Minnesota State Colleges & Universities

Annual Financial Report

For the years ended June 30, 2014 and 2013

Minnesota
STATE COLLEGES
& UNIVERSITIES

MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 and 2013

Prepared by:

Minnesota State Colleges and Universities
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MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 and 2013

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 14, 2014

Members of the Board of Trustees
Chancellor Steven J. Rosenstone

I am pleased to submit to you the audited financial report for the Minnesota State Colleges and Universities system for the fiscal years ended June 30, 2014 and 2013. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

We are also providing separately audited financial statements for the Revenue Fund, and four of our state universities. The completion of separately audited financial statements for four of the 31 colleges and universities places 26 percent of the expenses of the Minnesota State Colleges and Universities system under separate stand alone audits. It is worth noting that the systemwide audit opinion, the Revenue Fund opinion and the opinions for the four separate audits are each without modification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the system office.

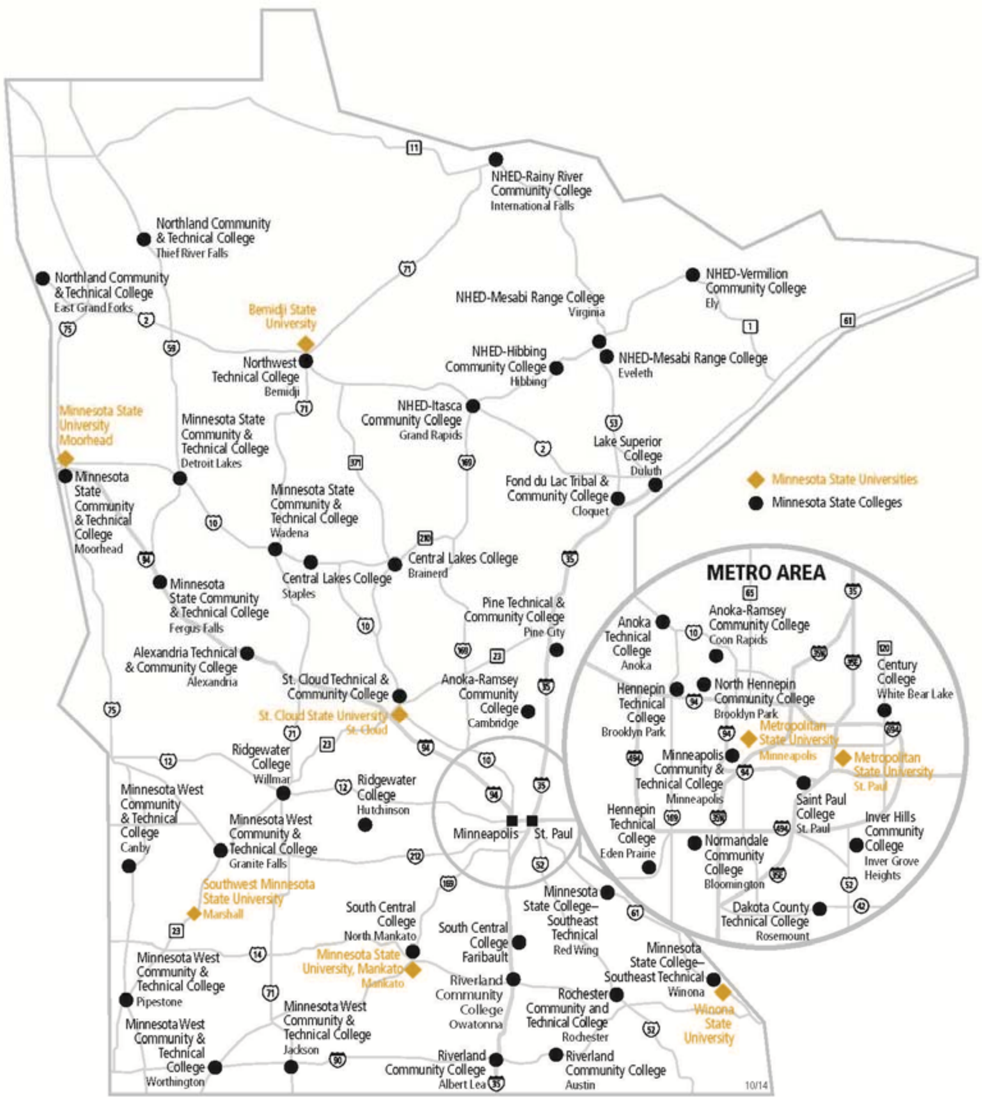
For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of the report. The Finance Division and the finance staff at every college and university are responsible for assuring the accuracy, reliability, fairness and completeness of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

