BEMIDJI STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NORTHWEST TECHNICAL COLLEGE

BEMIDJI STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 and 2013

Prepared by:

Chief Financial Officer
Deputy Hall
Bemidji State University
1500 Birchmont Drive NE
Bemidji, MN 56601-2699

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BEMIDJI STATE UNIVERSITY

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

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INTRODUCTION

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Bemidji State University
Northwest Technical College

OFFICE OF THE PRESIDENT

218-755-2011 / FAX 218-755-2749 / president@bemidjistate.edu

November 12, 2014

Minnesota State Colleges and Universities
Board of Trustees
Dr. Steven Rosenstone, Chancellor
500 Wells Fargo Place
30 East Seventh Street
St. Paul, MN 55101

Dear Members of the Board of Trustees and Chancellor Rosenstone:

I am pleased to submit the audited financial statements for Bemidji State University and Northwest Technical College for the fiscal year ending June 30, 2014. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the year. I am pleased to report that the financial status of our institutions continues to be stable during a time of transitioning to a smaller base of operating revenue. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report. The responsibility for the accuracy, fairness, reliability and completeness of this report rests with the Finance and Administration staff from Bemidji State University and Northwest Technical College in partnership with the Finance Division from the Minnesota State Colleges and Universities system office.

Throughout fiscal year 2014, the university faculty, staff and administrators continued their work on a new Strategic Plan. We have, as a university, re-identified our mission, vision and values. During the next three years, we will continue and increase our connections to our constituents; develop and reinforce the meaning/relevance/power of the liberal arts; and redouble our emphasis on innovation, access, persistence and student success. We will strengthen our capacity to provide an education of enduring worth; execute the Imagine Tomorrow campaign; partner with Minnesota State Colleges and Universities in the execution of the strategic planning process known as Charting the Future; and strengthen the institutional performance metrics. During the next fiscal year, we will identify a timeline and accountability measures for achieving our goals.

1500 Birchmont Dr. NE, Bemidji, MN 56601-2699 USA www.bemidjistate.edu BSU NTC 905 Grant Avenue SE, Bemidji, MN 56601-4907 USA www.ntcmn.edu

As previously noted, one component of the Strategic Plan is to launch the Imagine Tomorrow capital campaign. The campaign, led by the Bemidji State University Foundation, is in its third year and is already providing increased access and support for our students as well as enhancing our academic programs and building a robust annual fund yielding greater flexibility and growth. In the current fiscal year, our scholarship recipients are projected to be awarded $2,772,394 in scholarship funds, up from $1,669,689 just four years ago; an increase of 66 percent. Scholarships, a strong curriculum and a healthy annual fund all increase opportunities for our students.

Strategic enrollment management continues to be critical in supporting and enhancing student success. The Strategic Enrollment Management Committee is developing a road map to sustain Bemidji State University's enrollment and the retention of those students. Among the tasks for this committee there is the ideation, discussion, review, development, monitoring and evaluation of all ideas, strategies and actions relating to the marketing, recruitment, retention, and graduation of students.

During fiscal year 2014, Bemidji State University and Northwest Technical College continued to create new collaborations and partnerships within Bemidji and the greater Minnesota region. The progress made in building these relationships, such as Impact 20/20, and the nurturing of existing relationships, like the Tribal College Consortium and the Minnesota Innovation Institute, helps to secure a relevant and secure future for both institutions.

Fiscal year 2014 also brought about a plan for the reinvention of Northwest Technical College. The report of the Reinvention Task Force calls for extensive changes to the college, ranging from a new model for leadership, to increasing the college's ability to create and maintain partnerships with a broad variety of constituencies, to radical changes in the basic philosophical models that guide the way the college delivers education to its students. Many areas and specific plans will be addressed during the next fiscal year. This opportunity to fundamentally change the environment at the college will enable both institutions to be productive and stable well into the future.

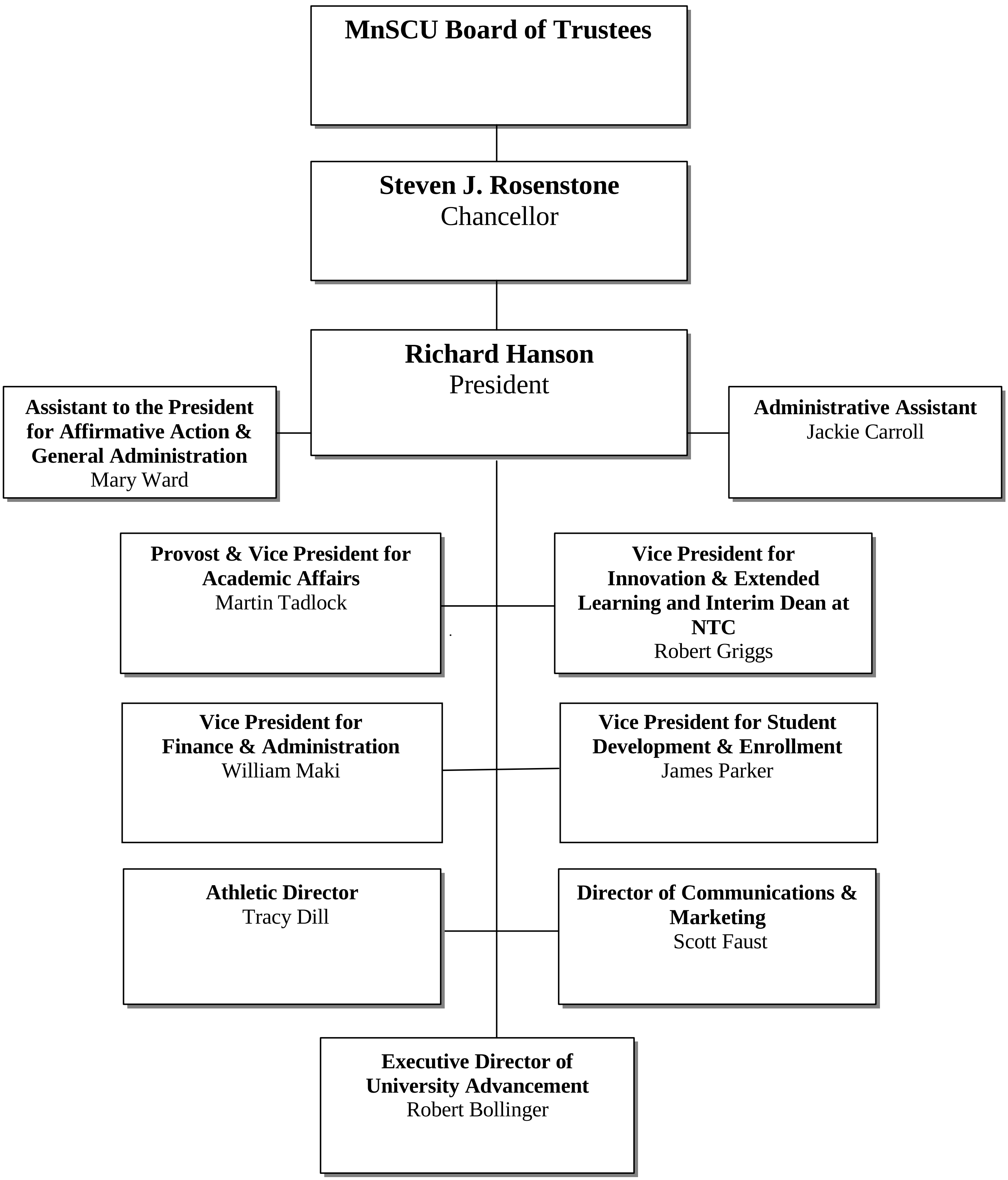
Our financial sustainability is not only dependent on our continued success in developing new revenue streams for operations but also in developing new partnerships and collaborations. We will continue to work diligently to shape our own destiny, fulfill our public mission, enrich our learning environment, impact students, sharpen our educational focus, achieve true distinction and secure our future.

