS FOR INFORMATION

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

Chief Financial Officer
Southwest Minnesota State University
1501 State Street
Marshall, MN 56258

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

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 17,708	$ 15,844
Investments	425	496
Grants receivable	123	186
Accounts receivable, net	1,116	871
Prepaid expense	595	587
Student loans, net	173	168
Other assets	21	29
Total current assets	20,161	18,181
Current Restricted Assets		
Cash and cash equivalents	3,037	3,580
Noncurrent Restricted Assets		
Other assets	-	3
Total restricted assets	3,037	3,583
Noncurrent Assets		
Student loans, net	843	820
Capital assets, net	74,409	77,258
Total noncurrent assets	75,252	78,078
Total Assets	98,450	99,842
Liabilities		
Current Liabilities		
Salaries and benefits payable	2,831	2,227
Accounts payable	812	817
Unearned revenue	588	523
Payable from restricted assets	13	601
Interest payable	155	171
Funds held for others	96	97
Current portion of long-term debt	1,671	1,583
Other compensation benefits	551	548
Other liabilities	35	35
Total current liabilities	6,752	6,602
Noncurrent Liabilities		
Noncurrent portion of long-term debt	19,650	21,084
Other compensation benefits	4,285	4,178
Capital contributions payable	1,007	985
Total noncurrent liabilities	24,942	26,247
Total Liabilities	31,694	32,849
Net Position		
Net investment in capital assets	56,558	58,223
Restricted expendable, bond covenants	228	-
Restricted expendable, other	1,530	1,409
Unrestricted	8,440	7,361
Total Net Position	$ 66,756	$ 66,993

The notes are an integral part of the financial statements.

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

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 247	$ 69
Investments	6,253	5,329
Pledges and contributions receivable, net	514	543
Other receivables	10	21
Accrued interest and investment income	17	19
Prepaid assets	4	4
Inventory for resale	25	25
Total current assets	7,070	6,010
Noncurrent Assets		
Long-term pledges receivable, net	138	221
Artwork collection	290	290
Restricted investments	2,894	2,881
Property and equipment, net	6,443	6,688
Other assets	187	183
Total noncurrent assets	9,952	10,263
Total Assets	$ 17,022	$ 16,273
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 253	$ 145
Interest payable	4	5
Unearned revenue	212	392
Current portion of long-term debt	413	783
Total current liabilities	882	1,325
Noncurrent Liabilities		
Noncurrent portion of long-term debt	5,105	5,190
Total Liabilities	5,987	6,515
Net Assets		
Unrestricted	671	605
Temporarily restricted	7,194	5,998
Permanently restricted	3,170	3,155
Total Net Assets	11,035	9,758
Total Liabilities and Net Assets	$ 17,022	$ 16,273

The notes are an integral part of the financial statements

SOUTHWEST MINNESOTA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Operating Revenues		
Tuition, net	$ 13,177	$ 12,740
Fees, net	1,762	1,650
Sales, net	1,456	1,403
Restricted student payments, net	6,215	5,639
Other income	110	47
Total operating revenues	22,720	21,479
Operating Expenses		
Salaries and benefits	30,555	28,864
Purchased services	6,547	6,230
Supplies	1,767	2,332
Repairs and maintenance	826	724
Depreciation	3,740	3,780
Financial aid, net	653	321
Other expense	2,167	2,205
Total operating expenses	46,255	44,456
Operating loss	(23,535)	(22,977)
Nonoperating Revenues (Expenses)		
Appropriations	14,514	14,120
Federal grants	5,173	5,044
State grants	2,303	1,933
Private grants	1,324	896
Interest income	127	124
Interest expense	(890)	(968)
Grants to other organizations	(2)	-
Total nonoperating revenues (expenses)	22,549	21,149
Loss Before Other Revenues, Expenses, Gains, or Losses	(986)	(1,828)
Capital appropriations	410	1,172
Capital grants	-	73
Donated assets and supplies	265	326
Gain on disposal of capital assets	74	2
Change in net position	(237)	(255)
Total Net Position, Beginning of Year	66,993	67,248
Total Net Position, End of Year	$ 66,756	$ 66,993

