Minnesota State Colleges & Universities

Annual Financial Report

For the years ended June 30, 2013 and 2012

Minnesota
STATE COLLEGES
& UNIVERSITIES

MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2013 and 2012

Prepared by:

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MINNESOTA STATE COLLEGES AND UNIVERSITIES

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

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INTRODUCTION

Minnesota
STATE COLLEGES
& UNIVERSITIES

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November 22, 2013

Members of the Board of Trustees
Chancellor Steven J. Rosenstone

I am pleased to submit to you the audited financial report for the Minnesota State Colleges and Universities system for the fiscal years ended June 30, 2013 and 2012. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position, the statements of revenue, expense, and changes in net position and the statements of cash flows.

We are also providing separately audited financial statements for the Revenue Fund, all state universities and three of our two year colleges. The completion of separately audited financial statements for 13 of the 31 colleges and universities places 64 percent of the expenses of the Minnesota State Colleges and Universities system under separate stand alone audits. It is worth noting that the systemwide audit opinion, the Revenue Fund opinion and the opinions for the 13 separate audits are each without modification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the system office.

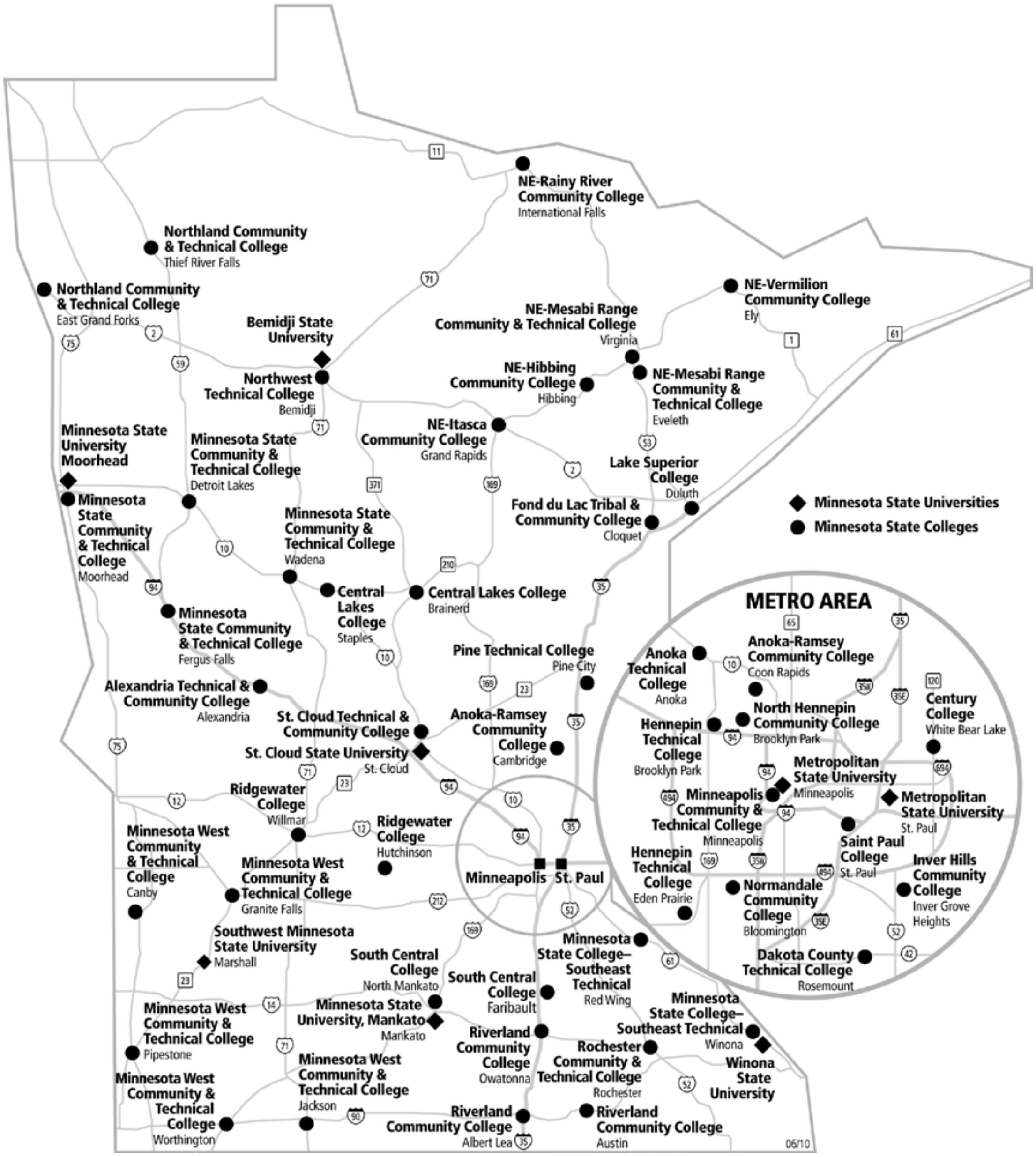
For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of the report. The Finance Division and the finance staff at every college and university are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. We rely upon the administrative and finance staff at each college and university in provision of that assurance. Many people assisted in this effort and are deserving of our appreciation.

Sincerely,

LMK

Laura M. King
Vice Chancellor – Chief Financial Officer

Minnesota State Colleges & Universities



TWO-YEAR COLLEGES

Alexandria Technical & Community College
Anoka-Ramsey Community College***
Anoka Technical College***
Central Lakes College
Century College
Dakota County Technical College
Fond du Lac Tribal & Community College
Hennepin Technical College
Hibbing Community College*
Inver Hills Community College
Itasca Community College*
Lake Superior College
Mesabi Range Community & Technical College*
Minneapolis Community & Technical College
Minnesota State College – Southeast Technical
Minnesota State Community & Technical College
Minnesota West Community & Technical College
Normandale Community College
North Hennepin Community College
Northland Community & Technical College
Northwest Technical College**
Pine Technical College
Rainy River Community College*
Ridgewater College
Riverland Community College
Rochester Community & Technical College
St. Cloud Technical & Community College
Saint Paul College
South Central College
Vermilion Community College*

STATE UNIVERSITIES

Bemidji State University**
Metropolitan State University
Minnesota State University, Mankato
Minnesota State University Moorhead
St. Cloud State University
Southwest Minnesota State University
Winona State University

*The Northeast Higher Education District is a consortium of five state colleges: Hibbing, Itasca, Mesabi Range, Rainy River and Vermilion.

**Bemidji State University and Northwest Technical College are aligned.

***Anoka-Ramsey College and Anoka Technical College are aligned.

Minnesota State Colleges and Universities

ALEXANDRIA TECHNICAL & COMMUNITY COLLEGE
Alexandria
Kevin Kopischke, President
1-888-234-1222
www.alextech.edu

ANOKA-RAMSEY COMMUNITY COLLEGE ***
Cambridge, Coon Rapids
Kent Hanson
(763) 433-1100
www.anokaramsey.edu

ANOKA TECHNICAL COLLEGE***
Anoka
Kent Hanson
(763) 576-4850
www.anokatech.edu

BEMIDJI STATE UNIVERSITY*
Bemidji
Richard Hanson, President
1-877-236-4354
www.bemidjistate.edu

CENTRAL LAKES COLLEGE
Brainerd, Staples
Larry Lundblad, President
1-800-933-0346
www.clcmn.edu

CENTURY COLLEGE
White Bear Lake
Ron Anderson, President
1-800-228-1978
www.century.edu

DAKOTA COUNTY TECHNICAL COLLEGE
Rosemount
Tim Wynes, Interim President
1-877-937-3282
www.dctc.edu

FOND DU LAC TRIBAL & COMMUNITY COLLEGE
Cloquet
Larry Anderson, President
1-800-657-3712
www.fdltcc.edu

HENNEPIN TECHNICAL COLLEGE
Brooklyn Park, Eden Prairie
Cecilia Cervantes, President
1-800-345-4655
www.hennepintech.edu

HIBBING COMMUNITY COLLEGE**
Hibbing
Sue Collins, President
1-800-224-4422
www.hibbing.edu

INVER HILLS COMMUNITY COLLEGE
Inver Grove Heights
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(651) 450-3000
www.inverhills.edu

ITASCA COMMUNITY COLLEGE**
Grand Rapids
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1-800-996-6422
www.itascacc.edu

LAKE SUPERIOR COLLEGE
Duluth
Patrick Johns, President
1-800-432-2884
www.lsc.edu

MESABI RANGE COMMUNITY & TECHNICAL COLLEGE**
Eveleth, Virginia
Sue Collins, President
1-800-657-3860
www.mesabirange.edu

METROPOLITAN STATE UNIVERSITY
St. Paul, Minneapolis
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(651) 793-1300
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MINNEAPOLIS COMMUNITY & TECHNICAL COLLEGE
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www.minneapolis.edu

MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL
Red Wing, Winona
Jim Johnson, President
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MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
Detroit Lakes, Fergus Falls, Moorhead, Wadena
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MINNESOTA STATE UNIVERSITY, MANKATO
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MINNESOTA STATE UNIVERSITY MOORHEAD
Moorhead
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MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
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www.mnwest.edu

NORMANDALE COMMUNITY COLLEGE
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NORTH HENNEPIN COMMUNITY COLLEGE
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NORTHLAND COMMUNITY & TECHNICAL COLLEGE
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NORTHWEST TECHNICAL COLLEGE*
Bemidji
Richard Hanson, President
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www.ntcmn.edu