Sincerely,

LMK

Laura M. King
Vice Chancellor – Chief Financial Officer

Minnesota State Colleges & Universities



TWO-YEAR COLLEGES

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

STATE UNIVERSITIES

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

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

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

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

Minnesota State Colleges and Universities

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

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

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

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

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

CENTURY COLLEGE
White Bear Lake
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1-800-228-1978
www.century.edu

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

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

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

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

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

ITASCA COMMUNITY COLLEGE**
Grand Rapids
Sue Collins, President
1-800-996-6422
www.itascacc.edu

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

MESABI RANGE COLLEGE**
Eveleth, Virginia
Sue Collins, President
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www.mesabirange.edu

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

MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL
Red Wing, Winona
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MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
Detroit Lakes, Fergus Falls, Moorhead, Wadena
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MINNESOTA STATE UNIVERSITY, MANKATO
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MINNESOTA STATE UNIVERSITY MOORHEAD
Moorhead
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MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
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NORMANDALE COMMUNITY COLLEGE
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NORTH HENNEPIN COMMUNITY COLLEGE
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NORTHLAND COMMUNITY & TECHNICAL COLLEGE
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NORTHWEST TECHNICAL COLLEGE*
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PINE TECHNICAL & COMMUNITY COLLEGE
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RAINY RIVER COMMUNITY COLLEGE**
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RIDGEWATER COLLEGE
Hutchinson, Willmar
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RIVERLAND COMMUNITY COLLEGE
Albert Lea, Austin, Owatonna
Adenuga Atewologun, President
1-800-247-5039
www.riverland.edu

ROCHESTER COMMUNITY AND TECHNICAL COLLEGE
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ST. CLOUD STATE UNIVERSITY
St. Cloud
Earl Potter, President
1-877-654-7278
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ST. CLOUD TECHNICAL & COMMUNITY COLLEGE
St. Cloud
Joyce Helens, President
1-800-222-1009
www.sctcc.edu

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

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

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

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

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

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

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

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (MnSCU) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise MnSCU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 79 percent of the total assets and 81 percent of the revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Auditors' Responsibility (Continued)

The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of MnSCU as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of MnSCU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MnSCU's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2014

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INTRODUCTION

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

The Minnesota State Colleges and Universities system, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 31 state universities, technical, and community colleges. Offering more than 3,700 educational programs, the system serves approximately 264,500 students annually in credit-based courses, as measured by unduplicated headcount enrollment. An additional 146,000 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs approximately 17,579 full time and part time faculty and staff.

FINANCIAL HIGHLIGHTS

The system's financial position improved slightly during fiscal year 2014 with net position increasing by $16.0 million, or 0.8 percent, on total revenues of $2.0 billion. This follows a $91.1 million, or 4.6 percent increase in net position during fiscal year 2013 on total revenues of $2.0 billion. The system's unrestricted net position decreased by $20.6 million, or 4.0 percent and increased $24.2 million, or 4.9 percent, in fiscal years 2014 and 2013 respectively.

- Income (loss) before other revenues, expenses, gains or losses, described further below as the system's net operating revenue, experienced a loss of $43.7 million in fiscal year 2014. This compares to a loss of $2.0 million and a gain of $63.0 million in fiscal years 2013 and 2012, respectively.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation increased in fiscal year 2014 by 6.9 percent after staying flat in fiscal year 2013. Gross tuition revenue decreased $27.7 million or 3.3 percent in fiscal year 2014. This is compared to the increase of $11.9 million or 1.4 percent, and $20.4 million or 2.5 percent in fiscal years 2013 and 2012, respectively. Undergraduate tuition rates were not increased in fiscal year 2014. In fiscal years 2013 and 2012, tuition rates increases averaged 3.9 percent and 4.0 percent, respectively.

- Federal grants decreased by 3.6 percent, or $13.2 million in fiscal year 2014 compared to fiscal year 2013, following a decrease of $1.3 million or 0.4 percent in fiscal year 2013 compared to fiscal year 2012. The decrease in fiscal year 2014 is primarily attributable to the decrease in enrollments and related financial aid.