The notes are an integral part of the financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Support and Revenue					
Cash contributions	$ 200	$ 2,120	$ 37	$ 2,357	$ 2,546
Non-cash contributions	340	39	-	379	354
Investment income	22	132	-	154	142
Realized gains	7	113	-	120	28
Unrealized gains (losses)	(13)	603	-	590	(123)
Program income	140	102	-	242	278
Fundraising income	26	40	-	66	65
Net rental income	763	116	-	879	787
Other income or loss	-	2	1	3	(14)
Net assets released from restrictions	2,094	(2,071)	(23)	-	-
Total support and revenue	3,579	1,196	15	4,790	4,063
Expenses					
Program services					
Program services	470	-	-	470	448
Scholarships	806	-	-	806	625
Residence hall	622	-	-	622	611
Regional event center and plaza	132	-	-	132	148
University activities	614	-	-	614	467
Total program services	2,644	-	-	2,644	2,299
Supporting services					
Management and general	444	-	-	444	308
Fundraising	425	-	-	425	406
Total supporting services	869	-	-	869	714
Total expenses	3,513	-	-	3,513	3,013
Other Income/Expense					
Gain on disposal of property and equipment	-	-	-	-	108
Change in Net Assets	66	1,196	15	1,277	1,158
Net Assets, Beginning of Year	605	5,998	3,155	9,758	8,600
Net Assets, End of Year	$ 671	$ 7,194	$ 3,170	$ 11,035	$ 9,758

The notes are an integral part of the financial statements.

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

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	$ 22,823	$ 21,543
Insurance proceeds	-	410
Cash repayment of program loans	168	169
Cash paid to suppliers for goods or services	(11,232)	(11,391)
Cash payments for employees	(29,847)	(29,428)
Financial aid disbursements	(628)	(332)
Cash payments for program loans	(179)	(130)
Net cash used in operating activities	(18,895)	(19,159)
Cash Flows from Noncapital Financing Activities		
Appropriations	14,514	14,120
Federal grants	5,126	4,993
State grants	2,303	1,933
Private grants	1,324	896
Agency activity	(1)	41
Advance from system office	8	-
Repayment to system office	(35)	-
Grants to other organizations	(2)	-
Net cash flows provided by noncapital financing activities	23,237	21,983
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(1,464)	(1,404)
Capital appropriation	554	1,015
Capital private grants	-	73
Proceeds from sale of capital assets	3	16
Proceeds from borrowing	989	909
Proceeds from bond premium	75	1
Interest paid	(826)	(959)
Repayment of note principal	(227)	(226)
Repayment of bond principal	(2,264)	(1,242)
Net cash flows used in capital and related financing activities	(3,160)	(1,817)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	165	267
Purchase of investments	(102)	(273)
Investment earnings	76	75
Net cash flows provided by investing activities	139	69
Net Increase in Cash and Cash Equivalents	1,321	1,076
Cash and Cash Equivalents, Beginning of Year	19,424	18,348
Cash and Cash Equivalents, End of Year	$ 20,745	$ 19,424

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Loss	$ (23,535)	$ (22,977)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	3,740	3,780
Provision for loan defaults	(28)	8
Loan principal repayments	168	169
Loans issued	(179)	(130)
Forgiven loans	10	11
Donated supplies	265	326
Change in assets and liabilities		
Accounts receivable	(206)	(36)
Accounts payable	62	184
Salaries and benefits payable	604	(973)
Other compensation benefits	110	395
Capital contributions payable	22	(11)
Unearned revenue	73	99
Other assets and liabilities	(1)	(4)
Net reconciling items to be added to operating loss	4,640	3,818
Net cash flow used in operating activities	$ (18,895)	$ (19,159)
Non-Cash Investing, Capital, and Financing Activities		
Capital assets on account	$ 41	$ 696
Investment earnings on account	2	2
Amortization of bond premium/discount	60	53

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Southwest Minnesota State University receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Southwest Minnesota State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Southwest Minnesota State University Foundation, 1501 State Street, Marshall, MN 56258.