PINE TECHNICAL COLLEGE
Pine City
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RAINY RIVER COMMUNITY COLLEGE**
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RIDGEWATER COLLEGE
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RIVERLAND COMMUNITY COLLEGE
Albert Lea, Austin, Owatonna
Adenuga Atewologun, President
1-800-247-5039
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ROCHESTER COMMUNITY AND TECHNICAL COLLEGE
Rochester
Gail O'Kane, Interim President
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ST. CLOUD STATE UNIVERSITY
St. Cloud
Earl Potter, President
1-877-654-7278
www.stcloudstate.edu

ST. CLOUD TECHNICAL & COMMUNITY COLLEGE
St. Cloud
Joyce Helens, President
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www.sctcc.edu

SAINT PAUL COLLEGE
St. Paul
Rassoul Dastmozd, President
1-800-227-6029
www.saintpaul.edu

SOUTH CENTRAL COLLEGE
Faribault, Mankato
Annette Parker, President
1-800-722-9359
www.southcentral.edu

SOUTHWEST MINNESOTA STATE UNIVERSITY
Marshall
Connie Gores, Interim President
1-800-642-0684
www.smsu.edu

VERMILION COMMUNITY COLLEGE**
Ely
Sue Collins, President
1-800-657-3608
www.vcc.edu

WINONA STATE UNIVERSITY
Winona
Scott Olson, President
1-800-342-5978
www.winona.edu

* Bemidji State University and Northwest Technical College are aligned.
**The Northeast Higher Education District is a consortium of five state colleges: Hibbing, Itasca, Mesabi Range, Rainy River and Vermillion.
***Anoka-Ramsey College and Anoka Technical College are aligned.

The financial activity of the Minnesota State Colleges and Universities is included in this report. It is comprised of 31 colleges and universities. The Revenue Fund activity is included in both this report and the separately issued Revenue Fund Annual Financial Report.

All financial activity of Minnesota State Colleges and Universities is included in the Minnesota Comprehensive Annual Financial Report. A separately issued schedule of expenditures of federal awards will be available at a later date.

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (MnSCU) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise MnSCU'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 Minnesota State University Mankato, Minnesota State University Moorhead, Normandale Community College, Winona State University, Hennepin Technical College, Bemidji State University, Century College, Saint Cloud State University, and Minnesota State Community and Technical College (collectively, the "individual Colleges and Universities"), which represent 53 percent of the assets and 51 percent of the revenues of MnSCU for fiscal year 2013. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the individual Colleges and Universities, is based solely on the reports of the other auditors. We also did not audit the financial statements of the Bemidji State University Foundation, Century College Foundation, Fergus Area College Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 78 percent of the total assets and 78 percent of the revenues of the aggregate discretely presented component units. Those statements were also audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is also based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Auditors' Responsibility (Continued)

The financial statements of Minnesota State Colleges and Universities Foundations 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 MnSCU'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 MnSCU's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of MnSCU as of June 30, 2013 and 2012, and the respective changes in financial position and 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 for Net Other Postemployment Benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of MnSCU'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 MnSCU's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 22, 2013

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INTRODUCTION

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

The Minnesota State Colleges and Universities system, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 31 state universities, technical, and community colleges. Offering more than 3,500 educational programs, the system serves approximately 272,500 students annually in credit-based courses, as measured by unduplicated headcount enrollment. An additional 162,900 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs approximately 17,941 full time and part time faculty and staff.

FINANCIAL HIGHLIGHTS

The system's financial position improved during fiscal year 2013 with net position increasing by $91.1 million, or 4.6 percent, on total revenues of $2.0 billion. This follows a $121.5 million, or 6.5 percent increase in net position during fiscal year 2012 on total revenues of $1.9 billion. The system's unrestricted net position increased by $24.2 million, or 4.9 percent and $69.4 million, or 16.5 percent, in fiscal years 2013 and 2012 respectively.

- Income (loss) before other revenues, expenses, gains or losses, described further below as the system's net operating revenue, experienced a loss of $2.0 million in fiscal year 2013. This compares to a gain of $63.0 and $75.6 million in fiscal years 2012 and 2011, respectively.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation was relatively flat in fiscal year 2013 after decreasing 10.1 percent in fiscal year 2012 and decreasing 1.9 percent in fiscal year 2011. Gross tuition revenue increased $12.0 million or 1.4 percent, $20.4 million or 2.5 percent, and $48.0 million or 6.1 percent in fiscal years, 2013, 2012 and 2011, respectively. Tuition rate increases averaged 3.9 percent, 4.0 percent, and 4.8 percent in fiscal years 2013, 2012, and 2011, respectively.

- Federal grants remained relatively flat from fiscal year 2012 to fiscal 2013, following a decrease of $51.0 million or 12.1 percent from fiscal year 2011 to fiscal year 2012. Of the decrease in fiscal years 2012, $38.1 million was attributed to the receipt of funds under the American Recovery and Reinvestment Act (ARRA) of 2009. ARRA, commonly referred to as the federal stimulus package, was enacted to create jobs and promote consumer spending in response to the recent recession. Of this amount, $13.8 million was used to mitigate tuition increases. The remaining fluctuations are related primarily to student Pell Grants.

- Total debt supporting the system's capital asset investment programs increased in fiscal year 2013 by $46.6 million to a total of $608.1 million, an 8.3 percent increase. This increase was mainly due to the issuance of $58.8 million of revenue bonds during fiscal year 2013.

- Salaries and benefits, the largest cost category in the system, increased $48.5 million, or 4.0 percent, in fiscal year 2013 and decreased $46.1 million, or 3.7 percent, in fiscal year 2012. This cost constitutes 67.4 percent of the system's fiscal year 2013 total operating expenses, compared to 67.5 percent for fiscal year 2012.

- The number of students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2013, 2012 and 2011 totaled 149,905, 153,447, and 157,903, respectively. Enrollment in 2013 decreased 2.3 percent from 2012 and 2.8 percent over 2011.

USING THE FINANCIAL STATEMENTS

This annual financial report includes five financial statements: the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows, the statements of fiduciary net position held for pension benefits, and the statements of changes in fiduciary net position held for pension benefits (the last two statements relate to the system's defined contribution retirement plan). These five financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

FINANCIAL PERFORMANCE

The Composite Financial Index (CFI) calculation uses the four financial ratios and assigns a specific weighting to each factor in computing a measure of relative financial health. The CFI methodology used to compute the weighted values in the table below is taken from the *Strategic Financial Analysis for Higher Education* (7th Edition), jointly developed and sponsored by the firms of Prager, Sealy & Co. LLC, KPMG LLP and Attain LLC. This CFI calculation methodology is also used by the Higher Learning Commission and has been used internally by the system for a number of years. Without detailing the actual calculation methodology, financial ratio values are converted into strength factors which in turn are weighted to allow summing of the four components into a single, composite value.

The table below displays financial ratios as converted into weighted strength factor values, and sums these weighted values into a single composite score. Institutions may have differing values across the four factors but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the CFI scores, *Strategic Financial Analysis for Higher Education* suggests a composite value of 1 is equivalent to very little financial health; in the for-profit world it could perhaps be viewed as a "going-concern" threshold value. A composite value of 3 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3 represent increasingly stronger financial health.

FINANCIAL PERFORMANCE MEASURE

Composite Financial Index Ratios	System			Revenue Fund		
	2013	2012	2011	2013	2012	2011
Return on Net Position	0.46	0.65	0.85	0.37	1.17	0.89
Net Operating Revenue	(0.01)	0.26	0.29	0.33	1.00	1.00
Primary Reserve	0.91	0.92	0.76	3.02	2.72	2.33
Viability	0.90	0.95	0.80	0.25	0.31	0.26
CFI	**2.26**	**2.78**	**2.70**	**3.97**	**5.20**	**4.48**

The comparison in the table above uses four underlying financial ratio values and a CFI calculation methodology for the past three years for the system (including all funds) and the Revenue Fund. In comparison to other public colleges and universities data, as compiled by Moody's, the system's and Revenue Fund's composite values are in the average to above average ranges respectively for all three years. The system's individual colleges and universities would show a similar range of composite values.

The two current operating measures, return on net position and net operating revenue, demonstrate the level of return on net position and the extent to which operating revenues do or do not cover operating expenses, respectively. Both operating ratios decreased from fiscal year 2012, due to flat revenues and increased salary and benefit costs. The flat revenue is the result of declining enrollments coupled with caps on tuition increases, while the increase to salary and benefit expense is due to the bargaining unit negotiated salary increases that included retroactive pay.

The primary reserve and viability ratios measure an organization's liquid net position that is available directly, or through additional borrowing, to cover emergency expenditures or invest in innovation. Representing available liquidity or borrowing capacity, these measures are not dependent on current operating results in the short-term. These measures are good indicators of financial health, and combined, are weighted 70 percent in the CFI calculation. Although both ratios decreased slightly in fiscal year 2013 compared to fiscal year 2012, they remain at high enough levels, to help keep the total CFI at above 2.0 levels, demonstrating the system's preparedness to deal with the current year's operational challenges. However, multiple future years with similar operational results can erode those two ratios further, pushing the CFI below 2.0. Strategic long-term planning continues to be a critical process at all institutions to avoid such a result.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the system at the end of the fiscal year, including all assets and liabilities. Net position, the result of total assets minus total liabilities, is one indicator of the current financial condition of the system. Assets and liabilities are generally measured using current values. One notable exception is capital assets which are stated at historical cost, less an allowance for depreciation.