Sincerely,

Richard A. Hanson, Ph.D.
President

Bemidji State University/Northwest Technical College

Organizational Chart



The combined financial position and activities of Bemidji State University and Northwest Technical College are included in this report and referred to within this document as the University unless specifically noted. The University is one of 31 colleges and universities included in the Minnesota State Colleges and Universities Annual Financial Report which is issued separately.

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

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

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

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 Bemidji State University (the University), a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Bemidji State University as of June 30, 2014, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the University as of June 30, 2013, were audited by other auditors whose report dated November 15, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bemidji State University's basic financial statements. The schedules of components of Bemidji State University are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of components of Bemidji State University are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the schedules of components of Bemidji State University are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Trustees
Minnesota State Colleges and Universities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of Bemidji State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bemidji State University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Bemidji State University, a member of the Minnesota State Colleges and Universities system for the years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section.

Bemidji State University (BSU) and Northwest Technical College (NTC) are aligned under the leadership of one president. The institutions share administration, business services, information technology, select student services, and some academic areas. BSU and NTC maintain separate institutional accreditation from the Higher Learning Commission and all student, personnel, and financial records are recorded in separate integrated student records systems. For financial statement purposes, the records of BSU and NTC are combined and referred to within this document as the University unless specifically noted.

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

BSU is a comprehensive public institution of higher learning founded in 1919, with current student enrollment of approximately 4,500 undergraduate students and 215 graduate students from nearly all 50 states and approximately 35 foreign countries. The campus is comprised of 89 acres with 19 academic/student services buildings, six residence buildings, and a 240 acre private forest. BSU offers more than 65 majors and pre-professional programs. A select number of graduate programs are offered. The online programs offered through professional education have the highest enrollment. BSU operates with approximately 450 faculty members and 200 staff.

NTC was established in 1965 and has a current student enrollment of approximately 1,200 students. NTC offers 23 areas of study in six divisions – Business; Environmental Technology, Industrial Technology and General Technology; General Education; Health; Human and Protective Services and the Bemidji School of Nursing. NTC operates with approximately 85 faculty members and 40 staff.

NTC is also the fiscal agent for Distance Minnesota, an online inter-institutional consortium as well as state-wide collaborations such as Minnesota Department of Veterans Affairs and Minnesota Department of Education. Over half of its 1,200 students have courses through this consortium. The membership to Distance Minnesota includes founding members – Alexandria Technical and Community College, Northland Community and Technical College and Northwest Technical College, and a university partner – Bemidji State University.

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2014, and ended at June 30 with assets of $117.9 million and liabilities of $42.3 million compared to fiscal year 2013 with assets of $117.5 million and liabilities of $42.9 million and fiscal year 2012 with assets of $117.8 million and liabilities of $43.6 million.

Net position, which represents the residual interest in the University's assets after liabilities are deducted, is comprised of:

- Net investment in capital assets was $47.5 million for fiscal year 2014 compared with $46.5 million in fiscal year 2013 and $47.6 million in fiscal year 2012.

- Restricted net position was $8.0 million for fiscal year 2014, $7.2 million for fiscal year 2013 and $7.5 million for fiscal year 2012.

- Unrestricted net position was $20.1 million for fiscal year 2014, $20.9 million for fiscal year 2013, and $19.1 million for fiscal year 2012.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into three net position categories. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements.

STATEMENTS OF NET POSITION

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

A summary of the University's assets, liabilities, and net position at June 30, 2014, 2013, and 2012 follows:

Summarized Statements of Net Position
(In Thousands)

	2014	2013	2012
Assets			
Current assets	$ 41,567	$ 41,020	$ 38,731
Current restricted assets	2,961	2,904	3,161
Noncurrent assets			
Student loans receivable, net	4,209	4,295	4,148
Capital assets, net	69,189	69,275	71,766
Total assets	117,926	117,494	117,806
Liabilities			
Current liabilities	10,767	10,259	10,031
Noncurrent liabilities	31,527	32,595	33,520
Total liabilities	42,294	42,854	43,551
Net position	$ 75,632	$ 74,640	$ 74,255

Unrestricted current assets consist primarily of cash, cash equivalents and investments which total $37.1 million at June 30, 2014, $36.1 million at June 30, 2013, and $33.7 million at June 30, 2012. This represents approximately 5.9 months, 6.0 months, and 5.9 months of operating expenses (excluding depreciation) for fiscal years 2014, 2013 and 2012, respectively.

Included in current assets are accounts receivable. The accounts receivable balance ending June 30, 2014 was $2.1 million comprised primarily of tuition and fees, room and board charges, as well as, Distance Minnesota contract billings. The accounts receivable balance ending June 30, 2013 was $2.6 million while accounts receivable balance ending June 30, 2012 was $2.6 million. The decrease in accounts receivable for the year ended June 30, 2014 compared to the June 30, 2013 and June 30, 2012 balance is due primarily to the timing of the Distance Minnesota contract billings.

Current liabilities consist primarily of accounts payable and salaries and related benefits payable. Accounts payable was $1.7 million at June 30, 2014, $1.6 million at June 30, 2013 and $1.3 million at June 30, 2012. Salaries and benefits payable was $4.9 million at June 30, 2014, $4.5 million at June 30, 2013 and $3.7 million June 30, 2012. The net increase in salaries and benefits payable over the previous year is due to the retroactive pay adjustments processed after June 30, 2014 for recently settled employment contracts.

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position at June 30, 2014, 2013, and 2012 is summarized as follows:

Summarized Net Position
(In Thousands)

	2014	2013	2012
Net investment in capital assets	$ 47,469	$ 46,522	$ 47,620
Restricted expendable, bond covenants	4,191	3,555	3,509
Restricted expendable, other	3,837	3,672	3,967
Unrestricted	20,135	20,891	19,159
Total net position	$ 75,632	$ 74,640	$ 74,255

Net investment in capital assets, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt. Restricted net position includes funding received for capital projects, revenue bond covenants and the University's capital contribution for Perkins loans.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement a long-range plan to modernize its complement of older facilities, balanced with some new construction. Capital outlay totaled $5.3 million in fiscal year 2014, $2.8 million in fiscal year 2013, and $9.4 million in fiscal year 2012. Capital expenses are primarily comprised of replacement and renovation of facilities, as well as significant investments in equipment. In fiscal year 2014, project expenditures include design work for the Business College renovation project in Memorial Hall, installation of artificial turf for the football stadium as well as completion of several remodeling projects in various campus buildings. In fiscal year 2013, the primary outlays were for completion of the replacement of the American Indian Resource Center steam line as well as completion of the Education Arts building roof. In fiscal year 2012, the largest capital expenditures were for the renovation of Birch Hall and the plumbing repair project in the physical education building.