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 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. 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 can 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 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 an account in a local bank. 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 University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is allocated to the colleges and universities.

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

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

Prepaid Expenses — Prepaid expenses consist primarily of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

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

Estimated useful lives are as follows:

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

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

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

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 notes payable, compensated absences, early termination benefits, 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.

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.

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.

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

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

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

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

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 classified further 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 for specific purpose.

  Capital projects/Debt service — restricted for completion of capital projects or bond debt repayments.

  Faculty contract obligations — required faculty development and travel.

  Loans — University capital contributed for Perkins loans.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Donations	$ 177	$ 47
Capital projects/Debt service	793	840
Faculty contract obligations	444	409
Loans	116	113
Total	$ 1,530	$ 1,409

- *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. 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 $17,394 of expense related to current year bond issuance costs.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has a checking and a money market account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

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

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands)		
Carrying Amount	2013	2012
Cash, in bank	$ 1,397	$ 1,012
Cash, trustee account (US Bank)	1,508	1,557
Total local cash and cash equivalents	2,905	2,569
Total treasury cash accounts	17,840	16,855
Grand Total	$ 20,745	$ 19,424

At June 30, 2013 and 2012, the University's local bank balances were $1,393,172 and $1,240,713, 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.

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

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

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

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

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

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University complies with Board procedure 7.5.1 that recommends considering 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)

Investment Type	2013 Fair Value	Weighted Maturity (Years)	2012 Fair Value	Weighted Maturity (Years)
U.S. agency obligations	$ 24	4.07	$ 25	0.40
U.S. agency mortgage backed sec	69	2.73	110	2.05
U.S. treasuries	25	0.30	25	0.30
Municipal obligations	307	2.52	336	2.61
Total	$ 425		$ 496	
Portfolio weighted average maturity		2.51		2.25

3. ACCOUNTS RECEIVABLE

At June, 2013 and 2012, the total accounts receivable balances for the University were $1,383,546 and $1,149,607, respectively, less an allowance for uncollectible receivables of $267,375 and $278,505, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 335	$ 335
Fees	118	136
Room and board	166	200
Sales and services	113	94
Third party obligations	6	39
Other	645	346
Total accounts receivable	1,383	1,150
Allowance for uncollectible accounts	(267)	(279)
Net accounts receivable	$ 1,116	$ 871

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $555,358 and $560,928 for fiscal years 2013 and 2012, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on December 1 of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year. Also included in prepaid expense for fiscal years June 30, 2013 and 2012 was $39,499 and $26,326, respectively, stemming from prepaid software maintenance agreements and prepaid software contractual support.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities loans collections unit is responsible for loan collections. As of June 30, 2013 and 2012, the total loans receivable for this program were $1,117,623 and $1,117,701, respectively, less an allowance for uncollectible loans of $101,679 and $129,800, 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	$ 203	$ —	$ —	$ —	$ 203
Construction in progress	794	697	—	(1,412)	79
Total capital assets, not depreciated	997	697	—	(1,412)	282
Capital assets, depreciated:					
Buildings and improvements	127,441	—	—	1,412	128,853
Equipment	4,463	26	60	—	4,429
Library collections	1,542	177	257	—	1,462
Total capital assets, depreciated	133,446	203	317	1,412	134,744
Less accumulated depreciation:					
Buildings and improvements	53,222	3,229	—	—	56,451
Equipment	3,039	302	51	—	3,290
Library collections	924	209	257	—	876
Total accumulated depreciation	57,185	3,740	308	—	60,617
Total capital assets depreciated, net	76,261	(3,537)	9	1,412	74,127
Total capital assets, net	$ 77,258	$ (2,840)	$ 9	$ —	$ 74,409

