Metropolitan
State University

Annual Financial Report

For the Years Ended June 30, 2014 and 2013

A member of the Minnesota State Colleges and Universities system

METROPOLITAN 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:

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METROPOLITAN STATE UNIVERSITY

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

TABLE OF CONTENTS

INTRODUCTION

Page

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SUPPLEMENTARY SECTION

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INTRODUCTION

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Metropolitan
State University

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November 12, 2014

Trustees, Minnesota State Colleges and Universities, and
Dr. Steven Rosenstone, Chancellor
Wells Fargo Place
30 East Seventh Street, Suite 350
Saint Paul, MN 55101-7804

Dear Chancellor Rosenstone and Trustees:

I am pleased to submit to you the Metropolitan State University audited Annual Financial Report for the fiscal years ended June 30, 2014 and 2013. It includes the appropriate financial statements and disclosures necessary to accurately represent the financial condition of our University, as well as operational results for the year. These financial statements are presented in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board. The management of the University is responsible for ensuring the accuracy, reliability, and completeness of the information in this report.

The financial statements have been audited by the firm of CliftonLarsonAllen LLP. You will find a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. Please consult the Management's Discussion and Analysis section of this report for a summary review and explanation of the financial statements.

Metropolitan State was established in 1971 by the Minnesota State Legislature to offer baccalaureate education to adult students in the Twin Cities metropolitan area in a way that was convenient for their busy work and personal schedules. Classes were offered throughout the Twin Cities through complete reliance on community-based assets, such as convening class meetings in public libraries, church basements, and other educational institutions' classrooms.

Since those early years of serving a few hundred students who were returning to complete their bachelor's degrees, we now serve nearly 12,000 students annually. They can complete their bachelor's degrees and go on to complete master's programs. We currently offer over fifty undergraduate majors, thirteen master's degree programs, seven graduate certificates, and applied doctoral programs in nursing practice and business administration. Our regional accrediting agency, the North Central Association's Higher Learning Commission, in recognition of the high quality of our online program offerings, has authorized the University to offer any of our degree programs online.

Metropolitan State, Minnesota's only public, urban, comprehensive university remains true to its mission to engage the needs of underserved populations across the greater Twin Cities metropolitan area. The University is responsive to and experienced serving a diverse array of "post-traditional" students, adults (average age is 32 years), transfer students (97percent are transfer students who bring an average of 72 credit hours), and communities of color (overall, 36 percent of the student body are men and women of color). Metropolitan State has a laser focus on recruiting and educating prepared students from the communities of color among which virtually the entire region's demographic and workforce growth will emerge for the foreseeable future. Two-thirds of our students study part-time and most are also employed. Metropolitan State University's forty-year legacy of intentional civic engagement and community-situated curricular design is stronger than ever, and it adds unique value to the extraordinary academic programs our students enjoy. Metropolitan State's value proposition to three million Minnesotans is unparalleled.

In addition to its main campus in Saint Paul, the University also has an extensive classroom and office facility in the Midway area, a School of Law Enforcement and Criminal Justice in Brooklyn Park on the Hennepin Technical College campus, and a College of Management and a Theatre program in Minneapolis on the Minneapolis Community & Technical College campus. Degree completion programs are also offered at the campuses of several other Metro Alliance college campuses, including Normandale, Inver Hills, Century, North Hennepin, Saint Paul College, and Anoka Ramsey. The University recently joined Inver Hills Community College in establishing an instructional site at the new Workforce Center in Burnsville. In addition, Metropolitan State University offers an impressive array of online degree programs, certificates, and coursework. One in three Metropolitan State students is enrolled in at least one online course in any given semester, and the online programs serve residents across Greater Minnesota, as well as throughout the metro area.

The mission of the University is to provide high-quality, affordable educational programs and services in a student-centered environment across the Twin Cities metropolitan region. In many ways, our faculty, staff, and students reflect the area's rich diversity and demonstrate an unwavering commitment to civic engagement. This University is focused on issues that matter to legislators and other public officials and opinion leaders: increasing the proportion of urban residents who hold baccalaureate degrees, addressing Minnesota's chronic achievement gaps by strengthening the faculties of urban schools, expanding the capacity of affordable programs that prepare highly-skilled healthcare workers, and preparing practitioners across a range of professional fields with the skills and cultural competencies required for a competitive global economy. In particular, we have made significant, sustained investments in strengthening and expanding our partnerships with MnSCU colleges in order to provide seamless access to high-demand baccalaureate programs. We offer these programs in growing numbers on college campuses. We are working diligently to expand our capacity to offer the online programs for which student demand continues to outstrip supply.

We highlight below a few of the many ways in which Metropolitan State is deeply involved with the Twin Cities community:

- Our signature Library and Learning Center on the Saint Paul campus has completed its tenth year of operation, and continues to enjoy high levels of usage, amounting to one-half million student and community patron visits annually. Our students, staff, and faculty have access to extensive print and electronic resources, as well as over 250 fixed and wireless computer stations.

- A prominent portion of the library facility houses a branch of the Saint Paul Public Library, a first for our Dayton's Bluff neighborhood. Young people from the community study in the computerized Young Adult Homework Center. Others find, in the Children's Reading Room, a safe and inviting place to gather for story hours and reading-related activities. Tutors and interns work with neighborhood children daily. Significant ongoing private funding supports literacy and other community outreach programs.

- Metropolitan State's Institute for Community Engagement and Scholarship coordinates dozens of community-based programs throughout the year, including outreach efforts such as "Read! Read! Read!" "College for Kids," the Public Achievement program, career and community-based academic internships, Project SHINE (Students Helping in the Naturalization of Elders), Constitution Day, American Democracy Project programs, "Metro State Votes!," and many more.

- Our University's significant commitment to online degree programs is allowing individuals and organizations to conveniently take advantage of education tailored to meet their special needs as lifelong learners. We continue to provide online courses to members of the National Guard serving abroad and to Peace Corps Volunteers around the world. We frequently have online students in every state senate district.

- Metropolitan State University continues to lead an active collaboration between MnSCU institutions and industry partners, through Advance IT Minnesota. Legislative funds for this innovative initiative were awarded by the System Office through a competitive "Centers of Excellence" selection process.

Metropolitan State University has developed an array of dynamic, student-centered partnerships with the MnSCU colleges in the Twin Cities metropolitan area and beyond. Recent innovative partnerships include:

- "Reverse transfer" initiatives piloted with several of the colleges, enabling students to be awarded their associate degrees by their colleges, even if they had transferred to Metropolitan State before completing all of their associate degree requirements.

- Dual enrollment plans piloted with Inver Hills and Normandale Community Colleges. At Normandale, this effort resulted in an immediate increase in enrollments in the dental hygiene baccalaureate program. For these students, financial aid is administered through Metropolitan State throughout their undergraduate studies. Through the MANE program (see below), dual enrollment is also available at Anoka-Ramsey Community College, Century College, North Hennepin Community College, Ridgewater College, and Riverland Community College.

- Academic program transfer guides developed for the most popular baccalaureate majors. Students beginning their studies at each of the community colleges can now see from the outset which courses to take, in the correct sequence, to most efficiently complete their baccalaureate degrees at Metropolitan State University.

- Degree completion programs in an array of majors, including business administration, accounting, nursing, psychology, criminal justice, individualized studies, and other fields, offered on the campuses of MnSCU two-year colleges in the metro area.

- The charter for the Minnesota Alliance of Nursing Education (MANE) program, which was signed in November 2013. This collaborative curriculum was developed with seven community colleges. Students are admitted to both Metropolitan State and a partner community college. As part of the MANE program, Metropolitan State is initiating its first full four-year baccalaureate program in nursing.

- Since 2004, Metropolitan State has been physically co-located with Minneapolis Community and Technical College (MCTC) at its site at 15th Street and Hennepin Avenue South in Minneapolis. As a result, MCTC students can finish their bachelor's degree programs in the College of Management without having to change locations. The University has expanded classroom space and faculty offices in the Management Education Center, increasing our instructional capacity on that site.

- Throughout 2014 we continued our collaboration with Normandale Community College to offer the nursing baccalaureate completion program. We also enable community college graduates to complete bachelor's degrees in management on multiple MnSCU community college campuses in the metropolitan area. The University currently offers classes in 24 locations throughout the Twin Cities, including every Metro Alliance community college campus and most technical colleges.