The largest projects in construction in progress as of June 30, 2014 were the on-going design work for the Business College remodel and the renovation of Bensen Hall for the School of Nursing. Construction in progress as of June 30, 2013 includes design work for the Business College remodeling project and the Chemistry Lab remodeling project. Construction in progress as of June 30, 2012 includes the replacement of the Education Arts building roof, cooling tower improvements and the replacement of the American Indian Resource Center steam line. Additional information for capital project commitments can be found in Note 16 to the financial statements.

Long-term debt consisting primarily of general obligation bonds and revenue bonds totaled $23.1 million at June 30, 2014, $24.2 million at June 30, 2013, and $25.3 million at June 30, 2012. The general obligation bonds are primarily issued to finance construction of buildings and repairs. Additional information on capital and debt activities can be found in Notes 6 and 8 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenues. A summarized statement for the years ended June 30, 2014, 2013 and 2012, respectively follows:

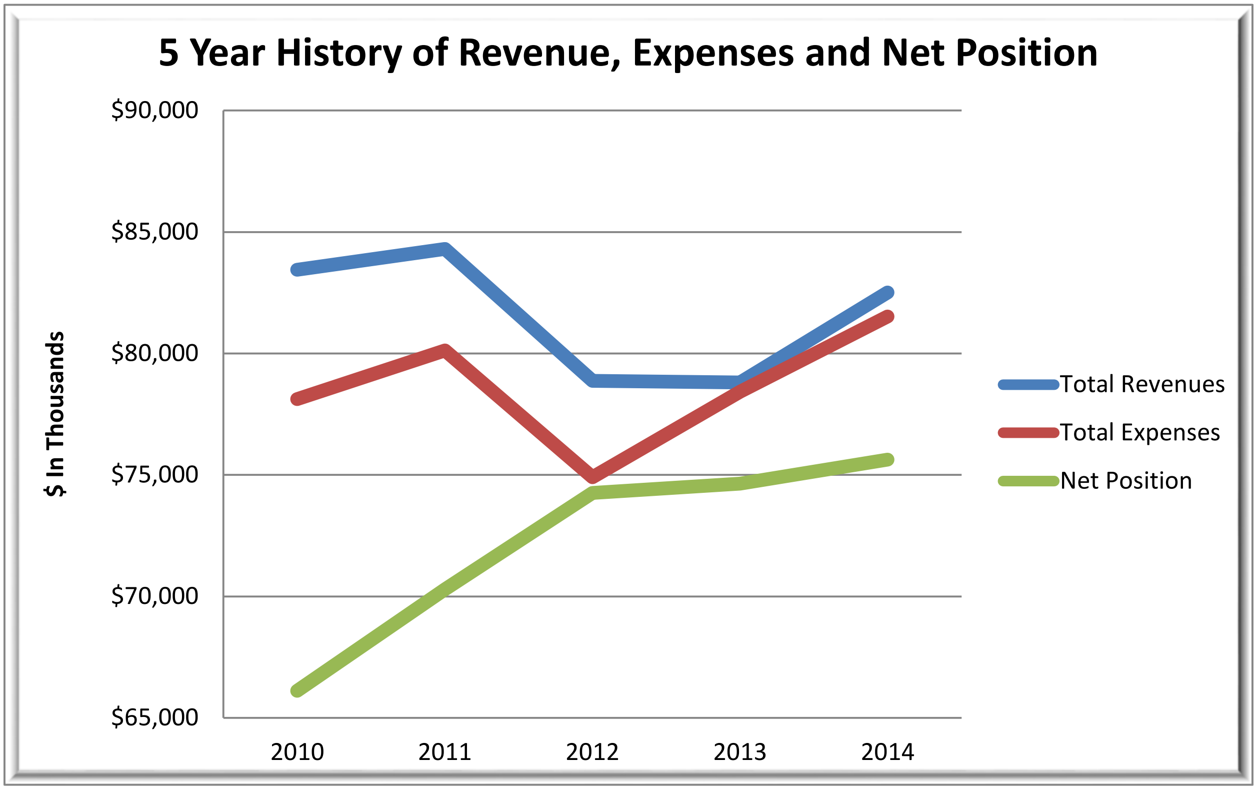
Summarized Statements of Revenues, Expenses and Changes in Net Position
(In Thousands)

	2014	2013	2012
Operating revenues:			
Tuition, fees and sales, net	$ 27,672	$ 27,673	$ 28,826
Restricted student payments, net	10,286	9,619	9,611
Other income	598	555	414
Total operating revenues	38,556	37,847	38,851
Nonoperating revenues:			
State and capital appropriations	24,150	21,321	21,349
Private grants and interest income, net	3,470	2,081	2,036
Federal and state grants	16,334	17,562	16,631
Total nonoperating revenues	43,954	40,964	40,016
Total revenues	82,510	78,811	78,867
Operating expenses:			
Salaries and benefits	51,156	49,021	46,534
Supplies, services and other	22,684	21,344	21,004
Depreciation	5,334	5,257	5,236
Financial aid, net	1,346	1,757	1,045
Total operating expenses	80,520	77,379	73,819
Nonoperating expenses	998	1,047	1,089
Total expenses	81,518	78,426	74,908
Change in net position	992	385	3,959
Net Position, beginning of year	74,640	74,255	70,296
Net Position, end of year	$ 75,632	$ 74,640	$ 74,255

Tuition, fees, and state appropriations are the primary sources of funding for the University's academic and residential life programs. Net tuition, fees and sales revenue remained stable in fiscal year 2014, declined by 4.0 percent in fiscal year 2013 and declined by 2.1 percent in fiscal year 2012. The net restricted student payments increased 6.9 percent on 2014, remained stable in fiscal year 2013, and increased by 0.5 percent in fiscal year 2012.

Total operating expenses increased $3.1 million or 4.1 percent in 2014 in addition to increasing $3.6 million or 4.8 percent between fiscal year 2013 and 2012. Salaries and benefits increased $2.1 million or 4.4 percent in fiscal year 2014 in addition to increasing $2.5 million or 5.3 percent between fiscal years 2013 and 2012. Fiscal year 2014 included collective bargaining agreements which ranged from 3.0 percent to 3.9 percent increases as well as progression step increases. In addition, the increase in benefits includes an increase in health insurance premiums of approximately 8.0 percent. Fiscal year 2013 included collective bargaining increases for fiscal year 2013 which generally ranged from 2.5 percent to 4.6 percent increase, as well as, progression step increases. The increase in expenditures also includes the impact of the approximately 10.0 percent increases in the employer portion of the insurance premiums.