Year Ended June 30, 2012 (In Thousands)	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 203	$ —	$ —	$ —	$ 203
Construction in progress	564	1,441	—	(1,211)	794
Total capital assets, not depreciated	767	1,441	—	(1,211)	997
Capital assets, depreciated:					
Buildings and improvements	126,230	—	—	1,211	127,441
Equipment	4,642	223	402	—	4,463
Library collections	1,607	161	226	—	1,542
Total capital assets, depreciated	132,479	384	628	1,211	133,446
Less accumulated depreciation:					
Buildings and improvements	49,997	3,225	—	—	53,222
Equipment	3,061	335	357	—	3,039
Library collections	930	220	226	—	924
Total accumulated depreciation	53,988	3,780	583	—	57,185
Total capital assets depreciated, net	78,491	(3,396)	45	1,211	76,261
Total capital assets, net	$ 79,258	$ (1,955)	$ 45	$ —	$ 77,258

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
Capital expenditures	$ 28	$ 104
Purchased services	332	310
Repairs and maintenance	130	86
Supplies	164	237
Other payables	158	80
Total	$ 812	$ 817

In addition, as of June 30, 2013 and 2012, the University had amounts payable from restricted assets of $13,087 and $601,360 respectively, which were related to capital projects, financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 414	$ 147	$ 60	$ 501	$ —
General obligation bonds	5,253	115	384	4,984	391
Notes payable	868	101	262	707	353
Revenue bonds	16,132	874	1,877	15,129	927
Total long term debt	$ 22,667	$ 1,237	$ 2,583	$ 21,321	$ 1,671

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 466	$ 1	$ 53	$ 414	$ —
General obligation bonds	5,602	65	414	5,253	385
Notes payable	250	844	226	868	301
Revenue bonds	16,990	—	858	16,132	897
Total long term debt	$ 23,308	$ 910	$ 1,551	$ 22,667	$ 1,583

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	$ 3,632	$ 520	$ 396	$ 3,756	$ 439
Net other postemployment benefits	758	188	100	846	—
Workers' compensation	336	106	208	234	112
Total other compensation benefits	$ 4,726	$ 814	$ 704	$ 4,836	$ 551

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 3,401	$ 605	$ 374	$ 3,632	$ 397
Early termination benefits	32	—	32	—	—
Net other postemployment benefits	607	285	134	758	—
Workers' compensation	291	208	163	336	151
Total other compensation benefits	$ 4,331	$ 1,098	$ 703	$ 4,726	$ 548

Bond Premium/Discount — In fiscal year 2013 and 2012 bonds were issued resulting in premiums of $74,797 and $597, respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

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

Notes Payable — Notes payable consists of an equipment financing agreement, a loan from the MnSCU system office and an energy loan from the Minnesota Department of Commerce. Interest rates on the notes range from 0 percent to 1.85 percent.

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, student union, food service and other revenue producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of .45 percent to 5.30 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 2027. Annual principal and interest payments on the bonds are expected to require less than 23.62 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $19,716,108. Principal and interest paid for the current year and total customer net revenues were $2,534,454 and $6,477,000, 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 benefits received for discontinuing services earlier than planned. See Note 9 for details.

Net Other Postemployment Benefits — Net 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 $233,588 and $335,537 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 $1,007,556 and $984,597 at June 30, 2013 and 2012, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $22,959 and $(11,055) for the fiscal years 2013 and 2012, respectively.

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

Long Term Debt Repayment Schedule
(In Thousands)

	General Obligation Bonds		Revenue Bonds		Notes Payable	
Fiscal Years	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 391	$ 232	$ 927	$ 601	$ 353	$ 5
2015	362	210	966	564	74	2
2016	354	193	997	525	74	1
2017	345	175	1,039	484	75	1
2018	345	158	1,081	442	75	1
2019-2023	1,698	538	5,464	1,555	56	1
2024-2028	1,139	179	4,655	416	—	—
2029-2032	350	18	—	—	—	—
Total	$ 4,984	$ 1,703	$ 15,129	$ 4,587	$ 707	$ 11

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts, Inter Faculty Organization (IFO) and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including the number of retired faculty receiving the benefit and the amount of future liability as of the end of fiscal years 2013 and 2012.