- In 2014 we continued our partnership with Hennepin Technical College (HTC) through co-locating programs in the Law Enforcement and Criminal Justice Education Center on the HTC campus. This is a state-of-the-art facility that serves the needs of law enforcement and criminal justice students from across the metropolitan area of the Twin Cities. The Center opened its doors in August 2010.

- During fiscal year 2014, Metropolitan State University entered into a partnership agreement with Normandale Community College to jointly use their newly constructed Partnership Center. This partnership will enable Normandale students to transition to a MnSCU university, while remaining on the Normandale campus.

- During 2014, the University also partnered with Inver Hills Community College by offering courses at their new Burnsville site, located within the Workforce Center building. Initially, the focus will be on business administration courses.

Future Planning:

We expect the recent growth in facilities and program offerings to continue. Our future growth will be guided by the concentrated analysis and planning going on this semester to refresh our strategic positioning platform. We will seek to enlist the entire University community as individual champions of Metropolitan State's unparalleled value proposition for urban and metropolitan students whose careers and lives can be enhanced by completing the collegiate careers they have started.

- We continue our full engagement with continuous improvement through the Academic Quality Improvement Program (AQIP) pathway offered by our accrediting body, the North Central Association's Higher Learning Commission. Following the successful submission in 2010 of our second comprehensive Systems Portfolio in a web-based format, we are revisiting the initiatives identified in each of the restructured AQIP Categories, in advance of preparing to submit another online Systems Portfolio in early 2015.

- In spite of the struggling economy, the Metropolitan State Foundation succeeded in fiscal year 2014 in raising $640,421, demonstrating that our philanthropic support continues to be strong.

- In 2011, a special legislative session approved $3.444 million for design of a Science Education Center. In the 2014 session, construction funds of $35.865 million were authorized. Ground was broken in September 2014, and construction is now fully under way. This Saint Paul campus building will provide much-needed science classrooms and laboratories, which will be available to students in January 2016. Metropolitan State University is currently the only university in the MnSCU system without a science building.

- We are on track to resume a sustained pattern of enrollment growth. This involves development of an integrated marketing initiative, implementation of coordinated enrollment retention and management strategies, pursuit of additional space for long-term and short-term classroom and office needs, and building the faculty and infrastructure that we will need to serve a growing student population. For the foreseeable future, we expect to grow at a more moderate pace than we had experienced in recent years.

- The University's updated Facilities Master Plan was approved in 2011 by the System Office. Consistent with that plan, we are working to expand and strengthen our distributed degree-completion programs around the Twin Cities metropolitan area, while we build capacity to contribute to the emerging Charting the Future initiative and to the Board's Metro Area Baccalaureate plan. In 2015, we will begin planning work that will support an updated Facilities Master Plan, to be submitted to the System Office in 2016.

- Realizing another goal of the 2011 Facilities Master Plan, the University has received 2013 revenue bond funds for two new projects at the Saint Paul campus. A $24 million parking ramp, comprising approximately 750 stalls, is under construction, with completion planned for early summer 2015. Also under construction is our first student center, with a project cost of $11.7 million, and with completion planned for early fall 2015.

As an administrative team, we are pleased with what is being accomplished at Metropolitan State University. I want to express my sincere thanks to our faculty, staff, and students for their important contributions to our success. Our appreciation similarly goes to the Board of Trustees and the System Office. I assure you that we will continue to uphold the highest standards of financial and educational stewardship in the best interests of the diverse communities we serve.

Respectfully submitted,

Devinder Malhotra, Ph.D.
Interim President

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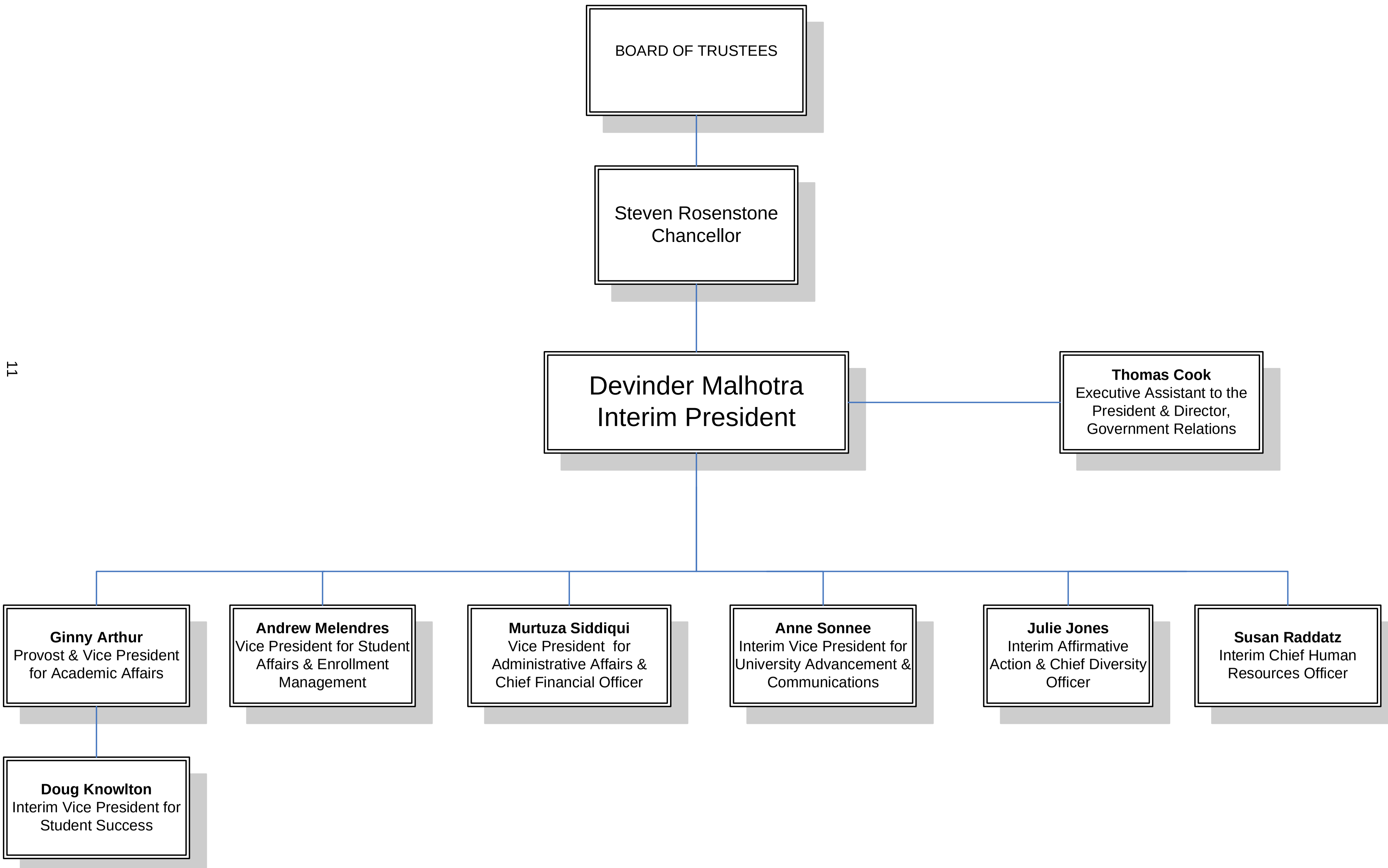
Metropolitan State University



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

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

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

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan State University (the University), a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan State University, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, were applicable, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of Metropolitan 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 Metropolitan 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 Metropolitan State University for the fiscal 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 accompanying notes, which follow this section.

Metropolitan State University is a member of the Minnesota State Colleges and Universities (MnSCU) system, one of two systems of public higher education in the state of Minnesota (the other is the University of Minnesota). The Minnesota State Colleges and Universities system has 31 institutions with 54 campuses conveniently located in 47 Minnesota communities that serve more than 410,000 students.

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

The University is a comprehensive public, urban institution of higher learning with over 11,000 students with an average age of 32. Over 99 percent of the undergraduate degree-seeking students that matriculated in the 2013-2014 academic year were transfer students that attended between one and twelve institutions prior to enrolling at Metropolitan State University. Approximately 90 percent of students work while attending school, most full time. The University employs about 1,300 faculty and staff members, including approximately 550 part-time community faculty who are often practitioners in the fields in which they teach.