Summarized statements of net position for fiscal years 2013, 2012, and 2011 follow (in thousands):

ASSETS, LIABILITIES AND NET POSITION

	2013	2012	2011
Current assets	$ 1,016,388	$ 956,393	$ 922,356
Current restricted assets	115,721	97,607	149,906
Noncurrent restricted assets	27,238	65,328	29,847
Noncurrent student loans, net	26,130	25,737	26,405
Noncurrent capital assets, net	1,939,855	1,809,959	1,754,840
Total assets	3,125,332	2,955,024	2,883,354
Current liabilities	292,106	263,174	299,404
Noncurrent liabilities	750,548	700,240	713,843
Total liabilities	1,042,654	963,414	1,013,247
Net investment in capital assets	1,428,789	1,355,857	1,322,661
Restricted	138,865	144,948	126,058
Unrestricted	515,024	490,805	421,388
Total net position	$ 2,082,678	$ 1,991,610	$ 1,870,107

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $47.2 million to a total of $856.9 million at June 30, 2013. This $856.9 million of cash and cash equivalents plus investments of $26.2 million represent approximately 6.1 months of fiscal year 2013 operating expenses (excluding depreciation), an increase of 0.2 months from fiscal year 2012. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2013 increased from the prior year by $22.0 million or 25.3 percent to a total of $109.1 million. Approximately $13.0 million of the increase is due to payments to third party providers that were disbursed on July 1 versus the end of June in prior years. A second reason for the increase is due to the retroactive pay adjustments processed after June 30, 2013 for employment contract settlements approved in fiscal year 2013. Accounts payable, including payables from restricted assets, increased $5.4 million or 8.0 percent due to normal timing differences. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year.

The noncurrent liabilities increased by $50.3 million or 7.2 percent in fiscal year 2013 compared to fiscal year 2012. This was due to an increase in the noncurrent portion of long-term debt of $44.9 million coupled with a $5.5 million increase in noncurrent other compensation benefits which consisted primarily of $117.6 million for compensated absences, vacation and sick leave balances earned by employees, as well as other benefits.

Net position represents the system's residual interest in total assets after deducting total liabilities. Net investment in capital assets, represents by far the largest portion of net position. Capital assets are carried at historical cost, not replacement cost. Restricted net position have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for debt service of $48.2 million, and restrictions imposed by bond covenants of $70.9 million, a $1.8 million decrease from fiscal year 2012.

CAPITAL AND DEBT ACTIVITIES

With over 27 million managed square feet, the quality of the system's academic and residential life programs is closely linked to the development and renewal of its capital assets. The system continues to update and implement a long range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Note 16 to the financial statements.

Fiscal year 2013 capital outlays totaled $200.4 million, including $175.8 million of new construction in progress, compared to fiscal year 2012 capital outlays which totaled $197.2 million, including $175.7 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long-term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the system is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The system recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the system has no debt service responsibility. In addition $7.4 million is included in state appropriation for asset repairs and improvements that are not capitalized. General obligation bonds payable totaled $231.2 million at June 30, 2013, a net increase of $0.5 million during the fiscal year. Revenue bonds payable at June 30, 2013 totaled $309.7 million, a net increase of $42.6 million from June 30, 2012.

The percentage of total revenue expended to cover debt service (principal and interest payments on bonds, capital leases and notes payable) has increased from 2.1 percent or $38.8 million in fiscal year 2009, to 2.9 percent, or $58.0 million in fiscal year 2013.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the system's results of operations and the overall increase in net position for the fiscal year. It is the difference between the year's revenue and expense activities that results in an overall increase or decrease to net position; see the discussion of net position under the statements of net position above. The state appropriation and federal and state grants are required under GASB Statement No. 34 to be considered nonoperating revenues.

Summarized statements of revenues, expenses and changes in net position for fiscal years 2013, 2012, and 2011 follow (in thousands):

REVENUES, EXPENSES AND NET POSITION

	2013	2012	2011
Operating revenues:			
Tuition, fees and sales, net	$ 732,447	$ 724,284	$ 731,890
Restricted student payments, net	104,706	107,255	103,368
Other income	14,224	17,002	16,496
Total operating revenues	851,377	848,541	851,754
Nonoperating and other revenues:			
State appropriation	553,246	551,293	613,382
Capital appropriation	88,497	56,361	65,480
Grants	479,360	474,307	508,588
Miscellaneous nonoperating and other revenues	10,374	7,765	11,122
Total nonoperating and other revenues	1,131,477	1,089,726	1,198,572
Total revenues	1,982,854	1,938,267	2,050,326
Operating expenses:			
Salaries and benefits	1,251,635	1,203,159	1,249,299
Other operating expenses	605,382	579,352	618,137
Total operating expenses	1,857,017	1,782,511	1,867,436
Interest and other nonoperating expenses	34,769	34,253	36,549
Total expenses	1,891,786	1,816,764	1,903,985
Change in net position	91,068	121,503	146,341
Net position, beginning of year	1,991,610	1,870,107	1,723,766
Net position, end of year	$ 2,082,678	$ 1,991,610	$ 1,870,107

The fiscal year 2013 total revenues increased by 2.3 percent due primarily to the increase in capital appropriation. These funds were used to support the system's long term planning of updating and improving its academic buildings.

Compensation is the system's single largest expense component. Salaries and benefits expense increased $48.5 million, or 4.0 percent, in fiscal year 2013 and represented 67.4 percent of total operating expense. The fiscal year 2012 decrease of $46.1 million, or 3.7 percent, represented 67.5 percent of total operating expense. Total compensation expense included fringe benefit costs of $302.6 million and $287.9 million in fiscal years 2013 and 2012, respectively. The increase in compensation costs in fiscal year 2013 is due primarily to collective bargaining settlements along with an increase to the employer portion of the insurance premiums .

All other operating expenses for fiscal year 2013 increased by 4.5 percent compared to a decrease of 6.3 percent in 2012. The most significant increases by percentage from fiscal year 2012 to fiscal year 2013 was 25.3 percent or $8.9 million in financial aid, net. This increase is due to an increase in state financial aid which is being disbursed to students. Additionally, purchased services expense increased 6.7 percent or $14.2 million due to an increase in operating leases and one-time expenses incurred to implement various strategic initiatives

INVESTMENTS

All balances related to tuition revenues and most fees are held in the state treasury. These funds are invested as part of the state's investment pool by the State Board of Investment. Under state statute, the system's share of earnings on the state's investment pool is allocated to schools by the System Office. Note 2 provides additional information on cash and investments, including steps taken to control interest and credit related risks. Revenue Fund cash balances are held in part by the state treasury and in part by U.S. Bank, N.A. as trustee, and are invested separately under contracts for investment management services.

FOUNDATIONS

The system's annual financial report for the years ended June 30, 2013 and 2012 includes financial statements for the foundations of nine colleges and universities, including the foundations for all seven state universities, based on an assessment of the Foundations' significance to the system's financial statements. The accompanying financial report includes the Foundations' statements of financial position, and the Foundations' statements of activities, analogous to the systems' statements of revenues, expenses, and changes in net position. It should be noted that the Foundations' financial statements are not consolidated with the system's financial statements. The relationships between the Foundations and the related colleges and universities are described in Note 18.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Minnesota State Colleges and Universities maintained a sound financial position in fiscal year 2013. State appropriations, the primary source of operating support for the system, allow the system to maintain ongoing operations, implement new programs tailored to meet the state's workforce needs, and implement innovative strategies for managing the challenges and opportunities faced by higher education. During the 2012-2013 session, the state legislature approved an increase in appropriation sufficient to fund a system-wide tuition freeze for the biennium.

Consistent with national trends, enrollment at Minnesota State Colleges and Universities is experiencing a very slight dip fueled largely by the economic recovery as well as demographic changes affecting the traditional student market. The system has in-place a number of strategic initiatives for managing enrollment, including programs to increase the retention and success of existing students and programs to address the needs of diverse populations traditionally underserved by higher education.

The system will also continue its aggressive management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include developing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services. Already ranking 44th out of 50 comparable state systems in the U.S. in overall administrative spending per student, the system has committed to an additional $44 million in efficiencies over the next biennium.

The continuing success of the system depends in part on its partnership with the state of Minnesota and its citizens. Preserving the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The system leadership is committed to a statewide partnership with government, industry, and communities to add to the prosperity of Minnesota. The partnership enables the provision of accessible, high value, affordable higher education in accord with the economic and intellectual needs of the state. The state's continued support is critical to maintaining both affordability and access for students.