The following chart depicts a five year history of revenues, expenses and net position:



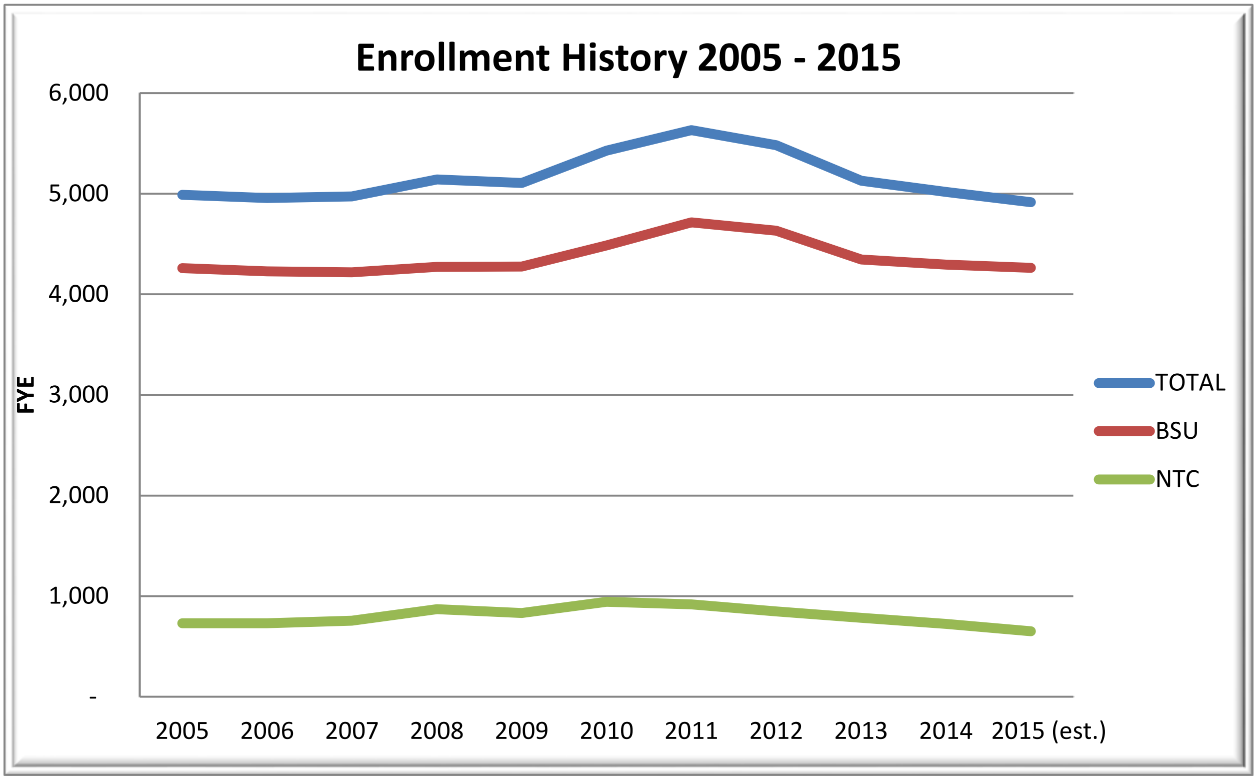
FOUNDATION

The Bemidji State University Foundation (BSU Foundation) is a component unit of the University. As such, the separately audited financial statements for the BSU Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. The BSU Foundation contributed $1,076,785, $837,095, and $766,413, to University scholarships for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Additional information regarding the BSU Foundation can be found in Note 18 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Maintaining enrollments and meeting net tuition and fee revenue budget targets is critical to the financial stability of the University. Over the past three fiscal years net operating revenue has been relatively stable while operating expenses have grown at a faster rate, especially salaries and benefits. Initial fall 2014 enrollment numbers indicate that this recent trend will continue for fiscal year 2015. As the University budgets for the 2016 and 2017 biennium are established, it will be important to reverse this trend by building budget scenarios that ensure a greater likelihood that current year revenues will exceed current year expenses.

The following graph depicts enrollment history for BSU and NTC:



Fiscal year 2015 will likely be the fifth consecutive year that full year equivalent (FYE) enrollment will decline at BSU and the sixth consecutive year FYE enrollment will decline at NTC. Strategic enrollment strategies are being implemented to increase enrollment at both institutions. At BSU, new online and off-campus programs are being developed to target new markets. Examples include more emphasis on recruiting international students and bringing successful programs to the Minneapolis and St. Paul area. A partnership with Winona State University began fall semester 2014 that brings an intensive English language center to campus. BSU has partnered with other MnSCU colleges in the Twin Cities to deliver programs such as professional education, nursing, and business administration.

NTC is in the process of being reinvented to ensure it has a mission and vision that is financially sustainable as a stand-alone accredited institution. Extensive changes to the college, ranging from a new model for leadership, to increasing the college's ability to create and maintain partnerships with a broad variety of constituencies, to radical changes in the basic philosophical models that guide the way NTC delivers education to its students are currently being planned. A new master academic plan for NTC will be completed during fall semester 2014.

The state legislature froze undergraduate tuition rates for fiscal years 2014 and 2015. The state of Minnesota's improved financial condition allowed the legislature to allocate state appropriation to backfill funds that would have been garnered if tuition rates had increased three percent each year. This action slows the increased burden students have seen the past several years and has been viewed positively by many constituents. Having no rate increase and a declining or flat enrollment base will continue to put short-term pressure on BSU and NTC's revenue streams. Since the majority of our funding is from tuition revenue, it will be important to manage expenses at a rate that is less than the growth of revenue from state appropriations.

The capital campaign for BSU, which was publically launched on September 27, 2013, has created significant asset growth in the BSU Foundation's portfolio. The first campaign in the University's history currently has exceeded $30.0 million in pledges and has already increased the BSU Foundation's investments by over fifty percent since the campaign began. The BSU Foundation ended fiscal year 2014 with nearly $23.0 million in investments. The campaign has already helped increase the amount of scholarships the University is able to award to new and returning students. Private funding will become and more important to the success of BSU. The BSU Foundation has developed a solid structure that has yielded impressive results.

BSU is currently in the process of making significant investments in its physical plant. A $12.8 million capital project appropriation resulted in the demolition of one building and the renovation of one significantly underutilized building which will be completed for fall 2015. The University is also currently designing a $16.0 million project for future capital bonding consideration that would reduce square footage on campus and renovate space in as many as six other buildings. While the University will be incurring additional debt service, completion of these projects will save operating costs and reduce deferred maintenance by over $15.0 million.

Both BSU and NTC will continue to use master academic and strategic plans as a guide to invest and reallocate resources moving forward. The expectation is that new resources to help initiate new ideas will need to come primarily from external funds. It will continue to be critical that we create opportunities that provide new base revenues and enrollments to support our mission.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the University's financial position. Those interested in the University's finances should direct questions concerning any of the information provided in this report or requests for additional financial information to:

Chief Financial Officer
Deputy Hall
Bemidji State University
1500 Birchmont Drive NE
Bemidji, MN 56601-2699

BEMIDJI STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 36,721	$ 35,790
Investments	383	291
Grants receivable	498	586
Accounts receivable, net	2,079	2,553
Prepaid expense	954	983
Inventory	289	237
Student loans, net	625	534
Other assets	18	46
Total current assets	41,567	41,020
Current Restricted Assets		
Cash and cash equivalents	2,961	2,904
Total current restricted assets	2,961	2,904
Noncurrent Assets		
Student loans, net	4,209	4,295
Capital assets, net	69,189	69,275
Total noncurrent assets	73,398	73,570
Total Assets	117,926	117,494
Liabilities		
Current Liabilities		
Salaries and benefits payable	4,927	4,460
Accounts payable	1,654	1,552
Unearned revenue	1,194	1,289
Payable from restricted assets	120	240
Interest payable	156	163
Funds held for others	269	266
Current portion of long-term debt	1,546	1,517
Other compensation benefits	901	772
Total current liabilities	10,767	10,259
Noncurrent Liabilities		
Noncurrent portion of long-term debt	21,594	22,648
Other compensation benefits	5,492	5,485
Capital contributions payable	4,441	4,462
Total noncurrent liabilities	31,527	32,595
Total Liabilities	42,294	42,854
Net Position		
Net investment in capital assets	47,469	46,522
Restricted expendable, bond covenants	4,191	3,555
Restricted expendable, other	3,837	3,672
Unrestricted	20,135	20,891
Total Net Position	$ 75,632	$ 74,640