The colleges and centers that comprise the University's academic programs are as follows:

- College of Arts & Sciences
- College of Health, Community, and Professional Studies, which includes the School of Nursing
- College of Individualized Studies
- College of Management
- Library and Information Services
- School of Law Enforcement and Criminal Justice
- School of Urban Education
- Graduate Programs
- Center for Academic Excellence
- Center of Excellence/Advance IT Minnesota
- Center for Online Learning
- Institute for Community Engagement & Scholarship
- Institute for Professional Development

The University offers certificate programs; baccalaureate, masters and doctorate degrees, and the University participates in the Minnesota Transfer Curriculum. The University is accredited by the Higher Learning Commission. The largest program-based student majors are business, individualized studies, accounting, psychology, criminal justice and human services. The University's individualized studies program, which enables students to customize degree requirements to fit their individual academic aspirations, is one of the unique educational opportunities offered at Metropolitan State University. The Urban Teacher Program, which was developed in collaboration with Minneapolis Community and Technical College, Inver Hills Community College, and the Minneapolis and St. Paul Public Schools, is a unique program designed to increase the number of teachers of color in urban schools.

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC). This relationship continues to provide an exciting opportunity to collaborate with a partner school on programming to benefit our combined student population, by providing a learning bridge for the students who are transitioning from a two-year college to a four-year state university.

All College of Management programs and the Theater program are offered at the Minneapolis location. The University continues to expand its offering of full baccalaureate programs at the site and over the next several months will be adding Human Services and the Urban Teacher Program to those that can be completed on-site at MCTC.

The University's School of Law Enforcement and Criminal Justice is co-located in the Law Enforcement and Criminal Justice Education Center on the Brooklyn Park campus of Hennepin Technical College. This facility provides the state-of-the-art environment needed for criminal justice and law enforcement training, including an on-campus simulation center and forensics laboratory, and specialized SKILLS program.

Partnership with other Minnesota State Colleges and Universities to promote baccalaureate degree completion is a key strategy of the University, which will meet System objectives and stabilize enrollment and promote growth. During fiscal year 2014, the University developed academic partnerships with a number of two year community and technical colleges in the metropolitan area to assist their existing students with a smooth transition to a four year degree program. The University executed a co-location agreement with Normandale Community College to lease a portion of their University Partnership Center for baccalaureate degree completion programs. Six programs are currently offered, including the first dual admission/dual enrollment program in the country in Dental Hygiene. To meet the needs of the state for more baccalaureate prepared nurses, the University partnered with seven two year colleges in the MnSCU system to develop an innovative, integrated curriculum. The first class was admitted to the Minnesota Alliance of Nursing Education (MANE) program to begin study in fiscal year 2015; applications for this first class far exceeded capacity of the eight institutions. The University continues to work with other two-year institutions in the Twin Cities Metro area to offer programs which will encourage and facilitate more baccalaureate degree conferrals in the Twin Cities, a key objective of the MnSCU system's strategic plan.

FINANCIAL HIGHLIGHTS

The University's financial position faced challenges during fiscal year 2014. Support from state appropriation revenue increased by $2.1 million, in part to offset a 2-year freeze on undergraduate tuition rate increases. Gross tuition revenue increased by $0.4 million due to an increase of 2.75 percent in graduate tuition rates and an overall enrollment decrease of approximately 1.2 percent. Total net operating revenue decreased by $1.1 million due to the limited graduate tuition rate increase and overall enrollment decrease, and reduced net tuition and fees due to additional $1.3 million of scholarship allowances for tuition and fees. The decrease in net tuition and fee revenue was accompanied by $9.3 million increase in operating expenses, primarily in compensation and construction-related expenses.

For the fiscal years ended June 30, assets totaled $114.8 million and $115.9 million in fiscal years 2014 and 2013, respectively, compared to liabilities of $61.3 million and $56.1 million, respectively. Net position, which represent the residual interest in the University's assets after liabilities are deducted, are comprised of $32.6 million and $33.6 million, respectively, in net investment in capital assets; $1.7 million and $2.0 million, respectively, in restricted net position; and $19.2 million and $24.2 million, respectively, of unrestricted net position for fiscal years ended June 30, 2014 and 2013, respectively. The fiscal year 2014 change in unrestricted net position represents a decrease of 20.8 percent over the ending net position in fiscal year 2013, and 11.5 percent decrease from unrestricted net position from fiscal year 2012, due to enrollment decreases and unanticipated pollution remediation issues in construction projects.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. 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 Metropolitan State University at the end of the fiscal year and include all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net position. A summary of the University's assets, liabilities and net position as of June 30, 2014, 2013 and 2012, respectively, is as follows (in thousands):

	2014	2013	2012
Current assets	$ 40,823	$ 40,413	$ 36,521
Restricted assets	34,522	34,271	101
Noncurrent assets	39,410	41,135	41,478
Total assets	114,755	115,819	78,100
Current liabilities	15,715	9,772	8,909
Noncurrent liabilities	45,573	46,300	12,417
Total liabilities	61,288	56,072	21,326
Net position	$ 53,467	$ 59,747	$ 56,774

Current assets consist primarily of cash and cash equivalents totaling $36.9 million at June 30, 2014, an overall increase of $0.7 million in unrestricted cash and cash equivalents over the prior year, and represents approximately 5.8 months of operating expenses (excluding depreciation). This is compared to 6.5 months and 6.2 months for the fiscal years ended June 30, 2013 and 2012, respectively.

Restricted assets increased by $0.2 million during fiscal year 2014. Restricted cash declined by $3.1 million and restricted construction in progress increased $3.3 million, resulting in a $0.2 million increase in total restricted assets. Restricted assets consist primarily of revenue bond proceeds and construction in progress for design and construction of a parking ramp and a student center on the University's Saint Paul campus.

Current liabilities consist primarily of salaries and benefits payable, accounts payable, unearned revenue, current obligations for repayment of debt, other compensation benefits, and other liabilities. Total current liabilities increased by $5.9 million during fiscal year 2014.

Salaries and benefits payable totaled $4.5 million at June 30, 2014, an increase of $0.5 million compared to fiscal year 2013. 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. Salaries and benefits payable also includes $1.3 million representing approximately two months of earned salary for faculty on nine month contracts who have elected to receive salaries over a twelve month period from August 2013 until August 2014.

Accounts payable from restricted assets increased during fiscal year 2014 by $4.6 million due to construction of the revenue bond-funded projects for a parking ramp and student center. This $4.6 million increase includes accrual of $2.3 million of contingent liability due to soil contamination issues in the construction site.

Other liabilities totaling $0.7 million have been accrued as of June 30, 2014 for estimated liability due to soil contamination in a University-funded construction project for street and traffic calming efforts on the Saint Paul campus, and redesign and construction of the center courtyard and parking area. Refer to Note 15 of the financial statements for further information on this estimated liability.

Noncurrent liabilities are composed primarily of the noncurrent portion of long-term debt, and other compensation benefits. During fiscal year 2014, long-term debt decreased $0.8 million due to payment of debt service on general obligation bond-funded projects and amortization of bond premium.