REQUESTS FOR INFORMATION

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

Financial Reporting System Director
Minnesota State Colleges and Universities
30 7th St. E., Suite 350
St Paul, MN 55101-7804

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

Assets	2013	2012
Current Assets		
Cash and cash equivalents	$ 856,943	$ 809,730
Investments	26,165	26,442
Grants receivable	22,970	12,434
Accounts receivable, net	61,085	59,194
Prepaid expense	28,512	27,578
Inventory	14,650	14,562
Student loans, net	3,840	4,058
Other assets	2,223	2,395
Total current assets	1,016,388	956,393
Current Restricted Assets		
Cash and cash equivalents	115,721	97,607
Total current restricted assets	115,721	97,607
Noncurrent Restricted Assets		
Other assets	293	62
Construction in progress	26,945	65,266
Total noncurrent restricted assets	27,238	65,328
Total restricted assets	142,959	162,935
Noncurrent Assets		
Student loans, net	26,130	25,737
Capital assets, net	1,939,855	1,809,959
Total noncurrent assets	1,965,985	1,835,696
Total Assets	3,125,332	2,955,024
Liabilities		
Current Liabilities		
Salaries and benefits payable	109,089	87,066
Accounts payable	47,907	40,428
Unearned revenue	40,531	40,417
Payable from restricted assets	24,714	26,800
Interest payable	3,236	2,925
Funds held for others	9,158	10,160
Current portion of long-term debt	36,890	35,244
Other compensation benefits	19,654	19,289
Other liabilities	927	845
Total current liabilities	292,106	263,174
Noncurrent Liabilities		
Noncurrent portion of long-term debt	571,183	526,243
Other compensation benefits	149,703	144,168
Capital contributions payable	29,662	29,829
Total noncurrent liabilities	750,548	700,240
Total Liabilities	1,042,654	963,414
Net Position		
Net investment in capital assets	1,428,789	1,355,857
Restricted expendable, bond covenants	70,852	72,625
Restricted expendable, other	68,013	72,323
Unrestricted	515,024	490,805
Total Net Position	$ 2,082,678	$ 1,991,610

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 8,968	$ 7,690
Investments	74,079	65,023
Restricted cash and cash equivalents	1,022	1,102
Pledges and contributions receivable, net	6,647	4,975
Other receivables and Other assets	288	399
Annuities/Remainder interests/Trusts	230	179
Finance lease receivable	845	805
Total current assets	92,079	80,173
Noncurrent Assets		
Annuities/Remainder interests/Trusts	449	424
Long-term pledges receivable	16,093	11,628
Finance lease receivable, net	7,548	8,393
Investments	66,010	59,433
Investment property	-	5
Restricted investments	5,754	2,881
Assets held for endowment	-	2,736
Buildings, property and equipment, net	19,445	20,662
Other assets	1,499	1,269
Total noncurrent assets	116,798	107,431
Total Assets	208,877	187,604
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	1,249	1,015
Interest payable	118	100
Unearned revenue	212	392
Annuities payable	373	385
Notes payable	1,096	1,660
Bonds payable	1,358	1,920
Scholarships payable and Other liabilities	111	178
Total current liabilities	4,517	5,650
Noncurrent Liabilities		
Annuities payable and Unitrust liabilities	3,234	2,123
Notes payable	11,810	13,126
Bonds payable	17,662	18,792
Total noncurrent liabilities	32,706	34,041
Total Liabilities	37,223	39,691
Net Assets		
Unrestricted	14,487	10,913
Temporarily restricted	53,053	40,819
Permanently restricted	104,114	96,181
Total Net Assets	171,654	147,913
Total Liabilities and Net Assets	$ 208,877	$ 187,604

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
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	$ 542,199	$ 538,547
Fees, net	68,369	67,692
Sales and room and board, net	121,879	118,045
Restricted student payments, net	104,706	107,255
Other income	14,224	17,002
Total operating revenues	851,377	848,541
Operating Expenses		
Salaries and benefits	1,251,635	1,203,159
Purchased services	225,056	210,875
Supplies	145,557	149,088
Repairs and maintenance	33,608	33,299
Depreciation	107,890	104,102
Financial aid, net	43,782	34,931
Other expense	49,489	47,057
Total operating expenses	1,857,017	1,782,511
Operating loss	(1,005,640)	(933,970)
Nonoperating Revenues (Expenses)		
Appropriations	553,246	551,293
Federal grants	367,862	369,139
State grants	91,665	74,346
Private grants	19,809	30,338
Interest income	5,836	5,463
Interest expense	(22,758)	(22,526)
Grants to other organizations	(12,004)	(11,231)
Total nonoperating revenues (expenses)	1,003,656	996,822
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,984)	62,852
Capital appropriations	88,497	56,361
Capital grants	24	484
Donated assets and supplies	4,538	2,302
Loss on disposal of capital assets	(7)	(496)
Change in net position	91,068	121,503
Total Net Position, Beginning of Year	1,991,610	1,870,107
Total Net Position, End of Year	$ 2,082,678	$ 1,991,610

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Support and Revenue				
Contributions	$ 6,059	$ 13,408	$ 4,023	$ 23,490
Endowment gifts	-	-	3,601	3,601
In-kind contributions	4,205	560	10	4,775
Investment income (loss)	1,411	4,397	(3)	5,805
Realized gains	3,035	393	23	3,451
Unrealized gains (losses)	162	5,242	(12)	5,392
Program income	1,292	357	-	1,649
Special events	12	12	-	24
Fundraising income	79	214	-	293
Other income	880	115	1	996
Reclassification of net assets	455	(727)	272	-
Net assets released from restrictions	11,719	(11,737)	18	-
Total support and revenue	29,309	12,234	7,933	49,476
Expenses				
Program services				
Program services	4,593	-	-	4,593
Scholarships	10,255	-	-	10,255
Institutional activities	1,495	-	-	1,495
Special projects	1,299	-	-	1,299
Total program services	17,642	-	-	17,642
Supporting services				
Interest expense	444	-	-	444
Management and general	3,042	-	-	3,042
Fundraising	4,600	-	-	4,600
Depreciation and amortization	-	-	-	-
Other expense	7	-	-	7
Total supporting services	8,093	-	-	8,093
Total expenses	25,735	-	-	25,735
Change in Net Assets	3,574	12,234	7,933	23,741
Net Assets, Beginning of Year	10,913	40,819	96,181	147,913
Net Assets, End of Year	$ 14,487	$ 53,053	$ 104,114	$ 171,654

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Support and Revenue				
Contributions	$ 8,039	$ 11,244	$ 3,843	$ 23,126
Endowment gifts	-	-	867	867
In-kind contributions	3,723	617	-	4,340
Investment income	1,431	1,182	4	2,617
Realized gains (losses)	(1,309)	245	9	(1,055)
Unrealized gains (losses)	(578)	(671)	58	(1,191)
Program income	1,219	1,233	-	2,452
Special events	18	-	-	18
Fundraising income	64	139	-	203
Other income	862	97	-	959
Reclassification of net assets	385	(1,214)	829	-
Net assets released from restrictions	14,499	(14,232)	(267)	-
Total support and revenue	28,353	(1,360)	5,343	32,336
Expenses				
Program services				
Program services	3,499	-	-	3,499
Scholarships	17,283	-	-	17,283
Institutional activities	3,227	-	-	3,227
Special projects	1,491	-	-	1,491
Total program services	25,500	-	-	25,500
Supporting services				
Interest expense	807	-	-	807
Management and general	2,840	-	-	2,840
Fundraising	3,611	-	-	3,611
Depreciation and amortization	135	-	-	135
Other expense	65	-	-	65
Total supporting services	7,458	-	-	7,458
Total expenses	32,958	-	-	32,958
Change in Net Assets	(4,605)	(1,360)	5,343	(622)
Net Assets, Beginning of Year	15,518	42,179	90,838	148,535
Net Assets, End of Year	$ 10,913	$ 40,819	$ 96,181	$ 147,913

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
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	$ 852,672	$ 850,437
Cash repayment of program loans	4,098	3,908
Cash paid to suppliers for goods or services	(442,474)	(443,775)
Cash payments for employees	(1,225,007)	(1,243,191)
Financial aid disbursements	(43,949)	(35,384)
Cash payments for program loans	(4,758)	(3,828)
Net cash flows used in operating activities	(859,418)	(871,833)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	553,246	551,293
Federal grants	356,466	369,996
State grants	91,665	74,346
Private grants	19,809	30,338
Agency activity	(1,003)	421
Grants to other organizations	(12,004)	(11,231)
Net cash flows provided by noncapital and related financing activities	1,008,179	1,015,163
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(200,937)	(189,420)
Capital appropriation	86,285	58,125
Capital grants	24	484
Proceeds from sale of capital assets and insurance proceeds	1,563	2,996
Proceeds from borrowing	99,783	20,106
Proceeds from bond premiums	11,519	1,549
Interest paid	(22,180)	(22,569)
Repayment of lease principal	(4,671)	(5,858)
Repayment of note principal	(693)	(931)
Repayment of bond principal	(57,579)	(25,871)
Net cash flows used in capital and related financing activities	(86,886)	(161,389)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	6,664	12,533
Purchase of investments	(6,518)	(11,313)
Investment earnings	3,306	3,450
Net cash flows provided by investing activities	3,452	4,670
Net Increase (Decrease) in Cash and Cash Equivalents	65,327	(13,389)
Cash and Cash Equivalents, Beginning of Year	907,337	920,726
Cash and Cash Equivalents, End of Year	$ 972,664	$ 907,337

The notes are an integral part of the financial statements.