- Salaries and benefits, the largest cost category in the system, increased $45.3 million, or 3.6 percent, in fiscal year 2014 and $48.5 million, or 4.0 percent, in fiscal year 2013. This cost constitutes 68.2 percent of the system's fiscal year 2014 total operating expenses, compared to 67.4 percent for fiscal year 2013.

- The number of students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2014, 2013 and 2012 totaled 144,524, 149,919, and 153,447, respectively. Enrollment in 2014 decreased 3.6 percent from fiscal year 2013 and 2.3 percent from between fiscal year 2013 and fiscal year 2012.

- Total debt supporting the system's capital asset investment programs decreased in fiscal year 2014 by $11.6 million to a total of $596.4 million, a 2.0 percent decrease. This decrease was mainly due to the fact that the system had no revenue bonds issued in fiscal year 2014, compared to fiscal year 2013.

- Total net position remained relatively flat at $2.1 billion in both fiscal years 2014 and 2013. Unrestricted net position decreased by 4.0 percent or $20.6 million in fiscal year 2014 compared to fiscal year 2013. This was offset by an increase of 2.4 percent or $35.6 million in net investment in capital assets, reflecting the system's commitment to maintaining and upgrading its facilities.

USING THE FINANCIAL STATEMENTS

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

FINANCIAL PERFORMANCE

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

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

FINANCIAL PERFORMANCE MEASURE

Composite Financial Index Ratios	System			Revenue Fund		
	2014	2013	2012	2014	2013	2012
Return on Net Position	0.08	0.46	0.65	0.00	0.37	1.17
Net Operating Revenue	(0.18)	(0.01)	0.26	0.00	0.33	1.00
Primary Reserve	0.86	0.91	0.92	2.19	3.02	2.72
Viability	0.89	0.90	0.95	0.25	0.25	0.31
CFI	**1.65**	**2.26**	**2.78**	**2.44**	**3.97**	**5.20**

The comparison in the table above uses four underlying financial ratio values and a CFI calculation methodology for the past three years for the system (including all funds) and the Revenue Fund. In comparison to other public colleges and universities data, as compiled by Moody's, the system's and Revenue Fund's composite values in fiscal years 2013 and 2012 are in the average to above average ranges. The fiscal year 2014 Moody's data is unavailable at this time for comparison purposes. The system's individual colleges and universities would show a similar range of composite values.

The two current operating measures, return on net position and net operating revenue, demonstrate the level of return on net position and the extent to which operating revenues do or do not cover operating expenses, respectively. In fiscal year 2014 there was a revenue decrease which was the result of declining enrollments coupled with caps on tuition rate increases. At the same time, operating expense increased due to the bargaining unit negotiated salary increases and the higher cost of insurance premiums. The operating expense increases, coupled with the operating revenue decreases resulted in a reduction to both return on net position and net operating revenue ratios in fiscal year 2014.

The primary reserve and viability ratios measure an organization's liquid net position that is available directly, or through additional borrowing, to cover emergency expenditures or invest in innovation. Representing available liquidity or borrowing capacity, these measures are not dependent on current operating results in the short-term. These measures are good indicators of financial health, and combined, are weighted 70 percent in the CFI calculation. Although both ratios decreased slightly in fiscal year 2014 compared to fiscal year 2013, they remain at high enough levels, to help keep the total CFI at above 1.5 levels, demonstrating the system's preparedness to deal with the current year's operational challenges. However, multiple future years with similar operational results can erode those two ratios further, pushing the CFI below 1.5. Strategic long-term planning continues to be a critical process at all institutions to avoid such a result.

STATEMENTS OF NET POSITION

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

Summarized statements of net position for fiscal years 2014, 2013 and 2012 follow (in thousands):

ASSETS, LIABILITIES AND NET POSITION

	2014	2013	2012
Current assets	$ 1,007,286	$ 1,016,388	$ 956,393
Current restricted assets	93,892	115,721	97,607
Noncurrent restricted assets	21,782	27,238	65,328
Noncurrent student loans, net	25,919	26,130	25,737
Noncurrent capital assets, net	1,994,028	1,939,855	1,809,959
Total assets	3,142,907	3,125,332	2,955,024
Current liabilities	305,064	292,106	263,174
Noncurrent liabilities	739,132	750,548	700,240
Total liabilities	1,044,196	1,042,654	963,414
Net investment in capital assets	1,464,361	1,428,789	1,355,857
Restricted	139,956	138,865	144,948
Unrestricted	494,394	515,024	490,805
Total net position	$ 2,098,711	$ 2,082,678	$ 1,991,610