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

	2014	2013	2012
Net investment in capital assets	$ 32,643	$ 33,564	$ 33,513
Restricted	1,674	1,998	1,569
Unrestricted	19,150	24,185	21,692
Total net position	$ 53,467	$ 59,747	$ 56,774

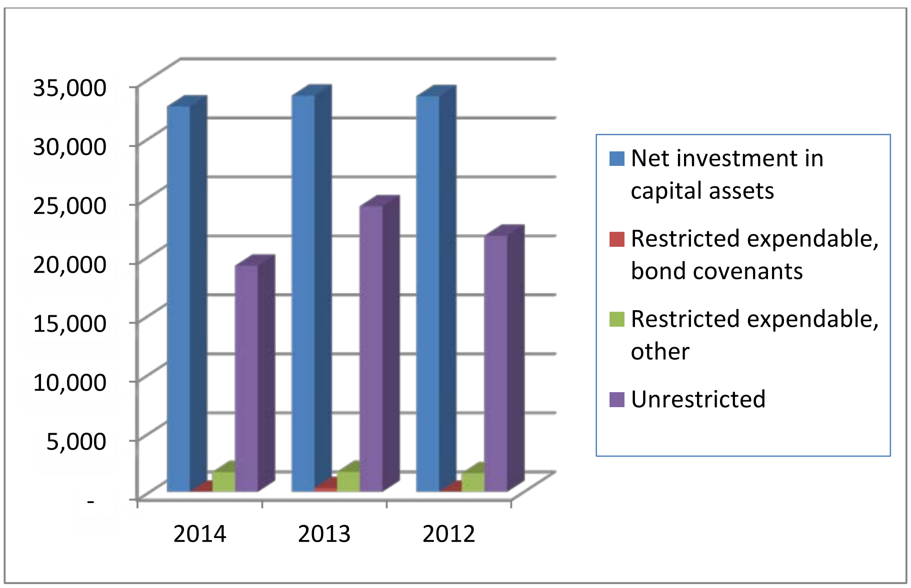
The reduction in unrestricted net assets of $5.0 million from the fiscal year ended June 30, 2014 in relation to the fiscal year ended June 30, 2013 is due to recording of costs related to soil contamination issues in construction projects, as well as increased personnel operating expenses. These issues are discussed in further detail below.

Net investment in capital assets - represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - primarily includes debt service, donations received for specific purposes, capital projects, faculty contracts, and funds reserved for legislatively mandated purposes.

Changes in net position for fiscal years 2012 through 2014 are presented as follows:

Net Position (In Thousands)



CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and student life is the development and renewal of its capital assets. Capital assets as of June 30, 2014 totaled $43.3 million, net of accumulated depreciation of $26.0 million. Total capital assets net of accumulated depreciation increased during fiscal year 2014 by $1.6 million.

In the 2011 legislative session, the University was awarded $3.44 million in general obligation bonds for design of a new Science Education Center on the St. Paul campus. The design project was completed during fiscal year 2014.

During fiscal year 2014, the University was awarded $35.9 million in general obligation funds for construction of the Science Education Center. Sale of general obligation bonds by the State of Minnesota and construction expenses began after June 30, 2014 and are not reflected in the accompanying financial statements.

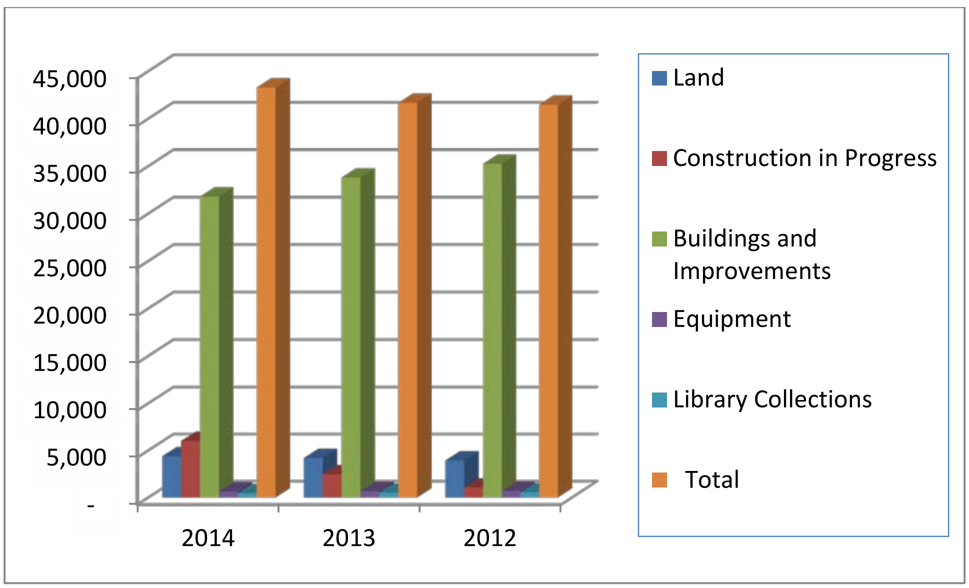
In February 2013, Minnesota State Colleges and Universities sold revenue bonds in the amount of $33.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus of Metropolitan State University.

Construction of the parking ramp began during fiscal year 2014 and is expected to be completed by June 30, 2015. Due to soil contamination issues involving regulated wastes in the parking ramp construction site and associated construction delays and other changes, the total projected cost of the parking ramp has increased from $17.6 million to $24.3 million. Included in the total project cost of $24.3 million is $3.1 million recorded as expected costs for soil contamination issues in the construction site, of which about $0.7 million had been spent as of June 30, 2014. Subsequent to June 30, 2014, the University obtained additional revenue bonds totaling $1,594,000 in taxable bond proceeds for the construction project.

Construction of the student center also began during fiscal year 2014, with an expected completion date in early fiscal year 2016. Total cost of the student center project has increased by $0.7 million due to soil contamination at the construction site involving regulated wastes. Revenue bonds issued for the student center project include $11.1 million in tax-exempt bonds and $1.6 million in taxable bonds. Subsequent to June 30, 2014, the University obtained additional revenue bonds amounting to $0.1 million in taxable bonds for the construction project.

Additional information on capital and debt activities can be found in Note 5 and Note 7 to the financial statements.

Capital Assets, Net of Depreciation (In Thousands)



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the University's results of operations for the year. When reviewing the full statements, users should note that GASB requires classification of state appropriations as non-operating revenue. Summarized statements for the years ended June 30, 2014, 2013 and 2012, respectively, follow (in thousands):

	2014	2013	2012
Operating revenues:			
Tuition, fees and sales, net	$ 30,682	$ 31,991	$ 30,232
Restricted student payments	326	—	—
Other revenue	132	280	134
Total operating revenues	31,140	32,271	30,366
Nonoperating revenues:			
State appropriations	22,914	20,758	20,524
Capital appropriations	61	926	702
Other	19,796	18,786	17,729
Total nonoperating revenues	42,771	40,470	38,955
Total revenues	73,911	72,741	69,321
Operating expenses:			
Salaries and benefits	53,907	49,897	46,850
Services and other expenses	20,674	15,689	16,200
Depreciation	2,258	2,261	2,313
Financial aid, net	1,648	1,313	739
Total operating expenses	78,487	69,160	66,102
Nonoperating expenses:			
Interest expense	1,324	535	359
Other	380	73	2,209
Total nonoperating expenses	1,704	608	2,568
Total expenses	80,191	69,768	68,670
Change in net position	(6,280)	2,973	651
Net position, beginning of year	59,747	56,774	56,123
Net position, end of year	$ 53,467	$ 59,747	$ 56,774

Tuition and state appropriations are the primary sources of funding for the University's academic programs. For fiscal years 2014 and 2015, the Legislature has frozen tuition rates for all undergraduate programs in the Minnesota State Colleges and Universities system. During the fiscal year ended June 30, 2014, The University experienced a decrease in student enrollment by 74 full-year equivalent (FYE) students, which represents approximately a 1.2 percent decrease over fiscal year 2013. Full year equivalent enrollment levels totaled 6,192 for fiscal year 2014; 6,266 for fiscal year 2013; and 6,086 for fiscal year 2012. The decline in overall enrollment was partially offset by an increase in graduate program tuition of 2.75 percent. In comparison, undergraduate and graduate program tuition rates increased 5.0 percent from fiscal year 2012 to fiscal year 2013.

During fiscal year 2014, the University began assessing a $2 per credit revenue fund fee to the students to use in funding operating costs in the revenue fund for the student center debt service. This fee is classified as restricted student payments, and is accompanied by an offsetting reduction in the student activity fee of $2 per credit. The fee will continue through fiscal year 2015 until the opening of the student center in fiscal year 2016, when the full fee assessment will be charged to the students.