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 52	$ 108
Investments	22,750	18,511
Pledges and contributions receivable, net	2,391	2,119
Other receivables and other assets	12	19
Total current assets	25,205	20,757
Noncurrent Assets		
Long-term pledges receivable	4,485	5,149
Annuities/remainder interests/trusts	132	141
Property and equipment, net	300	294
Other assets	36	34
Total noncurrent assets	4,953	5,618
Total Assets	$ 30,158	$ 26,375
Liabilities and Net Assets		
Current Liabilities		
Salaries and benefits payable	$ 26	$ 28
Accounts payable	42	60
Interest payable	3	3
Annuities payable	23	22
Escrow deposit	100	-
Total current liabilities	194	113
Noncurrent Liabilities		
Annuities payable	173	180
Notes payable	732	732
Total noncurrent liabilities	905	912
Total Liabilities	1,099	1,025
Net Assets		
Unrestricted	5,978	5,454
Temporarily restricted	5,152	3,573
Permanently restricted	17,929	16,323
Total Net Assets	29,059	25,350
Total Liabilities and Net Assets	$ 30,158	$ 26,375

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Operating Revenues		
Tuition, net	$ 22,400	$ 22,440
Fees, net	2,680	2,659
Sales, net	2,592	2,574
Restricted student payments, net	10,286	9,619
Other income	598	555
Total operating revenues	38,556	37,847
Operating Expenses		
Salaries and benefits	51,156	49,021
Purchased services	12,614	11,110
Supplies	3,945	4,089
Repairs and maintenance	1,717	1,543
Depreciation	5,334	5,257
Financial aid, net	1,346	1,757
Other expense	4,408	4,602
Total operating expenses	80,520	77,379
Operating loss	(41,964)	(39,532)
Nonoperating Revenues (Expenses)		
Appropriations	22,267	20,357
Federal grants	11,893	12,625
State grants	4,441	4,937
Private grants	3,210	1,861
Interest income	260	220
Interest expense	(988)	(1,046)
Total nonoperating revenues (expenses)	41,083	38,954
Loss Before Other Revenues, Expenses, Gains, or Losses	(881)	(578)
Capital appropriations	1,883	964
Loss on disposal of capital assets	(10)	(1)
Change in net position	992	385
Total Net Position, Beginning of Year	74,640	74,255
Total Net Position, End of Year	$ 75,632	$ 74,640

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Support and Revenue					
Contributions	$ 1,448	$ 2,193	$ -	$ 3,641	$ 3,842
Endowment gifts	-	-	1,601	1,601	3,503
Investment income	319	1,879	-	2,198	1,142
Unrealized gains	-	-	-	-	2
Program income	28	61	-	89	89
Other income	10	-	-	10	11
Net assets released from restrictions	2,549	(2,554)	5	-	-
Total support and revenue	4,354	1,579	1,606	7,539	8,589
Expenses					
Program services					
Scholarships	1,077	-	-	1,077	837
Special projects	1,884	-	-	1,884	1,254
Total program services	2,961	-	-	2,961	2,091
Supporting services					
Management and general	189	-	-	189	135
Fundraising	680	-	-	680	731
Total supporting services	869	-	-	869	866
Total expenses	3,830	-	-	3,830	2,957
Change in Net Assets	524	1,579	1,606	3,709	5,632
Net Assets, Beginning of Year	5,454	3,573	16,323	25,350	19,718
Net Assets, End of Year	$ 5,978	$ 5,152	$ 17,929	$ 29,059	$ 25,350

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	$ 38,718	$ 37,702
Cash repayment of program loans	692	593
Cash paid to suppliers for goods or services	(22,517)	(21,180)
Cash payments for employees	(50,534)	(47,944)
Financial aid disbursements	(1,367)	(1,769)
Cash payments for program loans	(765)	(754)
Net cash flows used in operating activities	(35,773)	(33,352)
Cash Flows from Noncapital Financing Activities		
Appropriations	22,267	20,357
Federal grants	11,927	12,806
State grants	4,441	4,937
Private grants	3,210	1,861
Agency activity	3	(181)
Net cash flows provided by noncapital financing activities	41,848	39,780
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(5,320)	(3,520)
Capital appropriation	2,071	1,139
Proceeds from sale of capital assets	8	9
Proceeds from borrowing	490	297
Proceeds from bond premium	58	117
Interest paid	(983)	(1,026)
Repayment of note principal	(38)	(34)
Repayment of bond principal	(1,470)	(1,436)
Net cash flows used in capital and related financing activities	(5,184)	(4,454)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	-	2,264
Purchase of investments	-	(23)
Investment earnings	97	159
Net cash flows provided by investing activities	97	2,400
Net Increase In Cash and Cash Equivalents	988	4,374
Cash and Cash Equivalents, Beginning of Year	38,694	34,320
Cash and Cash Equivalents, End of Year	$ 39,682	$ 38,694

The notes are an integral part of the financial statements.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Operating Loss	$ (41,964)	$ (39,532)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	5,334	5,257
Provision for loan defaults	(1)	24
Loan principal repayments	692	593
Loans issued	(765)	(754)
Loans forgiven	69	56
Change in assets and liabilities		
Inventory	(52)	(108)
Accounts receivable	287	(126)
Accounts payable	121	155
Salaries and benefits payable	467	774
Other compensation benefits	136	303
Capital contributions payable	(21)	(17)
Unearned revenue	(126)	(13)
Other	50	36
Net reconciling items to be added to operating loss	6,191	6,180
Net cash flow used in operating activities	$ (35,773)	$ (33,352)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 226	$ 240
Equipment on account	59	98
Amortization of bond premium	70	56

BEMIDJI STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

Financial Reporting Entity — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. The University receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources. Bemidji State University and Northwest Technical College are aligned under the leadership of one president and share administration, business services, information technology, select student services and some academic areas. For financial statement purposes, Bemidji State University and Northwest Technical College are combined and referred to as the University.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39; *Determining Whether Certain Organizations are Component Units*. The Bemidji State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Bemidji State University Foundation, 1501 Birchmont Drive Northeast, Bemidji, MN 56601-2699.

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

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

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

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

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

Cash and Cash Equivalents — The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, 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 is for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses and net position of revenue producing facilities, which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

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

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

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

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

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

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

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

Asset Type	Useful Life
Buildings	35-40 years
Building Improvements	15-20 years
Equipment	3-20 years
Library Collections	7 years

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

Funds Held for Others — Funds held for others are primarily assets held in a custodial capacity such as student organizations, student loans and other clearing accounts that serve as a flow-through conduit.