The primary component of current assets is cash and cash equivalents (unrestricted), which decreased by $0.7 million to a total of $856.3 million at June 30, 2014. This $856.3 million of cash and cash equivalents plus investments of $26.9 million represent approximately 5.9 months of fiscal year 2014 operating expenses (excluding depreciation), an decrease of 0.2 months from fiscal year 2013. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2014 increased from the prior year by $13.5 million or 12.3 percent to a total of $122.6 million. Approximately $21 million of the current liabilities increase is due to fiscal year 2014 retroactive pay adjustments for employment contract settlements, which were paid after June 30. This increase to current liabilities was offset by approximately $13.0 million decrease due to third party providers payments that were disbursed on July 1 in fiscal year 2013 versus the end of June in fiscal year 2014. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year. Accounts payable, including payables from restricted assets, decreased $15.1 million or 20.8 percent, primarily due to less construction activity during fiscal 2014 compared to fiscal year 2013.

The noncurrent liabilities decreased by $11.4 million or 1.5 percent in fiscal year 2014 compared to fiscal year 2013. This was due to payments on the debt exceeding new issuance of debt in fiscal 2014 compared to fiscal 2013.

Net position represents the system's residual interest in total assets after deducting total liabilities. Net investment in capital assets, represents by far the largest portion of net position. Capital assets are carried at historical cost, not replacement cost. Restricted net position have constraints placed on their use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for debt service of $50.0 million, and restrictions imposed by bond covenants of $72.5 million, a $1.6 million increase over fiscal year 2013. Unrestricted net position decreased slightly from $515.0 million in fiscal year 2013, to $494.4 million in fiscal year 2014, a reduction of $20.6 million, or 4.0 percent.

CAPITAL AND DEBT ACTIVITIES

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

Fiscal year 2014 capital outlays totaled $159.4 million, including $138.2 million of new construction in progress, compared to fiscal year 2013 capital outlays which totaled $200.4 million, including $175.8 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long-term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the system is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The system recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the system has no debt service responsibility. In addition $3.3 million is included in state appropriation for asset repairs and improvements that are not capitalized. General obligation bonds payable totaled $238.0 million at June 30, 2014, a net increase of $6.8 million during the fiscal year. Revenue bonds payable at June 30, 2014 totaled $297.1 million, a net decrease of $12.6 million from June 30, 2013.

The percentage of total revenue expended to cover debt service (principal and interest payments on general obligation and revenue bonds, capital leases and notes payable) has increased from 1.9 percent or $38.8 million in fiscal year 2009, to 3.0 percent, or $60.3 million in fiscal year 2014.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Summarized statements of revenues, expenses and changes in net position for fiscal years 2014, 2013 and 2012 follow (in thousands):

REVENUES, EXPENSES AND NET POSITION

	2014	2013	2012
Operating revenues:			
Tuition, fees and sales, net	$ 704,798	$ 732,447	$ 724,284
Restricted student payments, net	105,294	104,706	107,255
Other income	14,098	14,224	17,002
Total operating revenues	824,190	851,377	848,541
Nonoperating and other revenues:			
State appropriation	591,242	553,246	551,293
Capital appropriation	54,729	88,497	56,361
Grants	469,987	479,360	474,307
Miscellaneous nonoperating and other revenues	11,946	10,374	7,765
Total nonoperating and other revenues	1,127,904	1,131,477	1,089,726
Total revenues	1,952,094	1,982,854	1,938,267
Operating expenses:			
Salaries and benefits	1,296,889	1,251,635	1,203,159
Other operating expenses	605,472	605,382	579,352
Total operating expenses	1,902,361	1,857,017	1,782,511
Interest and other nonoperating expenses	33,700	34,769	34,253
Total expenses	1,936,061	1,891,786	1,816,764
Change in net position	16,033	91,068	121,503
Net position, beginning of year	2,082,678	1,991,610	1,870,107
Net position, end of year	$ 2,098,711	$ 2,082,678	$ 1,991,610

The fiscal year 2014 total revenues decreased by 1.6 percent due primarily to the decrease in tuition, fees and sales due to declining enrollment along with a decrease in grants.