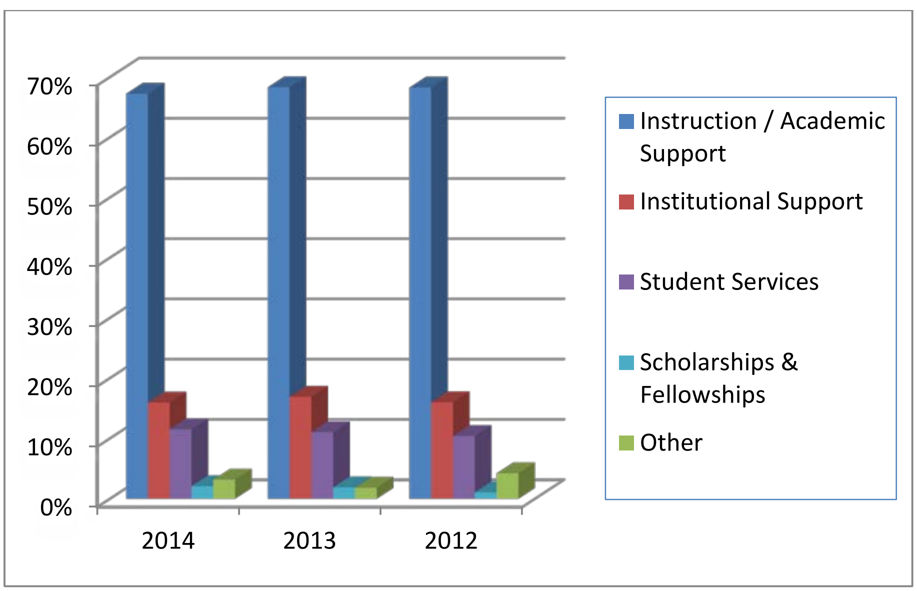
State appropriation revenue increased in fiscal year 2014 by $2.2 million to $22.9 million, representing a 10.4 percent increase over fiscal year ended June 30, 2013 and 11.6 percent increase from the fiscal year ended June 30, 2012. Of the $2.2 million increase, $1.2 million was designated as tuition mitigation funding to offset the impact of the freeze on undergraduate tuition rates, and $0.6 million designated for faculty and staff retention funds. The tuition mitigation funding continues for fiscal year 2015 to reduce the impact of the second year of the tuition freeze.

Capital appropriations have fluctuated over the past three fiscal years, with the University receiving $0.06 million, $0.9 million, and $0.7 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Salary and benefit expenses for employee compensation increased by $4.0 million during the fiscal year ended June 30, 2014 to a total of $53.9 million, representing an increase of 8.0 percent over the prior year. Increases in salary and benefit expenses are the result of addition of twenty one full-time equivalent (FTE) employees during fiscal year 2014 at an estimated cost of $1.4 million, primarily in faculty and service faculty assignments that allow the University to offer baccalaureate programs to students at other campuses, as well as salary increases amounting to approximately $2.6 million due to settlement of bargaining unit agreements covering fiscal year 2014 and increases in health insurance premiums. Fiscal year 2014 included collective bargaining agreements which ranged from 3.0 percent to 3.85 percent increases as well as progression step increases. 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 percent increases in the employer portion of the insurance premiums.

One way to examine a teaching institution's focus on its mission is by reviewing the percentage of its operating expenses dedicated to instructional costs. Instructional costs are defined as costs of direct instruction plus costs for academic support (i.e. academic advisors, college support staff, library, academic computing, etc.). From the perspective of the higher education industry, the higher this percentage is, the more mission-focused the institution is considered to be, with 50 percent as the minimum recommended threshold. The chart below displays this information for Metropolitan State University for fiscal years 2014, 2013, and 2012. The University has consistently exceeded this threshold each of those years, investing 67 percent of its operating budget into direct instructional activities during fiscal year 2014, and 68 percent in fiscal years 2013 and 2012, indicating that the University continues to stay focused on the core teaching mission of the institution.

Operating Expenses by Functional Classification



FOUNDATION

The Metropolitan State University Foundation is a component unit of Metropolitan State University. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. Additional information regarding the Foundation can be found in Note 17 to the financial statements. The Foundation helps the University raise funds, provides financial support to students, and assists the University in funding projects consistent with the University's mission.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue to remain in a sound financial condition and level of excellence. Unlike more traditional institutions, The University's focus has always been on adult and traditionally underserved students, which are projected to be a growth market in higher education. With nearly 100,000 students in attendance at metropolitan-area community and technical colleges, the University is positioning itself to be the provider for baccalaureate and graduate degrees for those students. As the most diverse public university in the state and the only four-year MnSCU university located in the Twin Cities, The University has worked hard to become an institution of choice for communities of color and recent immigrants, and thus is well-positioned to take advantage of the projected demographic increases in those groups.

As the University faces challenges in allocation and usage of classrooms and office space, the institution has been aggressively pursuing use of space at the metropolitan area community and technical colleges. For example, during the fiscal year ended June 30, 2014, the University executed a lease agreement with Normandale Community College to teach classes on the Normandale campus in its new University Partnership Center. Furthermore, the University has executed a partnership agreement with Dakota County Technical College and Inver Hills Community College for use of space on the Inver Hills campus and at the South of the River Education Center for offering classes to students in the southern metropolitan area. The University has received legislative approval for construction of a $35 million Science Education Center on the Saint Paul campus, for which construction began in September 2014 and is expected to be completed by January 2016. This new facility will add science education classrooms and faculty offices to the campus.

As the condition of the economy in Minnesota as well as other states improves, the University expects to face some challenges with enrollment retention and management in the future. During the fiscal year ended June 30, 2014, the University experienced the first decline in full-year equivalent enrollment since fiscal year 2006; however, in spite of this overall decline in enrollment, applications and admissions of new students has risen considerably. To counter the impact of projected reductions in overall enrollment, the University is aggressively pursuing strategic enrollment retention and management techniques to focus on recruitment of new students and retention of returning students. In addition, the University is offering new programs as well as degree completion programs on community college campuses to attract students with the course offerings they desire. Through aggressive enrollment management and retention strategies and the University's strategic positioning with community and technical colleges, the University is in a good position to strengthen and improve its enrollment projections for the foreseeable future, and result in a sharpened academic program portfolio and further enhance the University's public, urban character.

An ongoing challenge for the University will be staying financially accessible, given the shifts in funding sources for public higher education in Minnesota. In fiscal year 2000, the state of Minnesota paid about 65 percent of the cost of education for the University students, with tuition and other revenue covering the other 35 percent. During fiscal year 2014, the University's base appropriation improved slightly to 31 percent of total revenue, compared to 29 percent and 30 percent for fiscal years 2013 and 2012, respectively, with tuition, fees, and other student-based revenue accounting for the other 69 percent. The more reliant the University must be on tuition as its primary source of income, the more difficult it will be to remain affordable.

During the fiscal year ended June 30, 2014, the University saw a slight decrease in the percentage of students receiving federal and state financial aid, as well as a decrease in the average financial aid award. For the fiscal year ended June 30, 2014, 66 percent of students were eligible for financial aid programs, compared to 71 percent and 63 percent in the fiscal years ended June 30, 2013 and 2012, respectively. The average amount of financial aid awards decreased slightly from the prior year, with the average financial aid award in fiscal year 2014 being $8,662, compared to $8,859 and $8,870 in fiscal years 2013 and 2012, respectively. As the University remains heavily reliant on financial aid as a payment method for students, changes in federal and state legislation regarding financial aid program funding could have a material effect on students' ability to pay for higher education and affect enrollment at the University.

In summary, the University will face challenges in the upcoming 2015-2016 biennium and beyond as it attempts to cope with enrollment growth and management, reduced state appropriations, potential changes in financial aid funding, and restrictions on tuition rate increases. However, the substantial efforts being made by investing in academic partnerships, online learning, new programs, and new methods of delivery such as accelerated degree programs and competency-based degrees, as well as investments in recruiting and retention of students, is expected to result in better positioning of the University for the future. The University is engaging in strategic positioning that is all about building on the University's strengths, as well as making necessary changes to position ourselves for sustainable future growth.