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

	2013	2012
Operating Loss	$ (1,005,640)	$ (933,970)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	107,890	104,102
Provision for loan defaults	38	198
Loan principal repayments	4,098	3,908
Loans issued	(4,758)	(3,828)
Forgiven loans	448	413
Donated and lease equipment not capitalized	4,630	1,874
Change in assets and liabilities		
Inventory	(87)	(1,936)
Accounts receivable	321	(458)
Accounts payable	6,351	(2,197)
Salaries and benefits payable	22,023	(41,123)
Other compensation benefits	5,900	(285)
Capital contributions payable	(168)	(340)
Unearned revenues	975	2,354
Other	(1,439)	(545)
Net reconciling items to adjust operating loss	146,222	62,137
Net cash flow used in operating activities	$ (859,418)	$ (871,833)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 28,684	$ 29,642
Amortization of bond premium	2,707	2,082

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
AS OF JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Assets		
Mutual Funds	$ 1,319,941	$ 1,150,606
Total Assets	1,319,941	1,150,606
Liabilities		
Total Liabilities	-	-
Net Position Held in Trust for Pension Benefits	$ 1,319,941	$ 1,150,606

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(IN THOUSANDS)

	2013	2012
Additions:		
Contributions		
Employer	$ 41,965	$ 41,500
Member	35,289	34,926
Contributions from roll overs and other sources	1,814	1,576
Total Contributions	79,068	78,002
Net Investment Gain	143,750	28,905
Total Additions	222,818	106,907
Deductions:		
Benefits and refunds paid to plan members	53,237	49,762
Administrative fees	246	230
Total Deductions	53,483	49,992
Net Increase	169,335	56,915
Net Position Held in Trust for Pension Benefits, Beginning of Year	1,150,606	1,093,691
Net Position Held in Trust for Pension Benefits, End of Year	$ 1,319,941	$ 1,150,606

The notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State Colleges and Universities 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 represent the financial activities of each institution and the System's activity in total.

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. Minnesota State Colleges and Universities' financial statements include 31 member colleges and universities, the System Office, and System wide activity. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Minnesota State 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, a legally separate entity are also included here. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund Financial Report. Copies are available from the financial reporting director at the address listed at the end of the Management's Discussion and Analysis section.

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*. Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 18. For GASB financial statement purposes, most college foundations are not considered significant to the Minnesota State Colleges and Universities System and, therefore, are not included as discretely presented component units.

Complete financial statements of the foundations may be obtained from their respective administrative offices as follows:

Bemidji State University Foundation
1500 Birchmont Dr. NE #17
Bemidji, MN 56601-2699

Century College Foundation
3300 Century Avenue North
White Bear Lake, MN 55110-1842

Fergus Area College Foundation
Minnesota State Community & Technical College
1414 College Way
Fergus Falls, MN 56537

Metropolitan State University Foundation
700 East Seventh Street
St. Paul, MN 55106

MN State University, Mankato Foundation, Inc.
224 Alumni Foundation Center
Mankato, MN 56001

MN State University Moorhead Alumni Foundation, Inc.
1104 Seventh Ave. S.
Moorhead, MN 56563

St. Cloud State University Foundation
Alumni and Foundation Center
720 Fourth Ave. South
St. Cloud, MN 56301-4498

Southwest Minnesota State University Foundation
1501 State Street
Marshall, MN 56258

Winona State University Foundation
P.O. Box 5838
175 West Mark Street
Winona, MN 55987-5838

Fiduciary funds are omitted from inclusion in the net position of Minnesota State Colleges and Universities. Separate statements are included for the Minnesota State Colleges and Universities Defined Contribution Retirement Fund.

Joint Ventures and Jointly Governed Organizations — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2013, joint ventures received revenues of $7,559,502 and incurred expenses of $7,200,708. In fiscal year 2012 the amounts for revenues and expenses were $7,815,323 and $6,594,723, respectively.

Minnesota State Colleges and Universities jointly governs the Fond du Lac Tribal & Community College. The governing boards are the Minnesota State Colleges and Universities Board of Trustees and the Tribal College Board of Directors. The Tribal College reimburses the Community College for certain expenses. The financial position and results of operations of the Tribal College are reported in the financial statements of the Fond du Lac Reservation. Revenues and expenses related to operations of the Community College are included in the Minnesota State Colleges and Universities financial statements.

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

Budgetary Accounting — Minnesota State Colleges and Universities' budgetary accounting, which is the basis for annual budgets and allocation of the state appropriation, differs from GAAP. Budgetary accounting includes all receipts and expenses up to the close of the books in August for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenses is the actual disbursement, and 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 individual colleges and universities biennial budget requests and allocations as part of the Minnesota State Colleges and Universities' total budget.

Budgetary control is maintained at the college and university level. Presidents have the authority and responsibility to administer the budget and can transfer money between programs within each college and university without Board approval. The budget of a college or university can be legally amended by the authority of the Vice Chancellor or Chief Financial Officer of Minnesota State Colleges and Universities

State appropriations do not lapse at fiscal yearend. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums. State appropriation included $7,424,163 and $5,927,637 in fiscal years 2013 and 2012 respectively, for asset repairs and improvements that are not capitalized.

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 that are capitalized.

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

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

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. Each campus has at least one 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 Minnesota State Colleges and Universities' 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. Cash in the Revenue Fund is invested separately. The Revenue 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 using quoted market prices. Restricted investments are investments held in the Revenue Fund for capital projects and debt service. In addition, Minnesota State Colleges and Universities invests funds held for auxiliary and student activities in various brokerage accounts.

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

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

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

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

Estimated useful lives are as follows:

Asset Type	Useful Life
Buildings	30-40 years
Building improvement	15-20 years
Equipment	3-20 years
Internally developed software	7 years
Library collections	7 years

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

Funds Held for Others — Funds held for others are assets held primarily for student organizations, faculty and staff health reimbursement accounts, and retirement contributions.

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for unspent bond proceeds, dorm room deposits, and from grants which have not yet been earned under the terms of the agreement.

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. Minnesota State Colleges and Universities is responsible for a portion of the debt service on the bonds sold for some college and university projects. Minnesota State Colleges and Universities may sell revenue bonds and may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, early retirement benefits, net other postemployment benefits, workers' compensation claims, notes payable, and capital contributions associated with Perkins Loan agreements with the United States Department of Education.

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 expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

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

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

Federal Grants —The Minnesota State Colleges and Universities participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, and TRIO. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange 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 system will record such disallowance at the time the determination is made.

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

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

Net Position — The difference between assets and liabilities is net position. Net position is further classified for accounting and reporting purposes into the following categories:

- *Net investment in capital assets:* capital assets, net of accumulated depreciation and outstanding principal balances of debt and other borrowings attributable to the acquisition, construction or improvement of those assets.

- *Restricted expendable net position:* net position subject to externally imposed stipulations. Net position restrictions for Minnesota State Colleges and Universities are as follows:

  Restricted for bond covenants — revenue bond restrictions.

  Restricted for other — includes restrictions for the following:

Capital projects — restricted for completion of capital projects.

Debt service — legally restricted debt repayment.

Donations — restricted per donor requests.

Faculty contract obligations — for faculty development and travel as required.

Loans — college and university capital contributions for Perkins Loans.

Net Position Restricted for Other
(In Thousands)

	2013	2012
Capital projects	$ 4,536	$ 9,320
Debt service	48,160	46,844
Donations	4,554	5,258
Faculty contract obligations	6,882	6,760
Loans	3,881	4,141
Total	$ 68,013	$ 72,323

- *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 $0.9 million of expense related to current year bond issuance costs.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the state appropriation, tuition revenues, and most fees are held in the state treasury. In addition, each campus has at least one local bank account. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

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

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State Colleges and Universities' name. All cash and cash equivalents are included in Category 1. At June 30, 2013 and 2012, the local bank balances were $85,107,805 and $94,010,800, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

The following table summarizes cash and cash equivalents, including amounts reported as restricted cash.

Year Ended June 30
(In Thousands)

Carrying Amount	2013	2012
Cash, in bank	$ 38,707	$ 56,816
Money markets	9,791	8,832
Repurchase agreements	29,982	17,317
Cash, trustee account (US Bank)	80,253	31,242
Total local cash and cash equivalents	158,733	114,207
Total treasury cash accounts	813,931	793,130
Grand Total	$ 972,664	$ 907,337

The balance in the state treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent. The Revenue Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services of Revenue Fund cash.

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

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has foreign checking accounts, denominated entirely in British Pounds. At June 30, 2013 and 2012, the fair value in U.S. Dollars is $160,218 and $92,271, respectively.

Investments — The Minnesota State Board of Investment manages the majority of the state's investments. All investments managed by the State Board of Investment are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments to obligations and stocks of U.S. 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 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.

Investments are categorized to give an indication of the level of custodial credit risk. Category 1 includes securities insured, registered, or held by Minnesota State Colleges and Universities or its agent in Minnesota State Colleges and Universities' name. All investments are in Category 1.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Minnesota State Colleges and Universities 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 Minnesota State Colleges and Universities' policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit 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 Minnesota State Colleges and Universities' 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 Minnesota State Colleges and Universities 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, 2013 and 2012, the Minnesota State Colleges and Universities had the following investments and maturities held in various brokerage accounts:

Year Ended June 30
(In Thousands)

Investment Type	2013 Fair Value	Weighted Maturity (Years)	2012 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	$ 8,477	2.88	$ 7,842	3.30
U.S. agencies	10,763	8.73	6,342	12.26
Asset backed security	4	2.53	13	1.24
State investment pool cash equivalents	743	-	563	-
U.S. treasuries	122	1.69	25	0.30
Total	20,109		14,785	
Portfolio weighted average maturity		5.90		7.01
Certificates of deposit	1,936		8,969	
Money market mutual funds	610		8	
Mutual stock funds	-		1,030	
Stock	3,510		1,650	
Total	$ 26,165		$ 26,442	

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2013 and 2012. At June 30, 2013 and 2012, the total accounts receivable balances were $91,741,815 and $87,408,697, respectively, less an allowance for uncollectible receivables of $30,656,815 and $28,214,816, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2013	2012
Tuition	$ 45,049	$ 42,744
Fees	10,727	10,055
Sales and service	11,720	9,708
Room and board	3,876	3,685
Third party obligations	2,675	4,889
Capital projects	2,971	759
Other	14,724	15,569
Total accounts receivable	91,742	87,409
Allowance for doubtful accounts	(30,657)	(28,215)
Net accounts receivable	$ 61,085	$ 59,194

The capital project related receivables of $2,971,448 and $758,584 at June 30, 2013 and 2012 respectively, are for bond proceeds spent on capital projects, but not yet collected from the state of Minnesota.