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

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

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

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

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

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

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

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

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

- *Net Investment in Capital Assets*: Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: Net position subject to externally imposed stipulations. Net position restrictions for the University are as follows:

Restricted for bond covenants — revenue bond restrictions

Restricted for other — includes restrictions for the following:

Debt service — legally restricted for bond debt repayments
Donations — restricted per donor requests
Faculty contract obligations — faculty development and travel required by contracts
Loans — University capital contributed for Perkins loans

Net Position Restricted for Other
(In Thousands)

	2014	2013
Debt service	$ 2,344	$ 2,354
Donations	338	246
Faculty contract obligations	661	576
Loans	494	496
Total	$ 3,837	$ 3,672

- *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 — In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* an amendment of GASB No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement requires that an employer recognize its obligation for pension net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation as well as additional note disclosures regarding the obligation. The new standard is effective retrospectively starting with the fiscal year beginning July 1, 2014. The effect GASB Statement No. 68 will have on the fiscal year 2015 financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has two checking and three savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

The following table summarizes cash and cash equivalents:

Year Ended June 30
(In Thousands)

Carrying Amount	2014	2013
Cash, in bank	$ 3,237	$ 3,043
Restricted cash	1,541	1,478
Cash, trustee account (US Bank)	1,420	1,426
Total local cash and cash equivalents	6,198	5,947
Total treasury cash accounts	33,484	32,747
Grand Total	$ 39,682	$ 38,694

At June 30, 2014 and 2013, the University's local bank balances were $3,372,526 and $3,288,639, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

The University's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

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

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

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

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

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

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

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

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

Fair Value as of June 30
(In Thousands)

Investment Type	2014	2013
Stock	$ 173	$ 81
Certificate of deposit	210	210
Total fair value	$ 383	$ 291

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2014 and 2013, the total accounts receivable balances for the University were $2,597,702 and $3,122,103, respectively, less an allowance for uncollectible receivables of $518,441 and $568,529, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2014	2013
Tuition	$ 1,147	$ 1,189
Room and board	165	159
Sales and services	164	398
Fees	158	154
Other	963	1,222
Total accounts receivable	2,597	3,122
Allowance for uncollectible accounts	(518)	(569)
Net accounts receivable	$ 2,079	$ 2,553

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $923,333 and $929,433 for fiscal years 2014 and 2013, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand as of December 1 of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year. Also, included in prepaid expense for fiscal years 2014 and 2013 is $30,328 and $53,763 respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University.
At June 30, 2014 and 2013, the total loans receivable for this program were $5,201,573 and $5,197,401, respectively, less an allowance for uncollectible loans of $367,150 and $368,386, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2014 and 2013 follow:

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,147	$ —	$ —	$ —	$ 1,147
Construction in progress	634	4,474	—	(2,410)	2,698
Total capital assets, not depreciated	1,781	4,474	—	(2,410)	3,845
Capital assets, depreciated:					
Buildings and improvements	140,045	—	821	2,410	141,634
Equipment	8,492	302	548	—	8,246
Library collections	3,494	490	489	—	3,495
Total capital assets, depreciated	152,031	792	1,858	2,410	153,375
Less accumulated depreciation:					
Buildings and improvements	76,352	4,378	822	—	79,908
Equipment	6,208	457	529	—	6,136
Library collections	1,977	499	489	—	1,987
Total accumulated depreciation	84,537	5,334	1,840	—	88,031
Total capital assets, depreciated, net	67,494	(4,542)	18	2,410	65,344
Total capital assets, net	$ 69,275	$ (68)	$ 18	$ —	$ 69,189

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 1,147	$ —	$ —	$ —	$ 1,147
Construction in progress	968	1,751	—	(2,085)	634
Total capital assets, not depreciated	2,115	1,751	—	(2,085)	1,781
Capital assets, depreciated:					
Buildings and improvements	137,960	—	—	2,085	140,045
Equipment	8,972	590	1,070	—	8,492
Library collections	3,511	493	510	—	3,494
Total capital assets, depreciated	150,443	1,083	1,580	2,085	152,031
Less accumulated depreciation:					
Buildings and improvements	72,077	4,275	—	—	76,352
Equipment	6,727	483	1,002	—	6,208
Library collections	1,988	499	510	—	1,977
Total accumulated depreciation	80,792	5,257	1,512	—	84,537
Total capital assets, depreciated, net	69,651	(4,174)	68	2,085	67,494
Total capital assets, net	$ 71,766	$ (2,423)	$ 68	$ —	$ 69,275

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2014	2013
Purchased services	$ 566	$ 693
Supplies	434	285
Capital projects	165	98
Repairs and maintenance	215	60
Other payables	274	416
Total	$1,654	$1,552

In addition, as of June 30, 2014 and 2013, the University had payable from restricted assets in the amounts of $120,033 and $240,178, 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 2014 and 2013 follow:

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 530	$ 58	$ 70	$ 518	$ —
General obligation bonds	7,656	490	682	7,464	697
Notes payable	279	—	38	241	42
Revenue bonds	15,700	—	783	14,917	807
Total long-term debt	$ 24,165	$ 548	$ 1,573	$ 23,140	$ 1,546

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 469	$ 117	$ 56	$ 530	$ —
General obligation bonds	8,040	297	681	7,656	696
Notes payable	313	—	34	279	38
Revenue bonds	16,455	—	755	15,700	783
Total long-term debt	$ 25,277	$ 414	$ 1,526	$ 24,165	$ 1,517

The changes in other compensation benefits for fiscal years 2014 and 2013 follow:

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 5,365	$ 668	$ 635	$ 5,398	$ 670
Early termination benefits	36	97	36	97	97
Net other postemployment benefits	647	317	345	619	—
Workers' compensation	209	212	142	279	134
Total other compensation benefits	$ 6,257	$ 1,294	$ 1,158	$ 6,393	$ 901

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 5,036	$ 886	$ 557	$ 5,365	$ 636
Early termination benefits	84	36	84	36	36
Net other postemployment benefits	658	308	319	647	—
Workers' compensation	176	143	110	209	100
Total other compensation benefits	$ 5,954	$ 1,373	$ 1,070	$ 6,257	$ 772

Bond Premium — In fiscal year 2014, bonds were issued resulting in premiums of $57,746. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

General Obligation Bonds— The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.0 percent to 5.7 percent. The Minnesota State Colleges and Universities is responsible for paying one third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bond liability included in these financial statements represents the University's share.

Notes Payable — Notes payable consists of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate is tied to the prime interest rate at the time of the project.

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 halls, food service, student union, and other revenue producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 3 percent to 5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2032. Annual principal and interest payments on the bonds are expected to require less than 12.97 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $20,327,367. Principal and interest paid for the current year and total customer net revenues were $1,420,355 and $10,926,811, respectively.

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

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

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

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $279,624 and $209,104 as of June 30, 2014 and 2013, 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 $4,441,454 and $4,462,551 at June 30, 2014 and 2013, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $21,097 and $16,542 for the fiscal years 2014 and 2013, respectively. Principal and interest payment schedules are provided in the following table for general obligation bonds, notes payable and revenue bonds. 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)

	General Obligation Bonds		Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 697	$ 340	$ 42	$ 11	$ 807	$ 609
2016	680	312	46	9	832	579
2017	646	278	50	7	870	548
2018	646	247	54	4	898	515
2019	603	216	49	1	925	479
2020-2024	2,522	677	—	—	4,915	1,814
2025-2029	1,451	180	—	—	4,235	756
2030-2034	219	20	—	—	1,435	110
Total	$ 7,464	$ 2,270	$ 241	$ 32	$ 14,917	$ 5,410

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts 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 2014 and 2013.