REQUESTS FOR INFORMATION

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

Chief Financial Officer/Vice President for Administrative Affairs
Metropolitan State University
700 East 7th Street
St. Paul, MN 55106-5000

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

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 36,906	$ 36,139
Grants receivable	1,029	867
Accounts receivable, net	1,974	2,377
Prepaid expense	906	1,022
Other assets	8	8
Total current assets	40,823	40,413
Current Restricted Assets		
Cash and cash equivalents	30,654	33,748
Total current restricted assets	30,654	33,748
Noncurrent Restricted Assets		
Construction in progress	3,868	523
Total noncurrent restricted assets	3,868	523
Total restricted assets	34,522	34,271
Noncurrent Assets		
Capital assets, net	39,410	41,135
Total noncurrent assets	39,410	41,135
Total Assets	114,755	115,819
Liabilities		
Current Liabilities		
Salaries and benefits payable	4,517	4,004
Accounts payable	1,450	1,417
Unearned revenue	2,659	2,457
Payable from restricted assets	4,740	151
Interest payable	285	333
Funds held for others	58	102
Current portion of long-term debt	677	736
Other liabilities	725	-
Advances to other schools	24	31
Other compensation benefits	580	541
Total current liabilities	15,715	9,772
Noncurrent Liabilities		
Noncurrent portion of long-term debt	40,096	40,978
Other compensation benefits	5,477	5,322
Total noncurrent liabilities	45,573	46,300
Total Liabilities	61,288	56,072
Net Position		
Net investment in capital assets	32,643	33,564
Restricted expendable, bond covenants	-	316
Restricted expendable, other	1,674	1,682
Unrestricted	19,150	24,185
Total Net Position	$ 53,467	$ 59,747

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 1,381	$ 1,559
Investments	647	375
Pledges and contributions receivable. Net	85	75
Other receivables	2	3
Total current assets	2,115	2,012
Noncurrent Assets		
Investments held for endowment	3,178	2,860
Other assets held for endowment	30	63
Total noncurrent assets	3,208	2,923
	$ 5,323	$ 4,935
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 399	$ 547
Scholarships payable	22	10
	421	557
Net Assets		
Unrestricted	257	190
Temporarily restricted	2,136	1,744
Permanently restricted	2,509	2,444
	4,902	4,378
Total Liabilities and Net Assets	$ 5,323	$ 4,935

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 28,348	$ 29,180
Fees, net	1,407	1,881
Sales, net	927	930
Restricted student payments, net	326	-
Other income	132	280
Total operating revenues	31,140	32,271
Operating Expenses		
Salaries and benefits	53,907	49,897
Purchased services	10,514	9,504
Supplies	2,450	2,182
Repairs and maintenance	1,725	1,150
Depreciation	2,258	2,261
Financial aid, net	1,648	1,313
Other expense	5,985	2,853
Total operating expenses	78,487	69,160
Operating loss	(47,347)	(36,889)
Nonoperating Revenues (Expenses)		
Appropriations	22,914	20,758
Federal grants	14,101	13,412
State grants	4,718	3,969
Private grants	745	1,189
Interest income	232	216
Interest expense	(1,324)	(535)
Grants to other organizations	(24)	(24)
Total nonoperating revenues (expenses)	41,362	38,985
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,985)	2,096
Capital appropriations	61	926
Loss on disposal of capital assets	(356)	(49)
Change in net position	(6,280)	2,973
Total Net Position, Beginning of Year	59,747	56,774
Total Net Position, End of Year	$ 53,467	$ 59,747

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 715	$ 437	$ 57	$ 1,209	$ 1,175
Unrealized gains	14	-	8	22	19
Investment income (loss)	59	284	-	343	259
Net assets released from restrictions	318	(318)	-	-	-
Total support and revenue	1,106	403	65	1,574	1,453
Expenses					
Program services					
Program Services	595	-	-	595	1,202
Total program services	595	-	-	595	1,202
Supporting services					
Management and general	209	-	-	209	277
Fundraising	246	-	-	246	364
Total supporting services	455	-	-	455	641
Total expenses	1,050	-	-	1,050	1,843
Change in Net Assets	56	403	65	524	(390)
Net Assets, Beginning of Year	190	1,744	2,444	4,378	4,768
Net Asset Transfer Related to Application of UPMIFA	11	(11)	-	-	-
Net Assets, End of Year	$ 257	$ 2,136	$ 2,509	$ 4,902	$ 4,378

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 31,458	$ 31,500
Cash paid to suppliers for goods or services	(17,581)	(15,871)
Cash payments for employees	(53,200)	(48,925)
Financial aid disbursements	(1,637)	(1,313)
Net cash flows used in operating activities	(40,960)	(34,609)
Cash Flows from Noncapital Financing Activities		
Appropriations	22,914	20,758
Federal grants	14,225	13,287
State grants	4,718	3,969
Private grants	745	1,189
Agency activity	(44)	77
Loans from other schools	(7)	31
Grants to other organizations	(24)	(24)
Net cash flows provided by noncapital financing activities	42,527	39,287
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(1,961)	(2,678)
Capital appropriation	61	926
Inter-capital transfer of restricted cash	-	164
Proceeds from sale of capital assets	-	5
Proceeds from borrowing	11	31,916
Proceeds from bond premium	15	2,786
Interest paid	(1,343)	(172)
Repayment of bond principal	(668)	(731)
Net cash flows provided by (used in) capital and related financing activities	(3,885)	32,216
Cash Flows from Investing Activities		
Investment earnings	(9)	(24)
Net cash flows used in investing activities	(9)	(24)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,327)	36,870
Cash and Cash Equivalents, Beginning of Year	69,887	33,017
Cash and Cash Equivalents, End of Year	$ 67,560	$ 69,887

The notes are an integral part of the financial statements.

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

	2014	2013
Operating Loss	$ (47,347)	$ (36,889)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	2,258	2,261
Change in assets and liabilities		
Accounts receivable	191	(668)
Accounts payable	2,346	(157)
Salaries and benefits payable	514	884
Other compensation benefits	193	88
Unearned revenues	127	(104)
Other liabilities	758	(24)
Net reconciling items to be added to operating loss	6,387	2,280
Net cash flow used in operating activities	$ (40,960)	$ (34,609)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 4,740	$ 151
Amortization of bond premium	240	239

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Metropolitan State University, a member of the Minnesota State Colleges and Universities system, conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows include financial activities of Metropolitan 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. Metropolitan State University receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39; *Determining Whether Certain Organizations are Component Units*. Metropolitan State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 17. Complete financial statements may be obtained from Metropolitan State University Foundation, 700 East Seventh Street, St. Paul, MN 55106-5000.

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

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

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

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

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

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

Cash and Cash Equivalents — The cash balance represents cash in the state treasury and demand deposits in local bank accounts 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. The Revenue Fund holds restricted cash for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net position of revenue producing facilities. 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 has one checking account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary operations, and student activities.

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

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

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

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

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

Estimated useful lives are as follows:

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

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

Funds Held for Others — Funds held for others are 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 compensated absences, early termination benefits, net other postemployment benefits, and workers' compensation claims.

Minnesota State Colleges and Universities may finance the construction, renovation, and acquisition of facilities for student residences, student unions, and parking facilities 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 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 amounts received from grants which have not yet been earned under the terms of the agreement.

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

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances. The University does not conduct retail sales. See Note 10 for additional information.

Restricted Student Payments — Restricted student payments consist of fee revenue restricted for payment of revenue bonds, and are net of scholarship allowance. See Note 10 for additional information.

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

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

Net Position — The difference between assets and liabilities is net position. Net position are 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:
    Capital projects — restricted for completion of capital projects.
    Debt service — legally restricted for bond repayments.
    Donations — restricted per donor requests.
    Faculty contract obligations — faculty development and travel required by contracts.

Net Position Restricted for Other
(In Thousands)

	2014	2013
Capital projects	$ —	$ 12
Debt service	869	956
Donations	314	247
Faculty contract obligations	491	467
Total	$ 1,674	$ 1,682

- *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 a checking account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

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

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State Colleges and Universities' name. Category 3 includes uncollateralized cash and cash equivalents. All the University's cash and cash equivalents are classified as Category 1.

At June 30, 2014 and 2013, the University's bank balance was $2,506,050 and $2,397,260, respectively. These bank balances were adjusted by items in transit to arrive at the University's cash in bank balance.
The University's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands) Carrying Amount	2014	2013
Cash, in bank	$ 2,373	$ 2,129
Cash, trustee account (US Bank)	30,585	33,450
Total local cash and cash equivalents	32,958	35,579
Total treasury cash accounts	34,602	34,308
Grand Total	$ 67,560	$ 69,887

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

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

Within statutory parameters, the Minnesota State Board of Investment has established investment 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.