Compensation is the system's single largest expense component. Salaries and benefits expense increased $45.3 million, or 3.6 percent, in fiscal year 2014 and represented 68.2 percent of total operating expense. The fiscal year 2013 increase of $48.5 million, or 4.0 percent, represented 67.4 percent of total operating expense. Total compensation expense included fringe benefit costs of $318.2 million and $302.6 million in fiscal years 2014 and 2013, respectively. The increase in compensation costs in fiscal year 2014 is due primarily to collective bargaining settlements along with an increase to the employer portion of the insurance premiums.

All other operating expenses for fiscal year 2014 remained flat compared to an increase of 4.5 percent in 2013. The most significant increases by percentage from fiscal year 2012 to fiscal year 2013 was 25.3 percent or $8.9 million in financial aid, net. This increase is due to an increase in state financial aid which is being disbursed to students. Additionally, purchased services expense increased 6.7 percent or $14.2 million due to an increase in operating leases and one-time expenses incurred to implement various strategic initiatives

INVESTMENTS

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

FOUNDATIONS

The system's annual financial report for the years ended June 30, 2014 and 2013 includes financial statements for the foundations of all seven state universities, based on an assessment of the Foundations' significance to the system's financial statements. The accompanying financial report includes the Foundations' statements of financial position, and the Foundations' statements of activities, analogous to the systems' statements of revenues, expenses, and changes in net position. It should be noted that the Foundations' financial statements are not consolidated but are reported separately within the system's financial statements. The relationships between the Foundations and the related colleges and universities are described in Note 19.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Minnesota State Colleges and Universities maintained a sound financial position in fiscal year 2014. State appropriations along with student tuition and fees are the two primary sources of operating support for the system, allow the system to maintain ongoing operations, implement new programs tailored to meet the state's workforce needs, and implement innovative strategies for managing the challenges and opportunities faced by higher education. During the 2013 and 2014 legislative sessions, the state legislature approved an increase in appropriation sufficient to fund a system-wide tuition freeze for the biennium.

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

The state legislature froze undergraduate tuition rates for fiscal years 2014 and 2015. The state of Minnesota's improved financial condition allowed the legislature to allocate an increase in state appropriation which allowed for no tuition rate increases in fiscal year 2014. Having no rate increase and a declining or flat enrollment base will continue to put short-term pressure on Minnesota State Colleges and Universities revenue streams. As student tuition becomes a bigger piece of Minnesota State Colleges and Universities overall revenue totals, fluctuation in enrollment plays a bigger and more immediate impact; it will be critical to manage expenses at a rate that is less than the growth of revenue from state appropriations and tuition.

The system will also continue its management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include developing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services. In a comparison of similar institutions, Minnesota State Colleges and Universities ranks 38 out of 51 states and the District of Columbia in overall administrative spending per student. The system is committed to realizing further efficiencies over the next biennium.

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

REQUESTS FOR INFORMATION

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

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 856,260	$ 856,943
Investments	26,919	26,165
Grants receivable	15,891	22,970
Accounts receivable, net	57,887	61,085
Prepaid expense	28,707	28,512
Inventory	15,353	14,650
Student loans, net	4,147	3,840
Other assets	2,122	2,223
Total current assets	1,007,286	1,016,388
Current Restricted Assets		
Cash and cash equivalents	93,892	115,721
Total current restricted assets	93,892	115,721
Noncurrent Restricted Assets		
Other assets	298	293
Construction in progress	21,484	26,945
Total noncurrent restricted assets	21,782	27,238
Total restricted assets	115,674	142,959
Noncurrent Assets		
Student loans, net	25,919	26,130
Capital assets, net	1,994,028	1,939,855
Total noncurrent assets	2,019,947	1,965,985
Total Assets	3,142,907	3,125,332
Liabilities		
Current Liabilities		
Salaries and benefits payable	122,547	109,089
Accounts payable	43,686	47,907
Unearned revenue	52,226	40,531
Payable from restricted assets	13,842	24,714
Interest payable	3,049	3,236
Funds held for others	8,706	9,158
Current portion of long-term debt	38,859	36,890
Other compensation benefits	20,676	19,654
Other liabilities	1,473	927
Total current liabilities	305,064	292,106
Noncurrent Liabilities		
Noncurrent portion of long-term debt	557,565	571,183
Other compensation benefits	151,966	149,703
Capital contributions payable	29,601	29,662
Total noncurrent liabilities	739,132	750,548
Total Liabilities	1,044,196	1,042,654
Net Position		
Net investment in capital assets	1,464,361	1,428,789
Restricted expendable, bond covenants	72,499	70,852
Restricted expendable, other	67,457	68,013
Unrestricted	494,394	515,024
Total Net Position	$ 2,098,711	$ 2,082,678