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

The number of retired faculty who received this benefit and the amount of future liability for that faculty, as of the end of fiscal years 2014 and 2013 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	3	$ 49
2013	2	36

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 2014 and 2013 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	2	$ 48
2013	—	—

10. NET OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program.

Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012, there were approximately 51 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 Postemployment 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 2014 and 2013, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2014	2013
Annual required contribution (ARC)	$ 312	$ 303
Interest on net OPEB obligation	31	32
Adjustment to ARC	(26)	(27)
Annual OPEB cost	317	308
Contributions during the year	(345)	(319)
Decrease in net OPEB obligation	(28)	(11)
Net OPEB obligation, beginning of year	647	658
Net OPEB obligation, end of year	$ 619	$ 647

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014 and 2013 were as follows:

Year Ended June 30 (In Thousands)	2014	2013
Beginning of the year net OPEB obligation	$ 647	$ 658
Annual OPEB cost	317	308
Employer contribution	(345)	(319)
End of year net OPEB obligation	$ 619	$ 647
Percentage contributed	108.83%	103.57%

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	$ —	$3,670	$3,670	0.00%	$35,965	10.20%

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

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

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

11. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2014 and 2013, totaled $431,407 and $401,293, respectively. Future obligations consist primarily of an operating lease for the City of Bemidji's Regional Event Center which began in October 2010.

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

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2015	$ 425
2016	436
2017	382
2018	253
2019	241
2020-2024	1,316
2025-2029	1,526
2030-2031	419
Total	$ 4,998

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

	2014			2013		
Description	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 36,573	$ (14,173)	$ 22,400	$ 36,917	$ (14,477)	$ 22,440
Fees	3,304	(624)	2,680	3,358	(699)	2,659
Sales	2,758	(166)	2,592	2,788	(214)	2,574
Restricted student payments	10,658	(372)	10,286	10,020	(401)	9,619
Total	$ 53,293	$ (15,335)	$ 37,958	$ 53,083	$ (15,791)	$ 37,292

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2014
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 4,233	$ 1,394	$ 2,986	$ 40	$ 8,653
Institutional support	5,070	1,694	4,536	48	11,348
Instruction	18,883	5,723	6,212	203	31,021
Public service	12	—	130	—	142
Research	181	63	85	2	331
Student services	7,732	2,349	6,007	72	16,160
Auxiliary enterprises	3,032	790	8,062	623	12,507
Scholarships & fellowships	—	—	1,346	—	1,346
Less interest expense	—	—	—	(988)	(988)
Total operating expenses	$ 39,143	$ 12,013	$ 29,364	$ —	$ 80,520

Year Ended June 30, 2013
(In Thousands)

Description		Salaries		Benefits		Other		Interest		Total
Academic support	$	4,041	$	1,343	$	2,739	$	43	$	8,166
Institutional support		4,663		1,855		4,562		51		11,131
Instruction		18,067		5,309		5,396		214		28,986
Public service		83		19		184		1		287
Research		145		51		155		2		353
Student services		7,450		2,226		5,694		76		15,446
Auxiliary enterprises		3,068		701		7,871		659		12,299
Scholarships & fellowships		—		—		1,757		—		1,757
Less interest expense		—		—		—		(1,046)		(1,046)
Total operating expenses	$	37,517	$	11,504	$	28,358	$	—	$	77,379

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 2012, 2013, and 2014 the funding requirement was 5 percent for both employer and employee and will increase to 5.5 percent for fiscal year 2015. Actual contributions were 100 percent of required contributions.

Required contributions for Bemidji State University were:

(In Thousands)

Fiscal Year		Amount
2014	$	497
2013		478
2012		462

Teachers Retirement Fund (TRF)

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

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

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

The statutory authority for TRF is Minnesota Statutes, Chapter 354. For fiscal years 2012 and 2013, the funding requirement was 6 percent and 6.5 percent respectively, for both employer and employee coordinated members. For fiscal year 2014, the funding requirement was 7 percent for both employer and employee coordinated members and will increase to 7.5 percent for fiscal year 2015. Actual contributions were 100 percent of required contributions.

Required contributions for Bemidji State University were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 402
2013	399
2012	394

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 Bemidji State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2014	$ 1,164	$ 872
2013	1,104	829
2012	970	726

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	Max. Annual Contribution
Inter Faculty Organization	$ 6,000 to 51,000	$ 2,250
MN State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Administrators	6,000 to 60,000	2,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Commissioner’s Plan	6,000 to 40,000	1,700

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

Required contributions for the University were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 528
2013	516
2012	532

Voluntary Retirement Savings Plans

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

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 primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2014, the plan had 153 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, 2014, the plan had 61 participants.

15. SEGMENT INFORMATION

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

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

Bemidji State University Portion of the Revenue Fund
(In Thousands)

	2014	2013
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 4,992	$ 4,346
Current restricted assets	2,841	2,852
Noncurrent assets	17,456	18,817
Total assets	25,289	26,015
Liabilities		
Current liabilities	1,412	1,401
Noncurrent liabilities	14,435	15,241
Total liabilities	15,847	16,642
Net position		
Net investment in capital assets	3,831	4,392
Restricted net position	5,611	4,981
Total net position	$ 9,442	$ 9,373
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 10,896	$ 10,376
Operating expenses	(10,234)	(9,692)
Net operating income	662	684
Nonoperating revenues (expenses)	(593)	(629)
Change in net position	69	55
Net position, beginning of year	9,373	9,318
Net position, end of year	$ 9,442	$ 9,373
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) in		
Operating activities	$ 2,098	$ 2,232
Capital and related financing activities	(1,477)	(2,168)
Investing activities	21	34
Net increase	642	98
Cash, beginning of year	6,864	6,766
Cash, end of year	$ 7,506	$ 6,864

16. COMMITMENTS AND CONTINGENCIES

During fiscal year 2014 the University entered into new commitments for building improvement projects including the renovation of Bensen Hall for the School of Nursing and the relocation of Talley Gallery from Bensen Hall to Bridgeman Hall. The University also continued to expend proceeds from a prior year capital appropriation of $3.3 million for the demolition of Maple Hall and planning and design for the renovation of Memorial and Decker Halls and the demolition of Sanford Hall. Total costs for these projects are estimated at $4.7 million and the projects are expected to be completed during fiscal year 2015. As of June 30, 2014 the University has expended approximately $3.5 million toward these projects.

The University received a $13.8 million capital appropriation in the 2014 state of Minnesota bonding bill to design the future demolition of Hagg-Sauer Hall and complete the renovation of Memorial and Decker Halls and the demolition of Sanford Hall. The University entered into a $11.8 million contract with Kraus Anderson Construction during fiscal year 2014 to complete the renovation project and a $41,500 contract with LHB, Inc. for pre-design services for the Hagg-Sauer project. Approximately $230,000 of the 2014 appropriation will be used to abate and demolish Sanford Hall. The University had not expended any funds toward the project as of June 30, 2014.

The University also received $2.5 million in Higher Education Asset Preservation and Replacement (HEAPR) funds in the 2014 state of Minnesota bonding bill to replace the Gillett Recreation Center roof and complete concrete and masonry work in the tunnels. The University will begin design work on these projects in early fiscal year 2015 and begin construction in the spring of 2015.

17. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. The University purchases 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, campuses may select optional coverage. The University purchased optional coverage for professional liability for employed physicians and student health services professional liability. Property coverage offered by the Minnesota Risk Management Fund is as follows:

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

The University retains the risk of loss. The University did not have any settlements in excess of coverage in the last three years. The Minnesota Risk Management Fund purchased student intern professional liability, dental clinics professional liability, and a variety of bonds on the open market for the University and College.

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

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

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2014 and 2013.

(In Thousands)

	Beginning Liability	Net Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/14	$ 209	$ 212	$ 142	$ 279
Fiscal Year Ended 6/30/13	176	143	110	209

18. COMPONENT UNITS

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

The Bemidji State University Foundation (Foundation) is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University.