Inter Faculty Organization (IFO) contract

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

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, Section 471.61 subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012, there were approximately 12 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost (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)	$ 182	$ 279
Interest on net OPEB obligation	36	29
Adjustment to ARC	(30)	(23)
Annual OPEB Cost	188	285
Contributions during the year	(100)	(134)
Increase in net OPEB obligation	88	151
Net OPEB obligation, beginning of year	758	607
Net OPEB obligation, end of year	$ 846	$ 758

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
Net OPEB obligation, beginning of year	$ 758	$ 607
Annual OPEB Cost	188	285
Employer contribution	(100)	(134)
Net OPEB obligation, end of year	$ 846	$ 758
Percentage contributed	53.19 %	47.02 %

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	$ —	$ 1,898	$ 1,898	0.00%	$ 21,445	8.85%

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

Income Lease – In July 1, 2007, the University entered into a five year lease agreement with the Agricultural Utilization Research Institute. On July 1, 2012, the lease was extended for an additional five years. The University is leasing office space to the nonprofit organization.

Future expected lease payments to be received are as follows:

(In Thousands)

Fiscal Year	Amount
2014	$ 90
2015	90
2016	93
2017	93
	$ 366

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

Description	2013 Gross	2013 Scholarship Allowance	2013 Net	2012 Gross	2012 Scholarship Allowance	2012 Net
Tuition	$ 20,719	$ (7,542)	$ 13,177	$ 19,798	$ (7,058)	$ 12,740
Fees	2,176	(414)	1,762	2,071	(421)	1,650
Sales	1,456	—	1,456	1,403	—	1,403
Restricted student payments	6,263	(48)	6,215	5,797	(158)	5,639
Total	$ 30,614	$ (8,004)	$ 22,610	$ 29,069	$ (7,637)	$ 21,432

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	$ 2,370	$ 813	$ 1,167	$ 93	$ 4,443
Institutional support	2,949	988	2,161	114	6,212
Instruction	11,758	3,719	3,322	451	19,250
Public service	333	113	603	13	1,062
Student services	4,140	1,382	2,798	161	8,481
Auxiliary enterprises	1,302	688	4,996	58	7,044
Scholarships & fellowships	—	—	653	—	653
Less interest expense	—	—	—	(890)	(890)
Total operating expenses	$ 22,852	$ 7,703	$ 15,700	$ —	$ 46,255

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 2,176	$ 691	$ 1,403	$ 96	$ 4,366
Institutional support	2,842	913	2,592	126	6,473
Instruction	10,964	3,436	3,126	483	18,009
Public service	371	117	654	16	1,158
Student services	4,064	1,331	2,603	181	8,179
Auxiliary enterprises	1,303	656	4,893	66	6,918
Scholarships & fellowships	—	—	321	—	321
Less interest expense	—	—	—	(968)	(968)
Total operating expenses	$ 21,720	$ 7,144	$ 15,592	$ —	$ 44,456

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. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for 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 Southwest Minnesota State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 289
2012	276
2011	274

Teachers Retirement Fund (TRF)

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

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

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

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

Required contributions for Southwest Minnesota State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 202
2012	174
2011	180

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 Southwest Minnesota State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 745	$ 557
2012	681	508
2011	732	546

Supplemental Retirement Plan — (SRP)

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

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

Member Group	Eligible Compensation	Annual Maximum
Inter Faculty Organization	$6,000 to $51,000	$2,250
Minnesota State University Association of Administrative and Service Faculty	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 Statutes, Chapter 354C.

Required contributions for Southwest Minnesota State University were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 418
2012	387
2011	420

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 86 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 71 participants.