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

Age	Allowance Percentage
Less than 1 year	10-25
1 to 3 years	45-80
3 to 5 years	70-100
Over 5 years	95-100

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 $26,771,315 and $26,205,883 for fiscal years 2013 and 2012, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. Also, included in prepaid expenses for fiscal years 2013 and 2012 were $1,740,829 and $1,372,004, respectively, stemming from prepaid maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities' loans collection unit and the colleges and universities are responsible for loans collection. As of June 30, 2013 and 2012, the loans receivable for this program totaled $32,769,779 and $32,556,700, respectively, less an allowance for uncollectible loans of $2,799,406 and $2,761,668, 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	$ 83,322	$ 731	$ 40	$ -	$ 84,013
Construction in progress	180,082	175,802	-	(185,771)	170,113
Total capital assets, not depreciated	263,404	176,533	40	(185,771)	254,126
Capital assets, depreciated:					
Buildings and improvements	2,751,901	3,350	6,225	185,771	2,934,797
Equipment	229,249	13,583	10,250	-	232,582
Internally developed software	13,776	961	2,109	-	12,628
Library collections	46,124	5,935	7,021	-	45,038
Total capital assets, depreciated	3,041,050	23,829	25,605	185,771	3,225,045
Less accumulated depreciation:					
Buildings and improvements	1,224,519	85,982	5,101	-	1,305,400
Equipment	170,458	13,409	10,517	-	173,350
Internally developed software	7,046	2,064	2,109	-	7,001
Library collections	27,206	6,435	7,021	-	26,620
Total accumulated depreciation	1,429,229	107,890	24,748	-	1,512,371
Total capital assets depreciated, net	1,611,821	(84,061)	857	185,771	1,712,674
Total capital assets, net	$ 1,875,225	$ 92,472	$ 897	$ -	$ 1,966,800

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 83,022	$ 300	$ -	$ -	$ 83,322
Construction in progress	94,810	175,676	-	(90,404)	180,082
Total capital assets, not depreciated	177,832	175,976	-	(90,404)	263,404
Capital assets, depreciated:					
Buildings and improvements	2,666,774	117	5,394	90,404	2,751,901
Equipment	230,830	13,787	15,368	-	229,249
Internally developed software	13,197	1,315	736	-	13,776
Library collections	47,167	5,970	7,013	-	46,124
Total capital assets, depreciated	2,957,968	21,189	28,511	90,404	3,041,050
Less accumulated depreciation:					
Buildings and improvements	1,146,801	81,215	3,497	-	1,224,519
Equipment	170,839	14,428	14,809	-	170,458
Internally developed software	5,912	1,870	736	-	7,046
Library collections	27,630	6,589	7,013	-	27,206
Total accumulated depreciation	1,351,182	104,102	26,055	-	1,429,229
Total capital assets, depreciated, net	1,606,786	(82,913)	2,456	90,404	1,611,821
Total capital assets, net	$ 1,784,618	$ 93,063	$ 2,456	$ -	$ 1,875,225

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2013	2012
Purchased services	$ 16,137	$ 12,733
Supplies	7,764	7,194
Grants to others	6,678	2,192
Repairs and maintenance	5,564	5,711
Other payables	4,701	5,040
Capital projects	3,970	2,842
Employee benefits	2,511	3,807
Inventory/Equipment	582	909
Total	$ 47,907	$ 40,428

In addition, as of June 30, 2013 and 2012, Minnesota State Colleges and Universities had payable from restricted assets in the amounts of $24,713,829 and $26,799,770, respectively, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

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

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 19,089	$ 11,519	$ 2,707	$ 27,901	$ -
Capital leases	39,560	-	4,671	34,889	4,563
General obligation bonds	230,717	18,633	18,151	231,199	18,993
Notes payable	5,015	92	693	4,414	779
Revenue bonds	267,106	81,150	38,586	309,670	12,555
Total long-term debt	$ 561,487	$ 111,394	$ 64,808	$ 608,073	$ 36,890

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 19,622	$ 1,549	$ 2,082	$ 19,089	$ -
Capital leases	45,418	-	5,858	39,560	4,599
General obligation bonds	241,027	8,106	18,416	230,717	18,164
Notes payable	5,101	845	931	5,015	731
Revenue bonds	262,813	12,000	7,707	267,106	11,750
Total long-term debt	$ 573,981	$ 22,500	$ 34,994	$ 561,487	$ 35,244

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	$ 128,255	$ 19,253	$ 14,429	$ 133,079	$ 15,513
Early termination benefits	3,879	1,727	2,076	3,530	1,752
Net other postemployment benefits	24,386	8,136	4,752	27,770	-
Workers' compensation	6,937	2,443	4,402	4,978	2,389
Total other compensation benefits	$ 163,457	$ 31,559	$ 25,659	$ 169,357	$ 19,654

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 129,908	$ 13,693	$ 15,346	$ 128,255	$ 14,235
Early termination benefits	6,326	1,891	4,338	3,879	1,932
Net other postemployment benefits	19,791	11,541	6,946	24,386	-
Workers' compensation	7,717	3,477	4,257	6,937	3,122
Total other compensation benefits	$ 163,742	$ 30,602	$ 30,887	$ 163,457	$ 19,289

Bond Premium — Bonds were issued in fiscal years 2013 and 2012, resulting in net premiums of $9,612,244 and $1,548,271 respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

Capital Leases — Liabilities for capital leases include those leases that are generally defined as one that transfers benefits and risk of ownership to the lessee. See Note 11 for additional information.

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

Notes Payable — Notes payable consist of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings, and financing agreements on computers and equipment that are under the equipment capitalization threshold. All projects completed under Minnesota Statutes, section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate for the energy loans is tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 3.65 percent to 8.98 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 dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of .45 percent to 5.75 percent.

The revenue bonds are payable solely from and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2034. Annual principal and interest payments on the bonds are expected to require less than 24.10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $436,242,450. Principal and interest paid for the current year and total customer net revenues were $22,704,227 and $109,368,257, respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 39.64 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $2,418,320. For the current year, principal and interest paid and total customer net revenues were $166,229 and $449,947, respectively. These revenue bonds have a variable interest rate of 0.75 percent to 3.65 percent.

In addition, Vermilion Community College had issued revenue bonds through the Minnesota Higher Education Facilities Authority to finance construction of modular housing. These revenue bonds were paid in full during fiscal year 2013.

Compensated Absences — Minnesota State Colleges and Universities' employees accrue vacation, sick, 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 service 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 Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $4,977,796 and $6,937,294 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 $29,661,815 and $29,829,473 at June 30, 2013 and 2012, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program. The net decrease was $167,658 and $338,068 for fiscal years 2013 and 2012, respectively.

Principal and interest payment schedules are provided in the table on the following page for notes payable, general obligation bonds, revenue bonds and capital leases.

There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, workers' compensation, and capital contributions.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2014	$ 18,993	$ 11,096	$ 12,555	$ 12,488
2015	18,564	9,798	14,180	11,895
2016	18,091	8,895	14,565	11,416
2017	17,471	8,007	15,635	10,902
2018	17,305	7,152	16,055	10,341
2019-2023	77,118	23,768	87,015	41,790
2024-2028	50,157	7,966	86,820	23,828
2029-2033	13,500	868	58,960	6,273
2034-2038	-	-	3,885	58
Total	$ 231,199	$ 77,550	$ 309,670	$ 128,991

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases Principal	Capital Leases Interest	Notes Payable Principal	Notes Payable Interest
2014	$ 4,563	$ 998	$ 779	$ 180
2015	4,395	1,097	429	157
2016	4,297	1,201	410	139
2017	4,275	1,295	366	123
2018	4,264	1,252	390	106
2019-2023	11,297	4,797	1,330	307
2024-2028	971	353	628	51
2029-2033	827	9,182	82	-
Total	$ 34,889	$ 20,175	$ 4,414	$ 1,063

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), 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 number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2013 and 2012.

Minnesota State College Faculty (MSCF) contract — The MSCF contract allows former Minnesota Community College Faculty Association (MCCFA) faculty members who meet certain eligibility and a combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary, and health insurance paid for one year after separation. The cash incentive can be paid either in one or two payments.

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	23	$ 780
2012	26	704

The MSCF contract allows former United Technical College Educators (UTCE) faculty members who meet certain eligibility and a combination of age and years of service requirements, to receive either an early retirement incentive cash payment, the right to continue, at the employer's expense, health insurance benefits up to age 65; or a combination of both,. The cash incentive can be paid either in one or more payments.

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	88	$ 2,365
2012	101	2,901

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 of health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments.

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	15	$ 312
2012	20	242

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.