The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete. The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Net assets, which are classified on the existence or absence of donor imposed restrictions, are classified and reported according to the following classes:

- *Unrestricted net assets*: Net assets not subject to donor imposed stipulations.
- *Temporarily restricted net assets*: Net assets subject to donor imposed restrictions as to how the assets may be used.
- *Permanently restricted net assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by the 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.

In fiscal years 2014 and 2013, Bemidji State University received $1,076,785 and $837,095, respectively, from its Foundation. These proceeds were used for student scholarships. In fiscal year 2014, Bemidji State University also received $625,000 from its Foundation to help offset the costs of the installation of artificial turf.

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

Schedule of Investments at June 30
(In Thousands)

	2014	2013
Money market & Certificate of deposit	$ 420	$ 851
Fixed income/Bonds/U.S. treasuries	4,092	3,188
Equity based mutual funds	12,515	9,740
Real estate (held for investment)	1,345	1,625
Other investments	4,378	3,107
Total investments	$ 22,750	$ 18,511

Capital Assets — Summaries of the Foundation's capital assets for fiscal years 2014 and 2013 are:

Schedule of Capital Assets at June 30
(In Thousands)

	2014	2013
Capital assets, depreciated		
Buildings and improvements	$ 603	$ 576
Equipment	56	56
Total capital assets, depreciated	659	632
Total accumulated depreciation	(359)	(338)
Total capital assets depreciated, net	$ 300	$ 294

Long Term Obligations — Bemidji State University Foundation has a $732,250 secured note from Security Bank USA. The full principal balance of the note is payable on November 21, 2015. Interest only payments will be due quarterly, calculated as a variable interest rate.

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

Changes in endowment net assets as of June 30, 2014 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2014
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 1,662	$ 479	$ 14,604	$ 16,745
Contributions	852	27	1,871	2,750
Investment income	178	1,642	(39)	1,781
Amounts appropriated for expenditures	(65)	(18)	42	(41)
Other transfers	(500)	(414)	—	(914)
Net assets, end of year	$ 2,127	$ 1,716	$ 16,478	$ 20,321

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	$ 908	$ 254	$ 12,632	$ 13,794
Contributions	828	40	1,839	2,707
Investment income	48	555	111	714
Amounts appropriated for expenditures	(32)	(365)	—	(397)
Other transfers	(90)	(5)	22	(73)
Net assets, end of year	$ 1,662	$ 479	$ 14,604	$ 16,745

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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BEMIDJI STATE UNIVERSITY
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 4,167	$ 4,167	0.00%	$ 37,825	11.02%
July 1, 2008	—	4,733	4,733	0.00	35,617	13.29
July 1, 2010	—	5,063	5,063	0.00	39,511	12.81
July 1, 2012	—	3,670	3,670	0.00	35,965	10.20

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SUPPLEMENTARY SECTION

As of July 1, 2004, the Bemidji campus of the former Northwest Technical College was aligned with Bemidji State University under the name Northwest Technical College – Bemidji. The activities of the College were consolidated with the University effective July 1, 2005 and were first included in the University's fiscal year 2006 annual financial report. Included in the supplementary section are the unaudited financial statements of both individual institutions.

BEMIDJI STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

Assets	Bemidji State University	Northwest Technical College	Total 2014	Total 2013
Current Assets				
Cash and cash equivalents	$ 33,038	$ 3,683	$ 36,721	$ 35,790
Investments	383	-	383	291
Grants receivable	419	79	498	586
Accounts receivable, net	994	1,085	2,079	2,553
Prepaid expense	836	118	954	983
Inventory	-	289	289	237
Student loans, net	625	-	625	534
Other assets	15	3	18	46
Total current assets	36,310	5,257	41,567	41,020
Current Restricted Assets				
Cash and cash equivalents	2,961	-	2,961	2,904
Total current restricted assets	2,961	-	2,961	2,904
Noncurrent Assets				
Student loans, net	4,209	-	4,209	4,295
Capital assets, net	64,408	4,781	69,189	69,275
Total noncurrent assets	68,617	4,781	73,398	73,570
Total Assets	107,888	10,038	117,926	117,494
Liabilities				
Current Liabilities				
Salaries and benefits payable	4,259	668	4,927	4,460
Accounts payable	1,513	141	1,654	1,552
Unearned revenue	1,059	135	1,194	1,289
Payable from restricted assets	120	-	120	240
Interest payable	156	-	156	163
Funds held for others	263	6	269	266
Current portion of long-term debt	1,423	123	1,546	1,517
Other compensation benefits	797	104	901	772
Total current liabilities	9,590	1,177	10,767	10,259
Noncurrent Liabilities				
Noncurrent portion of long-term debt	20,428	1,166	21,594	22,648
Other compensation benefits	4,685	807	5,492	5,485
Capital contributions payable	4,441	-	4,441	4,462
Total noncurrent liabilities	29,554	1,973	31,527	32,595
Total Liabilities	39,144	3,150	42,294	42,854
Net Position				
Net investment in capital assets	43,977	3,492	47,469	46,522
Restricted expendable, bond covenants	4,191	-	4,191	3,555
Restricted expendable, other	3,723	114	3,837	3,672
Unrestricted	16,853	3,282	20,135	20,891
Total Net Position	$ 68,744	$ 6,888	$ 75,632	$ 74,640

BEMIDJI STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	Bemidji State University	Northwest Technical College	Total 2014	Total 2013
Operating Revenues				
Tuition, net	$ 20,163	$ 2,237	$ 22,400	$ 22,440
Fees, net	2,459	221	2,680	2,659
Sales, net	1,849	743	2,592	2,574
Restricted student payments, net	10,286	-	10,286	9,619
Other income	472	126	598	555
Total operating revenues	35,229	3,327	38,556	37,847
Operating Expenses				
Salaries and benefits	44,375	6,781	51,156	49,021
Purchased services	11,133	1,481	12,614	11,110
Supplies	3,129	816	3,945	4,089
Repairs and maintenance	1,567	150	1,717	1,543
Depreciation	4,850	484	5,334	5,257
Financial aid, net	904	442	1,346	1,757
Other expense	4,019	389	4,408	4,602
Total operating expenses	69,977	10,543	80,520	77,379
Operating loss	(34,748)	(7,216)	(41,964)	(39,532)
Nonoperating Revenues (Expenses)				
Appropriations	18,696	3,571	22,267	20,357
Federal grants	9,719	2,174	11,893	12,625
State grants	3,779	662	4,441	4,937
Private grants	2,470	740	3,210	1,861
Interest income	239	21	260	220
Interest expense	(923)	(65)	(988)	(1,046)
Total nonoperating revenues (expenses)	33,980	7,103	41,083	38,954
Loss Before Other Revenues, Expenses, Gains, or Losses	(768)	(113)	(881)	(578)
Capital appropriations	1,883	-	1,883	964
Loss on disposal of capital assets	(8)	(2)	(10)	(1)
Change in net position	1,107	(115)	992	385
Total Net Position, Beginning of Year	67,637	7,003	74,640	74,255
Total Net Position, End of Year	$ 68,744	$ 6,888	$ 75,632	$ 74,640

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCAIL 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 Bemidji State University (the University), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Bemidji State University's basic financial statements, and have issued our report thereon dated November 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Bemidji State University Foundation. The financial statements of the Bemidji State University Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 test 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 University's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 12, 2014

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