15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, and 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.

A summary table of the University's portion of the Revenue Fund follows:

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

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets:		
Current assets	$ 940	$ 444
Current restricted assets	3,037	3,135
Noncurrent restricted assets	—	3
Capital assets, net	28,843	30,041
Total assets	32,820	33,623
Liabilities:		
Current liabilities	1,291	1,158
Noncurrent liabilities	14,582	15,493
Total liabilities	15,873	16,651
Net Position:		
Net investment in capital assets	16,472	16,868
Restricted	475	104
Total net position	$ 16,947	$ 16,972

	2013	2012
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 6,282	$ 5,827
Operating expenses	(5,668)	(5,456)
Net operating income	614	371
Nonoperating revenues (expenses)	(639)	(693)
Change in net position	(25)	(322)
Net position, beginning of year	16,972	17,294
Net position, end of year	$ 16,947	$ 16,972

	2013	2012
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$ 1,855	$ 1,250
Investing activities	8	18
Noncapital and related financing activities	(37)	250
Capital and related financing activities	(1,532)	(1,569)
Net increase (decrease)	294	(51)
Cash, beginning of year	3,358	3,409
Cash, end of year	$ 3,652	$ 3,358

16. COMMITMENTS AND CONTINGENCIES

Effective May 20, 2005, the University and Southwest Minnesota State University Foundation entered into a property management agreement. The SMSU Foundation constructed a student housing apartment building on land owned by the SMSU Foundation. The University is managing the building that is being used in its student housing program. The agreement commenced on August 1, 2006 and shall end on June 30, 2016, unless extended or terminated as provided in the agreement.

In fiscal year 2012 funding of $500,000 had been approved for design of a Science Lab Renovation Project. As of June 30, 2013, $19,000 has been spent. The renovation project funding was not included in the fiscal year 2014 bonding request. It is uncertain when funding may be available.

Southwest Minnesota State University entered into a Joint Powers Agreement and Lease Agreement with Independent School District (ISD) 413 to renovate the old football stadium into a new track and field complex. The Joint Powers Agreement was approved by the MnSCU Board of Trustees in January 2013. Bids for the project are to be opened October 17, 2013, with substantial completion expected September 2014. The University will finance the project through funding approved by university students in a special referendum vote in April 2012 and by proceeds from a ten year lease agreement with ISD 413. Southwest Minnesota State University retains ownership of the facility but the management of the facility will be conducted through a supervisory management committee established within the joint powers agreement.

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 also purchased optional physical damage coverage for their newest or most expensive vehicles.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also selected inland marine coverage on the newer computers, scoreboards, digital cameras and artwork. The University also purchases professional liability insurance for athletic trainers, medical staff, students working as personal care attendants, social work interns, mental health counselors and career counselors. Property coverage offered by the Minnesota Risk Management Fund is as follows:

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

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

The Minnesota Risk Management Fund purchased student intern 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	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	$ 336	$ 106	$ 208	$ 234
Fiscal Year Ended 6/30/12	291	208	163	336

18. COMPONENT UNITS

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

The Southwest Minnesota State University Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the foundation can only be used by, or for, the benefit of the University. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University's 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets:* Net assets that are not subject to donor imposed stipulations.

- *Temporarily restricted net assets*: Net assets subject to donor imposed restrictions as to how the assets are used.

- *Permanently restricted net assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit each foundation to use all or part of the income earned on any related investments for general or specific purposes. Capital gains on permanently restricted net assets are considered to be part of the principal and are added to permanently restricted net assets.

The University received $1,670,042 and $1,364,701 in fiscal years 2013 and 2012, respectively, from Southwest Minnesota State University Foundation. Of this amount $827,321 and $614,697 in fiscal years 2013 and 2012, respectively, was for scholarships; $319,455 and $291,216, respectively, was for MARL program donations; and $523,266 and $458,788, respectively, was for various other uses.

