

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
December 3, 2013

Audit Committee Members Present: Trustees Ann Anaya, Chair (by phone); Philip Krinkie, Elise Ristau, David Paskach (by phone), and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, Trustees Clarence Hightower, Chair; Duane Benson, Dawn Erlandson, Alfredo Oliveira, and Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on December 3, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Vice Chair Krinkie called the meeting to order at 2:00 p.m. and reviewed the agenda.

1. Review and Approve Release of the 2013 Audited Financial Statements

Trustee Krinkie introduced Mr. Tom Koop, an audit partner with CliftonLarsonAllen, who in turn introduced Mr. Craig Popenhagen who was the partner-in-charge of the revenue fund and the single audit student financial assistance.

Mr. Koop reviewed the audit scope and coverage of the systemwide audit. He stated that the financial statements were fairly stated, clean opinion, with no material weaknesses or significant deficiencies in internal controls and no compliance issues.

Mr. Koop reviewed the process for the systemwide financial statement audit and discussed materiality thresholds. He stated that there were no internal control issues to report. Mr. Koop pointed out that this was the fourth consecutive year of positive audit results. He stated that it was commendable, and evident that the management of the organization has taken process and control very seriously.

Mr. Koop reviewed the four new Governmental Accounting Standards Board [GASB] standards that took place this year, noting that they had a minimal effect. Mr. Koop reviewed the new GASB 68 that will be applied June 20, 2015, which will require the system to record a liability for its "share" of any unfunded liability for pension plans. Vice Chancellor Laura King, Chief Financial Officer, stated that this new standards would have implication for only about half of the system employees. She noted that Minnesota Management and Budget and the state Pension programs would do the calculations. Ms. King noted that Minnesota has a better than average funded defined benefits program, and she added that while MnSCU represents about a third of all state employees, the system has had a long history with defined contribution programs which will offset this liability. She did caution that the system would see a material number, but added that in the world of pension liabilities, it would not be as

large as other numbers around the country.

Mr. Koop reviewed the three Levels of Financial Management as described by the Government Finance Officers Association's "Financial Management (FM) Tool." Mr. Koop stated that financial strength, stability and a solid reporting process at the system level as well as at the college and university level would continue to be key to the success of the organization. He emphasized that strong financial management was essential.

Trustee Hightower asked where the system was on the Levels of Financial Management pyramid. Mr. Koop stated that from a conservative auditor perspective, he would always like to see more money in reserves, but he added that he believed the organization was clearly in the upper end of financial stability and even into sustainability. Trustee Krinkie reminded audit committee members that they would have a chance to look at the Composite Financial Index in greater detail at the January finance committee meeting.

Finally Mr. Koop stated that the audit process went really well and he added he thought it even improved again this year. He stated that everyone in the management and reporting team were aware of their responsibilities and were always open to improvements even on the smallest items that were reported. He commended the whole group for their communication and professionalism.

Trustee Krinkie expressed his appreciation to the external audit partners. He also congratulated the staff throughout the system and at the system office for their hard work that sustained clean audit report results for a fourth year in a row. Vice Chancellor King echoed his praise. She added her appreciation to the audit committee members for the time and diligence they put into reviewing the financial statements. She thanked Ms. Denise Kirkeby, Mr. Metody Popov, and the whole financial reporting staff. She stated that it was a very small, highly skilled, and very committed to quality staff, and she thanked them for their passionate work on this process. And finally, Ms. King thanked all the staff at the campuses, because the work was really a product of the work of campus staff. Trustee Krinkie asked the financial reporting staff present at the meeting to stand and be recognized by the committee.

Ms. King stated that she planned to summarize the results, and would plan an expanded conversation on the financial condition at the college and university level at the finance committee in January.

Ms. King reviewed the systemwide assets, liabilities and net assets and the systemwide changes in financial position between fiscal years 2012 and 2013. She continued by explaining the systemwide revenues, expenses and net assets, and finally she reviewed components of the net operating revenue. Ms. King stated that revenues and expenses were essentially flat from one year to the next, but she stated that for the most part the colleges and universities had balanced their budgets in fiscal 2013. She added that budget reserves were preserved but they remain thinly funded. Ms. King stated that the detailed materials showed budget stress was starting to emerge at the college and university level, and could be seen in the decline in the Composite Financial Index from last year to 2013. She added that a

number of schools were flagged for an internal watch list program because they were starting to struggle to produce balanced operating budgets. Finally she stated that operating fund reserve changed less than a million dollars in the past year, which represents about two payroll cycles.

Trustee Hightower asked when foundation assets were included as part of the Composite Financial Index and when they were excluded. Ms. King stated that in certain circumstances the foundation assets are included when they were reported to the Higher Learning Commission. But she added that they record the numbers without the foundation assets because that gives a more pure representation of the operating experience.

Trustee Anaya thanked the auditors and Ms. King for the very informative presentation. She stated getting good news was even better knowing that such diligence went into the preparation of the financials.

Mr. Popenhagen stated that a clean audit opinion had been issued on the Revenue Fund financial statements. They were fairly stated in accordance with accounting principles. No significant deficiencies or material weaknesses had been identified in internal controls.

Mr. Koop presented information on the financial statement audits that his firm conducted for Metropolitan State University, Minneapolis Community and Technical College, Rochester Community and Technical College and Southwest Minnesota State University. Some of the key points shared by Mr. Koop were as follows:

- Unmodified Clean Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Mr. Koop noted that there was one significant deficiency at Rochester Community and Technical College. He stated that there were three journal entries that did not get properly recorded. He added that the entries were well below the materiality threshold and had occurred due to staffing turnover. Mr. Koop stated that there was a significant deficiency at Metropolitan State University related to some payroll process issues. The magnitude of that issue at June 30, 2013 was determined to be immaterial, but he added that issues have not come to final determination. Finally, Mr. Koop thanked the staff at the campuses, stating that everybody had been accommodating and helpful. He added that they had seen a very serious stewardship focus at the campuses.

Mr. Koop presented information on the financial statement audit of iSeek. He stated that previous significant deficiencies had been resolved. They issued an unmodified clean opinion on the financial statements. There were no material weaknesses or significant deficiencies.

Trustee Krinkie welcomed Mr. Steve Wischmann, partner with the firm of Kern, DeWenter and Viere. Mr. Wischmann presented information on the financial statement audits that his firm conducted for Hennepin Technical College, Minnesota State University, Mankato, Minnesota State University Moorhead, Normandale Community College, St. Cloud State University and Winona State University. Some of the key points shared by Mr. Wischmann

were as follows:

- Unmodified Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Trustee Krinkie welcomed Mr. Daryl DeKam, partner with the firm of Baker Tilly Virchow Krause. Mr. DeKam presented information on the financial statement audits that his firm conducted for Bemidji State University, Century College, and Minnesota State Community and Technical College. Some of the key points shared by Mr. DeKam were as follows:

- Unmodified Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Trustee Krinkie called for a motion to approve the release of the audited financial statements for 2013. *Trustee Vekich made the motion, Trustee Ristau seconded. There was no dissent and the motion carried.*

RECOMMENDED COMMITTEE ACTION:

The Audit Committee has reviewed the fiscal year 2013 audited financial statements and discussed them with representatives of management and the external auditing firms. The committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION:

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2013 audited financial statements as submitted.

The meeting adjourned at 2:54 p.m.