At June 30, 2014 and 2013, the University held no investments.

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

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

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

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

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals. At June 30, 2014 and 2013, the total accounts receivable balances for the University were $3,158,044 and $3,678,035, respectively, less an allowance for uncollectible receivables of $1,183,724 and $1,300,742, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2014	2013
Tuition	$ 1,793	$ 2,002
Financial aid	227	313
Fees	183	206
Sales and services	253	144
Third party obligations	523	426
Other	179	587
Total accounts receivable	3,158	3,678
Allowance for uncollectible accounts	(1,184)	(1,301)
Net accounts receivable	$ 1,974	$ 2,377

The allowance for uncollectible accounts has been computed based on the following aging schedule for fiscal years 2014 and 2013:

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 $868,658 and $956,566 for fiscal years 2014 and 2013, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on December 1 of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year. Also, included in prepaid expense for fiscal years 2014 and 2013 was $37,458 and $65,657, respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. 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	$ 4,193	$ 190	$ —	$ —	$ 4,383
Construction in progress	2,471	3,845	—	(304)	6,012
Total capital assets, not depreciated	6,664	4,035	—	(304)	10,395
Capital assets, depreciated:					
Buildings and improvements	55,791	—	554	304	55,541
Equipment	2,192	83	126	—	2,149
Library collections	1,343	119	222	—	1,240
Total capital assets, depreciated	59,326	202	902	304	58,930
Less accumulated depreciation:					
Buildings and improvements	21,998	1,947	197	—	23,748
Equipment	1,515	134	124	—	1,525
Library collections	819	177	222	—	774
Total accumulated depreciation	24,332	2,258	543	—	26,047
Total capital assets depreciated, net	34,994	(2,056)	359	304	32,883
Total capital assets, net	$ 41,658	$ 1,979	$ 359	$ —	$ 43,278

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 3,935	$ 258	$ —	$ —	$ 4,193
Construction in progress	1,048	2,062	177	(462)	2,471
Total capital assets, not depreciated	4,983	2,320	177	(462)	6,664
Capital assets, depreciated:					
Buildings and improvements	55,329	—	—	462	55,791
Equipment	2,381	200	389	—	2,192
Library collections	1,422	162	241	—	1,343
Total capital assets, depreciated	59,132	362	630	462	59,326
Less accumulated depreciation:					
Buildings and improvements	20,088	1,910	—	—	21,998
Equipment	1,681	159	325	—	1,515
Library collections	868	192	241	—	819
Total accumulated depreciation	22,637	2,261	566	—	24,332
Total capital assets depreciated, net	36,495	(1,899)	64	462	34,994
Total capital assets, net	$ 41,478	$ 421	$ 241	$ —	$ 41,658

6. ACCOUNTS PAYABLE

Accounts payable represent amounts due at June 30, 2014 and 2013, 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	$ 808	$ 817
Supplies	61	65
Financial aid	127	122
Repairs and maintenance	55	—
Other payables	399	413
Total	$ 1,450	$ 1,417

In addition, as of June 30, 2014 and 2013, the University had payable from restricted assets in the amounts of $4,739,040 and $151,266, respectively, which were related to capital projects financed by general obligation bonds. Of the $4,739,040 of payables from restricted assets, $2,314,266 is recorded as an estimated liability for soil remediation issues on a construction project.

7. LONG TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2014 and 2013 are as follows:

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 3,377	$ 15	$ 240	$ 3,152	$ —
General obligation bonds	6,802	11	727	6,086	677
Revenue bonds	31,535	—	—	31,535	—
Total long-term debt	$ 41,714	$ 26	$ 967	$ 40,773	$ 677

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 830	$ 2,786	$ 239	$ 3,377	$ —
General obligation bonds	7,135	381	714	6,802	736
Revenue bonds	—	31,535	—	31,535	—
Total long-term debt	$ 7,965	$ 34,702	$ 953	$ 41,714	$ 736

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	$ 4,468	$ 482	$ 519	$ 4,431	$ 547
Net other postemployment benefits	1,351	319	112	1,558	—
Workers' compensation	44	40	16	68	33
Total other compensation benefits	$ 5,863	$ 841	$ 647	$ 6,057	$ 580

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 4,403	$ 556	$ 491	$ 4,468	$ 520
Early termination benefits	4	—	4	—	—
Net other postemployment benefits	1,121	297	67	1,351	—
Workers' compensation	248	19	223	44	21
Total other compensation benefits	$ 5,776	$ 872	$ 785	$ 5,863	$ 541

Bond Premium— Bonds were issued in fiscal years 2014 and 2013 resulting in premiums of $15,467 and $2,786,301, respectively. Amortization is calculated using the straight-line method and amortized over the remaining average life of the bonds.

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

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue producing and related facilities at the state universities. Revenue funds currently outstanding have interest rates of 1.0 percent to 4.0 percent.

In fiscal year 2013 new bonds were issued totaling $31.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus.

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.

Net Other Postemployment Benefits — Net other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 8 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 $68,278 and $44,107 at 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.

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

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	$ 677	$ 282	$ —	$ 1,141
2016	644	249	—	1,141
2017	586	217	1,305	1,118
2018	586	188	1,345	1,070
2019	523	160	1,390	1,020
2020-2024	2,062	462	7,925	4,266
2025-2029	695	139	9,030	2,617
2030-2034	313	18	10,540	814
Total	$ 6,086	$ 1,715	$ 31,535	$ 13,187

8. 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 4 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 fiscal years 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)	$ 308	$ 289
Interest on net OPEB obligation	65	53
Adjustment to ARC	(54)	(45)
Annual OPEB cost	319	297
Contributions during the year	(112)	(67)
Increase in net OPEB obligation	207	230
Net OPEB obligation, beginning of year	1,351	1,121
Net OPEB obligation, end of year	$ 1,558	$1,351

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 year net OPEB obligation	$ 1,351	$ 1,121
Annual OPEB cost	319	297
Employer contribution	(112)	(67)
End of year net OPEB obligation	$ 1,558	$ 1,351
Percentage contributed	35.11%	22.56%

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.

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2012	$ —	$ 2,194	$ 2,194	0.00%	$ 36,430	6.02%

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.

9. 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 totaled $1,310,961 and $1,241,806 for fiscal years 2014 and 2013, respectively.

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC). The University has an agreement with MCTC to reimburse MCTC for a share of facilities expenses.

The University has an operating agreement with Hennepin Technical College (HTC) to lease space at the Law Enforcement and Criminal Justice Education Center, located on the campus of HTC. The agreement allocates operating expenses between the University and HTC based on square footage allocated to each institution. The operating agreement is effective until July 1, 2015.

The University has extended the lease for current space at the Midway Campus through July 31, 2018. In addition, the University entered into a new lease agreement effective August 1, 2013 through December 31, 2019 for increased leased space at the Midway Campus. Due to excess capacity in the Twin Cities' current office space market, the effect on total lease costs per annum is minimal.

Future minimum lease payments are as follows:

Year Ended June 30 (In Thousands)		
Year		Amount
2015	$	1,287
2016		1,308
2017		1,252
2018		1,271
2019		325
2020		120
Total	$	5,563

Income Leases — The University has an income lease with the Saint Paul Public Library Dayton's Bluff Branch that commenced on July 1, 2004 and continued through June 30, 2014. A new lease agreement with the Saint Paul Public Library Dayton's Bluff Branch is in negotiations and not yet finalized for the new lease term.

The University has an income lease with Verizon for a lease for cell phone tower located on campus. The current lease commenced February 6, 2004 and concluded on February 5, 2014. A new lease agreement with Verizon is in negotiations and not yet finalized for the new lease term.