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 savings	$ 448	$ 124
Fixed income securities	3,063	3,264
Equity securities	5,636	4,822
Total investments	$ 9,147	$ 8,210

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)

	Permanently Restricted
Net assets, beginning of year	$ 3,155
Change in value of trusts	1
Contributions	37
Assets released from restrictions	(23)
Net assets, end of year	$ 3,170

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)

	Permanently Restricted
Net assets, beginning of year	$ 3,000
Change in value of trusts	110
Contributions	45
Net assets, end of year	$ 3,155

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

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

	2013	2012
Property and equipment, not depreciated:		
Land	$ 265	$ 265
Total property and equipment, not depreciated	265	265
Property and equipment, depreciated:		
Buildings and improvements	7,966	7,966
Equipment	64	37
Total property and equipment, depreciated	8,030	8,003
Less total accumulated depreciation	1,852	1,580
Total property and equipment depreciated, net	6,178	6,423
Total property and equipment, net	$ 6,443	$ 6,688

Long Term Debt — A summary of the Foundation's long term debt is as follows:

Schedule of Long Term Debt at June 30
(In Thousands)

	2013	2012
Notes payable	$ 999	$ 1,260
Student housing revenue note	4,519	4,713
Total long term debt	5,518	5,973
Less current portion	413	783
Net long term debt	$ 5,105	$ 5,190

Notes Payable — Bremer Bank: A $228,000 note is secured by a blanket policy over the Foundation assets along with a purchase money security interest in the lights for the Regional Event Center. Quarterly payments of $7,950 including interest at 4.62 percent began September 15, 2008 and mature on June 15, 2018. A $337,500 note is secured by the first priority in the Foundation's Campaign Investment Account. Quarterly payments of $11,800 including interest of 4.62 percent began September 15, 2008 and mature on June 15, 2018. An $875,000 note is secured by the first priority in the scoreboard for the Regional Event Center. Quarterly payments of $31,250 including interest at 4.62 percent began December 15, 2008 and mature on September 15, 2018.

Aramark Educational Services, LLC: A $350,000 unsecured note is interest free with quarterly payments of $10,938. The payments began on July 1, 2008 and will mature on June 30, 2016.

Schwan's Corporate Giving Foundation: This represents the amount of gifts pledged to the Foundation on behalf of the construction of the Regional Events Center. The agreement states that all funds pledged to the Foundation on behalf of the construction of the Regional Events Center will be used to pay down the Schwan's note at Bremer Bank NA, Marshall, Minnesota. The Foundation has received pledges totaling $2,000,000 and has paid $2,000,000 towards the balance to date.

Student Housing Revenue Note — The note was issued through the City of Marshall and is payable to Bremer Bank, National Association. It is secured by the Foundation Residence Hall. The current interest rate is 3.35 percent until May 24, 2015 at which time (and every five years thereafter) the interest rate shall be adjusted to an interest rate equal to the then LIBOR rate plus 2.75 percent. The final payment is due May 25, 2030.

Principal and interest payment schedule is provided below:

Long Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Principal	Interest
2014	$ 413	$ 186
2015	428	171
2016	443	156
2017	416	139
2018	385	123
2019-2023	1,285	472
2024-2028	1,519	238
2029-2030	629	20
Total	$ 5,518	$ 1,505

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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SOUTHWEST MINNESOTA STATE UNIVERSITY
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 2,191	$ 2,191	0.00 %	$ 24,369	8.99 %
July 1, 2008	—	2,383	2,383	0.00	23,049	10.34
July 1, 2010	—	2,658	2,658	0.00	24,460	10.87
July 1, 2012	—	2,296	2,296	0.00	24,373	9.42

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SUPPLEMENTARY SECTION

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 Southwest Minnesota State University (the University), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise 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 the Southwest Minnesota State University Foundation, a discretely presented component unit of Southwest Minnesota State University. The financial statements of the Southwest Minnesota State University Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 University'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. 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 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 entity'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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