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	3	$ 73
2012	2	32

10. NET OTHER POSTEMPLOYMENT BENEFITS

Minnesota State Colleges and Universities provides health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012 there were approximately 671 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)	$ 7,954	$ 11,368
Interest on net OPEB obligation	1,159	938
Adjustment to ARC	(977)	(765)
Annual OPEB cost	8,136	11,541
Contributions during the year	(4,752)	(6,946)
Increase in net OPEB obligation	3,384	4,595
Net OPEB obligation, beginning of year	24,386	19,791
Net OPEB obligation, end of year	$ 27,770	$ 24,386

Minnesota State Colleges and Universities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2013 and 2012 were as follows:

Year Ended June 30
(In Thousands)

	2013	2012
Beginning of year net OPEB obligation	$ 24,386	$ 19,791
Annual OPEB cost	8,136	11,541
Employer contribution	(4,752)	(6,946)
End of year net OPEB obligation	$ 27,770	$ 24,386
Percentage contributed	58.41%	60.19%

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	$ -	$ 80,571	$ 80,571	0%	$ 914,791	8.81%

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 twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Operating Leases — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2013 and 2012, totaled $18,334,228 and $15,257,523, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net position.

In March 2005, an operating lease agreement between Zeller-World Trade, L.L.C. and the state of Minnesota on behalf of the System Office was executed for existing and additional expansion leased space in the amount of $11,025,612. The lease was effective beginning August 1, 2005 and was for a period of 10 years. In March 2011, the lease was amended to a 17 year period and a total amount of $18,558,680. Future minimum payments under the operating lease include the System Office's current share of real estate taxes and other operating expenses.

Future minimum operating lease payments for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2014	$ 14,189
2015	10,195
2016	6,144
2017	4,743
2018	4,007
2019-2023	11,190
2024-2028	4,441
2029-2033	742
Total	$ 55,651

Capital Leases — Minnesota State Colleges and Universities has entered into several capital lease agreements. Current and noncurrent portions of the capital leases are reported separately.

- In fiscal year 2003, Minnesota State University Moorhead entered into two leases with the Minnesota State University Alumni Foundation. One lease was a $3,940,000, thirty year capital lease for John Neumaier Hall Apartments. Another lease was a ten year capital lease for $525,000 for Hendrix Health Center.

- In fiscal year 2005, the Minnesota State University, Mankato entered into a 15 year, $3,281,428 (principal and interest) capital lease for an emergency generator.

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

- In fiscal year 2011, St. Cloud State University entered into lease agreements with Wedum St. Cloud Housing LLLC for the Coborn Plaza residence hall and Welcome Center space for a term of ten years with two successive options for five year extensions. The annual rent ranges from $3,579,960 to $4,165,032.

Income Leases — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2013 and 2012 totaled $2,057,377 and $1,138,341, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position.

Future expected income receipts for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2014	$ 1,322
2015	895
2016	731
2017	503
2018	103
2019-2023	112
Total	$ 3,666

12. TUITION, FEES, SALES AND ROOM AND BOARD

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

Year Ended June 30 (In Thousands)

	2013 Gross	2013 Scholarship Allowance	2013 Net	2012 Gross	2012 Scholarship Allowance	2012 Net
Tuition	$ 864,849	$ (322,650)	$ 542,199	$ 853,040	$ (314,493)	$ 538,547
Fees	90,094	(21,725)	68,369	89,724	(22,032)	67,692
Sales and room and board	136,235	(14,356)	121,879	133,301	(15,256)	118,045
Restricted student payments	106,955	(2,249)	104,706	109,698	(2,443)	107,255
Total	$ 1,198,133	$ (360,980)	$ 837,153	$ 1,185,763	$ (354,224)	$ 831,539

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	$ 128,174	$ 41,856	$ 82,958	$ 1,844	$ 254,832
Institutional support	123,975	34,267	74,935	1,640	234,817
Instruction	504,711	166,501	148,652	7,526	827,390
Public service	8,546	2,559	9,994	128	21,227
Research	4,138	1,089	3,896	51	9,174
Student services	138,853	42,234	77,436	2,193	260,716
Auxiliary enterprises	40,630	14,102	163,729	9,376	227,837
Scholarships & fellowships	-	-	43,782	-	43,782
Less interest expense	-	-	-	(22,758)	(22,758)
Total operating expenses	$ 949,027	$ 302,608	$ 605,382	$ -	$ 1,857,017

Year Ended June 30, 2012 (In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 127,253	$ 40,666	$ 73,055	$ 2,046	$ 243,020
Institutional support	114,454	34,649	81,769	1,821	232,693
Instruction	486,895	154,681	143,234	8,236	793,046
Public service	8,633	2,588	9,984	142	21,347
Research	4,694	1,201	3,970	480	10,345
Student services	133,981	40,397	76,359	2,194	252,931
Auxiliary enterprises	39,298	13,769	156,050	7,607	216,724
Scholarships & fellowships	-	-	34,931	-	34,931
Less interest expense	-	-	-	(22,526)	(22,526)
Total operating expenses	$ 915,208	$ 287,951	$ 579,352	$ -	$ 1,782,511

14. EMPLOYEE PENSION PLANS

Minnesota State Colleges and Universities 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, Minnesota State Colleges and Universities 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.

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 11,149
2012	10,856
2011	11,156

Teachers Retirement Fund (TRF)

Pension fund information is provided by the Minnesota Teachers Retirement Association, which prepares and publishes its own standalone comprehensive annual financial report including financial statements and required supplementary information. Copies of the report may be obtained directly from 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. Thereafter, a contribution rate increase will be phased in with a 0.5 percent increase, occurring every July 1 over two years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 11,432
2012	9,844
2011	9,691

General Employees Retirement Fund (GERF)

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

GERF is a cost sharing, multiple employer defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts, and related organizations participate in the plan. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for members are 1.2 percent and 1.7 percent. 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 GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6 percent and 7 percent, respectively. Effective January 1, 2011 and thereafter, employee and employer contribution rates were 6.25 percent and 7.25 percent, respectively. Actual contributions were 100 percent of required contributions.

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 1,167	$ 986
2012	1,229	1,037
2011	1,322	1,128

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year	Employer	Employee
2013	$ 27,993	$ 20,931
2012	26,291	19,685
2011	26,804	20,062

Supplemental Retirement Plan (SRP)

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

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	$ 6,000 to 60,000	$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State College and Faculty Association	6,000 to 56,000	2,500
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2013	$ 14,926
2012	14,645
2011	15,139

Voluntary Retirement Savings Plans

Minnesota State Colleges and Universities offers two voluntary programs to employees for retirement savings. The Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is 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 has 4,215 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 has 2,483 participants.

15. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities Revenue fund issues revenue bonds to finance residence halls, student unions, parking facilities and wellness centers. The Minnesota Higher Education Facilities Authority sold bonds to finance Vermilion Community College dormitories and modular housing. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory. Also see Note 8, Long Term Obligations, for additional information on the pledging of the revenues.

Summary financial information for Revenue Fund for the fiscal years ended June 30, 2013 and 2012 follows.

Summary Information for Revenue Fund
(In Thousands)

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 81,700	$ 80,419
Restricted assets	139,858	149,568
Noncurrent assets	-	1,200
Capital assets, net	334,980	277,628
Total assets	556,538	508,815
Liabilities		
Current liabilities	25,886	33,979
Noncurrent liabilities	313,069	265,093
Total liabilities	338,955	299,072
Net Position		
Net investment in capital assets	121,093	108,632
Restricted	96,490	101,111
Total net position	$ 217,583	$ 209,743
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 109,368	$ 109,461
Depreciation expense	(16,196)	(13,925)
Other operating expenses	(78,410)	(72,725)
Net operating income	14,762	22,811
Nonoperating revenues (expenses)		
Interest income	674	741
Interest expense	(10,615)	(10,412)
Private grants	-	9,082
Capital contributions	3,331	-
Loss on disposal of capital assets	(312)	(78)
Total nonoperating revenues (expenses)	(6,922)	(667)
Change in net position	7,840	22,144
Net position, beginning of year	209,743	189,506
Change in accounting principle	-	(1,907)
Net position, beginning of year, as restated	209,743	187,599
Net position, end of year	$ 217,583	$ 209,743
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 35,211	$ 37,192
Noncapital and related financing activities	-	9,082
Capital and related financing activities	(3,641)	(89,898)
Investing activities	213	595
Net increase (decrease) in cash and cash equivalents	31,783	(43,029)
Cash and cash equivalents, beginning of year	160,064	203,093
Cash and cash equivalents, end of year	$ 191,847	$ 160,064

Summary financial information for Itasca Community College's Residence Halls (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2013 and 2012, respectively, follows.