10. TUITION, FEES, AND SALES, NET

The following tables provide information related to tuition, fees, and sales revenue:

Year Ended June 30
(In Thousands)

Description	2014 Gross	2014 Scholarship Allowance	2014 Net	2013 Gross	2013 Scholarship Allowance	2013 Net
Tuition	$ 43,568	$ (15,220)	$ 28,348	$ 43,085	$ (13,905)	$ 29,180
Fees	1,699	(292)	1,407	2,158	(277)	1,881
Sales	927	—	927	930	—	930
Restricted Student Payments	326	—	326	—	—	—
Total	$ 46,520	$ (15,512)	$ 31,008	$ 46,173	$ (14,182)	$ 31,991

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2014
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 14,184	$ 4,357	$ 6,267	$ 456	$ 25,264
Institutional support	5,744	1,602	4,990	180	12,516
Instruction	16,323	4,806	5,870	519	27,518
Public service	36	9	19	1	65
Research	256	82	62	8	408
Student services	5,092	1,373	2,423	159	9,047
Auxiliary enterprises	42	1	3,301	1	3,345
Scholarships & fellowships	—	—	1,648	—	1,648
Less interest expense	—	—	—	(1,324)	(1,324)
Total operating expenses	$ 41,677	$ 12,230	$ 24,580	$ —	$ 78,487

Year Ended June 30, 2013
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 11,387	$ 3,714	$ 5,412	$ 162	$ 20,675
Institutional support	5,398	1,656	4,562	76	11,692
Instruction	17,087	4,392	4,872	230	26,581
Public service	34	10	41	—	85
Research	206	81	173	3	463
Student services	4,370	1,208	1,993	60	7,631
Auxiliary enterprises	28	326	897	4	1,255
Scholarships & fellowships	—	—	1,313	—	1,313
Less interest expense	—	—	—	(535)	(535)
Total operating expenses	$ 38,510	$ 11,387	$ 19,263	$ —	$ 69,160

12. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal years 2012, 2013, and 2014 the funding requirement was 5 percent for both employer and employee. The contribution rate for both employer and employee will increase to 5.5 percent for fiscal year 2015. Actual contributions were 100 percent of required contributions.

Required contributions for Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 435
2013	403
2012	382

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 Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 377
2013	328
2012	269

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 Metropolitan State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2014	$ 1,401	$ 1,044
2013	1,318	984
2012	1,260	940

Supplemental Retirement Plan (SRP)

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

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

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

The 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 Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 564
2013	550
2012	547

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 140 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 109 participants.

13. 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 issued revenue bonds to finance the University parking ramp.

During fiscal year 2013, Minnesota State Colleges and Universities sold revenue bonds totaling $31.5 million to fund design and construction of a parking ramp and a student center on the Saint Paul campus.

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

	2014	2013
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 1,135	$ 650
Restricted assets	34,453	33,748
Noncurrent assets	—	523
Total assets	35,588	34,921
Liabilities		
Current liabilities	4,960	416
Noncurrent liabilities	34,006	34,143
Total liabilities	38,966	34,559
Net Position		
Restricted	(3,378)	362
Total net position	$ (3,378)	$ 362
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 325	$ 22
Operating expenses	(3,064)	(334)
Net operating loss	(2,739)	(312)
Nonoperating revenues (expenses)	(1,001)	(192)
Capital contributions	—	866
Change in net position	(3,740)	362
Net position, beginning of year	362	—
Net position, end of year	$ (3,378)	$ 362
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 282	$ 551
Investing activities	(124)	(135)
Capital and related financing activities	(2,855)	33,979
Net increase (decrease) in cash	(2,697)	34,395
Cash, beginning of year	34,395	—
Cash, end of year	$ 31,698	$ 34,395

14. RELATED PARTY TRANSACTIONS

The University's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC) and shares physical plant and institutional and academic support. The University and MCTC have an agreement to share costs using relevant cost bases. This agreement articulates a cost allocation methodology which ensures that equitable and complete costs are absorbed by both schools. In fiscal years 2014 and 2013, the University's shared cost expense was $467,838 and $425,294, respectively. The University had no shared costs payable to MCTC at June 30, 2014 and 2013, respectively.

The University leases space from Hennepin Technical College (HTC) in the Law Enforcement and Criminal Justice Education Center, a partnership between the University, Minneapolis Community and Technical College (MCTC), and HTC. As of July 1, 2010, ownership of the building was transferred to HTC, and the University and HTC executed an operating agreement to share costs based on each institution's share of the usable square footage of the building. Shared costs were $189,107 and $176,281 for fiscal years 2014 and 2013, respectively. The University recorded shared costs receivable from HTC of $83,017 and $102,074 at June 30, 2014 and 2013 respectively, for reimbursable information technology services.

During fiscal year 2014, the University executed a co-location agreement with Normandale Community College (NCC) to lease space in NCC's University Partnership Suite for baccalaureate completion programs. The University and NCC have an agreement to share costs using relevant cost bases. This agreement articulates a cost allocation methodology which ensures that equitable and complete costs are absorbed by both schools. In fiscal year 2014 the University's shared cost expense was $98,250. The University had no shared costs payable to NCC at June 30, 2014.

15. COMMITMENTS AND CONTINGENCIES

In fiscal year 2011, the University received bond funds for design of the Science Education Center on the St. Paul campus. Total cost of the project is $3.4 million, of which $1.8 million had been spent as of June 30, 2014. Residual commitments to the University total $1.6 million.

During fiscal year 2013, the University received revenue bond funds for the construction of a Parking Ramp and a Student Center on the St. Paul campus.

Due to soil contamination issues in the construction site, total cost of the parking ramp project has increased from $17.6 million to $24.3 million, of which $3.8 million had been expended with residual commitments of $20.5 million at June 30, 2014. During fiscal year 2014, soil contamination was found at the construction site of the student center project. As a result of these issues, the total cost of the student center project has been revised from $11.6 million to $12.3 million, of which $0.8 million had been expended with residual commitments of $11.5 million at June 30, 2014.

16. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. The University also purchases optional physical damage coverage for their newest or most expensive vehicles. Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage	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 and did not have any settlements in excess of coverage in the last three years.

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

Student intern professional liability per occurrence	$1,000,000
Student intern professional liability annual aggregate	$5,000,000

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

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

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

(In Thousands)				
Fiscal Years Ended	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
June 30, 2014	$ 44	$ 40	$ 16	$ 68
June 30, 2013	248	19	223	44

17. COMPONENT UNITS

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

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

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

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the FASB 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 that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets*: Net assets subject to donor imposed restrictions as to how the assets will be used.
- *Permanently Restricted Net Assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The University received $187,317 and $303,342 in fiscal years 2014 and 2013, respectively, from the Foundation for scholarships. In addition, the University received $133,855 and $583,650 for program support for the fiscal years ended June 30, 2014 and 2013, respectively. The University pays the salaries and benefits of certain individuals providing services to the Foundation. The estimated value of these salaries and benefits was $430,000 and $512,000 for the fiscal years ended June 30, 2014 and 2013, respectively.

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 statements of financial position.

Schedule of Investments at June 30
(In Thousands)

	2014	2013
Money market & certificate of deposit	$ 410	$ 710
Fixed income/bonds/US treasuries	1,483	938
Balanced mutual funds	670	905
Equity based mutual funds	1,132	513
Alternative investments	130	169
Total investments	$ 3,825	$ 3,235

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	$ (15)	$ 441	$ 2,444	$ 2,870
Change in value of trusts	—	284	65	349
Amounts appropriated for expenditures	—	(35)	—	(35)
Other transfers	11	(11)	—	—
Net assets, end of year	$ (4)	$ 679	$ 2,509	$ 3,184

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	$ (27)	$ 353	$ 2,429	$ 2,755
Change in value of trusts	—	206	15	221
Amounts appropriated for expenditures	—	(106)	—	(106)
Other transfers	12	(12)	—	—
Net assets, end of year	$ (15)	$ 441	$ 2,444	$ 2,870

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2014, the University issued additional $1,654,000 revenue bonds to fund soil contamination issues found in the construction site of the Parking Ramp and Student Center projects. The University issued an additional $1,545,000 of tax exempt bonds for the Parking Ramp project, and $110,000 of taxable revenue bonds for the Student Center project.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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METROPOLITAN 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	$ —	$ 3,245	$ 3,245	0.00%	$ 29,010	11.19%
July 1, 2008	—	2,323	2,323	0.00	29,905	7.77
July 1, 2010	—	2,709	2,709	0.00	35,364	7.66
July 1, 2012	—	2,194	2,194	0.00	36,430	6.02

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SUPPLEMENTARY SECTION

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 Metropolitan 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 Metropolitan 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 Metropolitan State University Foundation. The financial statements of the Metropolitan 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 Metropolitan 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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