Itasca Community College Financial Summary
(In Thousands)

	2013	2012
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 89	$ 12
Restricted assets	293	397
Capital assets, net	3,190	3,308
Total assets	3,572	3,717
Liabilities		
Current liabilities	146	116
Noncurrent liabilities	1,840	1,946
Total liabilities	1,986	2,062
Net Assets		
Net investment in capital assets	1,220	1,267
Restricted	293	312
Unrestricted	73	76
Total net position	$ 1,586	$ 1,655
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 450	$ 431
Depreciation expense	(119)	(119)
Other operating expenses	(205)	(209)
Net operating income	126	103
Nonoperating revenues (expenses)		
Interest/Other income	29	8
Interest expense	(139)	(117)
Total nonoperating revenues (expenses)	(110)	(109)
Changes in net position	16	(6)
Net position, beginning of year	1,655	1,661
Change in accounting principle	(85)	-
Net position, beginning of year, as restated	1,570	1,655
Net position, end of year	$ 1,586	$ 1,655
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 243	$ 245
Noncapital and related financing activities	150	-
Capital and related financing activities	(333)	(207)
Investing activities	21	(13)
Net increase in cash and cash equivalents	81	25
Cash and cash equivalents, beginning of year	(2)	(27)
Cash and cash equivalents, end of year	$ 79	$ (2)

16. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2013
(In Thousands)

Institution Name*	Project	Total Cost	Spent to Date	Balance	Completion Date
Century	Academic Partners Classroom Addition	$ 5,000	$ 3,000	$ 2,000	Mar 2014
Dakota	Transportation Lab Renovation	7,230	3,855	3,375	Dec 2013
Metropolitan	Student Center	11,600	6	11,594	Oct 2014
Metropolitan	Parking Ramp	17,605	274	17,331	Nov 2014
Minneapolis	Workforce Center Renovation	14,882	12,730	2,152	Aug 2013
Moorhead	Livingston Libraray Renovation	12,100	8,900	3,200	June 2014
North Hennepin	Center for Business & Technology	16,904	13,635	3,269	Aug 2013
North Hennepin	Bioscience & Health Careers Addition	27,139	4,875	22,264	Aug 2014
Ridgewater	Willmar Technical Instruction Lab	14,051	2,303	11,748	Sept 2014
Rochester	Workforce Center Co-Location Addition	8,476	288	8,188	Sept 2014
St. Cloud	Science and Engineering Facility	44,851	37,905	6,946	Aug 2013
St. Cloud	Nat'l Hockey Center Renovation	17,661	14,450	3,211	Aug 2013
St. Cloud	Shoemaker Hall Renovation	18,097	2,241	15,856	May 2014
South Central	Classroom Renovation and Addition	13,775	2,303	11,472	Aug 2014

* Century College; Dakota County Technical College; Metropolitan State University; Minneapolis Community & Technical College; Minnesota State University Moorhead; North Hennepin Community College; Ridgewater College; Rochester Community & Technical College; St. Cloud State University; and South Central College.

17. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. Some colleges and universities also purchase optional physical damage coverage for their newest or most expensive vehicles.

While property and casualty coverage is required by Minnesota State Colleges and Universities' policy, colleges and universities may select optional coverage such as international accident, international liability, and professional liability for employed physicians and student health services professional liability.

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2013 and 2012.

Coverage Type	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	$1,000,000
Primary re-insurer coverage	$1,000,001 to $25,000,000
Multiple re-insurers' 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

Minnesota State Colleges and Universities retains the risk of loss. Minnesota State Colleges and Universities did not have any settlements in excess of coverage in the last three years.

The Minnesota Risk Management Fund purchases other insurance on the open market for some campuses. These generally include student intern professional liability, dental clinics professional liability, aviation insurance, and a variety of bonds.

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

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

The following table presents changes in the balances of workers' compensation 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	$ 6,937	$ 2,443	$ 4,402	$ 4,978
Fiscal Year Ended 6/30/12	7,717	3,477	4,257	6,937

18. COMPONENT UNITS

The following legally separate tax exempt foundations affiliated with Minnesota State Colleges and Universities are included as a major component unit of Minnesota State Colleges and Universities. The Bemidji State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., St. Cloud State University Foundation, Winona State University Foundation, Southwest Minnesota State University Foundation, Metropolitan State University Foundation, Century College Foundation, and Fergus Area College Foundation are formed for the purpose of obtaining and disbursing funds for the sole benefit of their college or university.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, Minnesota State Colleges and Universities presents the combined statement of financial position and the combined statement of activities of the foundations on separate pages of the financial statements.

Minnesota State Colleges and Universities received $13,807,278 and $13,265,343 in fiscal years 2013 and 2012, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State Colleges and Universities and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

The seven state universities and two colleges do not appoint any members of their respective boards and the resources held by the foundations can only be used by, or for the benefit of, the associated university or college. Each foundation's relationship with their institution is such that exclusion of the foundation's financial statements would cause the Minnesota State Colleges and Universities financial statements to be misleading or incomplete. The foundations are considered a component unit of their university or college and their statements are discretely presented in the universities' and colleges' financial statements.

The foundations 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 and reported as follows:

- *Unrestricted*: those assets that are not subject to donor imposed stipulations.
- *Temporarily restricted*: those assets subject to donor imposed restrictions as to the use of those donated assets.
- *Permanently restricted*: those assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes

Investments — The foundations' 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	Level 1	Level 2	Level 3
Money market	$ 3,819	$ 3,570	x		
Fixed income	6,251	6,628	x	x	
Mutual funds	96,278	82,573	x		
Equity securities	22,906	21,711	x		
Certificate of deposits	5,566	4,731		x	
Bonds/U.S treasuries	5,696	5,523		x	
Real estate	1,737	1,996			x
Other	3,590	3,346		x	x
Total	$ 145,843	$ 130,078			

Capital Asset — Summaries of the foundations' capital assets for fiscal years 2013 and 2012 follow:

Schedule of Capital Assets at June 30 (In Thousands)	2013	2012
Capital assets, not depreciated		
Land	$ 2,421	$ 2,421
Total capital assets, not depreciated	2,421	2,421
Capital assets, depreciated:		
Leasehold improvments	107	-
Buildings and improvements	23,227	23,864
Equipment	980	975
Total capital assets, depreciated	24,314	24,839
Total accumulated depreciation	(7,290)	(6,598)
Total capital assets depreciated, net	17,024	18,241
Total capital assets, net	$ 19,445	$ 20,662

Long-Term Obligations— Payment schedule of the foundations' long-term obligations follow. Excluded from the table below is St. Cloud State University Foundation's unamortized bond premium of $968,127, which is amortized over the life of the bonds.

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2014	$ 2,454
2015	3,953
2016	3,274
2017	3,298
2018	1,889
Thereafter	16,090
Total	$ 30,958

In May 2012, the St. Cloud State University Foundation issued $10,220,000 in refunding bonds (Series 2012) to refund $11,345,000 of revenue. The refunding resulted in $1,586,535 gross debt service savings over the next 11 years, and an economic gain of $1,372,639.

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 1,091	$ 11,674	$ 96,007	$ 108,772
Change in value of trusts	44	2,634	29	2,707
Contributions	836	226	5,949	7,011
Investment income	61	4,810	93	4,964
Amounts appropriated for expenditures	476	(1,969)	(126)	(1,619)
Other transfers	(78)	82	303	307
Net assets, end of year	$ 2,430	$ 17,457	$ 102,255	$ 122,142

Changes in endowment net assets as of June 30, 2012 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2012
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 464	$ 11,951	$ 90,649	$ 103,064
Change in value of trusts	(2)	(191)	9	(184)
Contributions	837	734	4,739	6,310
Investment income	57	1,242	(284)	1,015
Amounts appropriated for expenditures	(210)	(2,232)	(26)	(2,468)
Other transfers	(55)	170	920	1,035
Net assets, end of year	$ 1,091	$ 11,674	$ 96,007	$ 108,772

19. ACTIVITIES WITH THE STATE OF MINNESOTA

Lending Activity — The Minnesota State Colleges and Universities general operating fund is a part of the state's general treasury account. During fiscal year 2013 and 2012 the state of Minnesota borrowed $675 million and $570 million respectively from Minnesota State Colleges and Universities general fund for cash flow purposes resulting from changes in the timing of the state tax revenue. The state of Minnesota repaid this with interest in full during fiscal years 2013 and 2012.

General Obligation Bond Issuances — In August 2013 $58.0 million in general obligation state bonds were issued at a true interest rate of 3.35 percent. In November 2013, an additional $43.4 million in general obligation bonds were issued at a true interest rate of 3.10 percent. Minnesota State Colleges and Universities pays one third of the debt service on $50.0 million and $34.8 million of the August issue and November issue, respectively, over the life of the bonds. The first debt service payment on these bonds was in November 2013.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
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	$ —	$ 94,235	$ 94,235	0.00%	$ 876,585	10.75%
July 1, 2008	—	92,551	92,551	0.00	894,035	10.35
July 1, 2010	—	108,409	108,409	0.00	978,480	11.08
July 1, 2012	—	80,571	80,571	0.00	914,792	8.81

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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 Minnesota State Colleges and Universities (MnSCU), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MnSCU's basic financial statements, and have issued our report thereon dated November 22, 2013. Our report includes references to other auditors who audited the financial statements of Minnesota State University Mankato, Minnesota State University Moorhead, Normandale Community College, Winona State University, Hennepin Technical College, Bemidji State University, Century College, Saint Could State University, and Minnesota State Community and Technical College (collectively, the "Individual Colleges and Universities"), which represent 53 percent of the assets and 51 percent of the revenues of MnSCU for fiscal year 2013. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Individual Colleges and Universities, is based solely on the reports of the other auditors. We also did not audit the financial statements of Bemidji State University Foundation, Century College Foundation, Fergus Area College Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 78 percent of the total assets and 78 percent of the total revenues of the discretely presented component units. Those statements were also audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is also based solely on the reports of the other auditors. The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnesota State Colleges and Universities' 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 MnSCU's internal control. Accordingly, we do not express an opinion on the effectiveness of MnSCU's internal control.

Internal Control Over Financial Reporting (Continued)

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 MnSCU's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Clifton Larson Allen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 22, 2013

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