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 8,361	$ 8,667
Investments	64,905	68,289
Restricted cash and cash equivalents	1,022	1,022
Pledges and contributions receivable, net	7,022	6,588
Other receivables and Other assets	727	283
Annuities/Remainder interests/Trusts	325	230
Finance lease receivable	870	845
Total current assets	83,232	85,924
Noncurrent Assets		
Annuities/Remainder interests/Trusts	468	449
Long-term pledges receivable	12,867	16,093
Finance lease receivable, net	6,678	7,548
Investments	95,077	66,010
Restricted investments	6,174	5,754
Buildings, property and equipment, net	19,706	19,445
Other assets	1,795	1,499
Total noncurrent assets	142,765	116,798
Total Assets	225,997	202,722
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	1,055	1,202
Interest payable	96	118
Unearned revenue	326	212
Annuities payable	505	373
Notes payable	706	1,096
Bonds payable	1,411	1,358
Scholarships payable and Other liabilities	330	111
Total current liabilities	4,429	4,470
Noncurrent Liabilities		
Annuities payable and Unitrust liabilities	2,032	3,234
Notes payable	9,701	11,810
Bonds payable	16,436	17,662
Total noncurrent liabilities	28,169	32,706
Total Liabilities	32,598	37,176
Net Assets		
Unrestricted	6,202	14,321
Temporarily restricted	80,263	51,273
Permanently restricted	106,934	99,952
Total Net Assets	193,399	165,546
Total Liabilities and Net Assets	$ 225,997	$ 202,722

The notes are an integral part of the financial statements.

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

	2014	2013
Operating Revenues		
Tuition, net	$ 521,040	$ 542,199
Fees, net	67,610	68,369
Sales and room and board, net	116,148	121,879
Restricted student payments, net	105,294	104,706
Other income	14,098	14,224
Total operating revenues	824,190	851,377
Operating Expenses		
Salaries and benefits	1,296,889	1,251,635
Purchased services	234,002	225,056
Supplies	141,157	145,557
Repairs and maintenance	32,031	33,608
Depreciation	113,497	107,890
Financial aid, net	38,446	43,782
Other expense	46,339	49,489
Total operating expenses	1,902,361	1,857,017
Operating loss	(1,078,171)	(1,005,640)
Nonoperating Revenues (Expenses)		
Appropriations	591,242	553,246
Federal grants	354,652	367,862
State grants	92,917	91,665
Private grants	22,418	19,809
Interest income	6,927	5,836
Interest expense	(23,464)	(22,758)
Grants to other organizations	(10,236)	(12,004)
Total nonoperating revenues (expenses)	1,034,456	1,003,656
Loss Before Other Revenues, Expenses, Gains, or Losses	(43,715)	(1,984)
Capital appropriations	54,729	88,497
Capital grants	-	24
Donated assets and supplies	4,452	4,538
Gain (loss) on disposal of capital assets	567	(7)
Change in net position	16,033	91,068
Total Net Position, Beginning of Year	2,082,678	1,991,610
Total Net Position, End of Year	$ 2,098,711	$ 2,082,678

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Support and Revenue				
Contributions	$ 7,016	$ 10,681	$ 5,023	$ 22,720
Endowment gifts	-	-	1,609	1,609
In-kind contributions	4,342	421	9	4,772
Investment income	760	7,661	14	8,435
Realized gains (losses)	173	6,451	3	6,627
Unrealized gains (losses)	200	7,030	47	7,277
Program income	1,185	118	-	1,303
Special events	1	9	-	10
Fundraising income	22	266	-	288
Other income	877	230	47	1,154
Reclassification of net assets	(27)	3	24	-
Net assets released from restrictions	3,674	(3,880)	206	-
Total support and revenue	18,223	28,990	6,982	54,195
Expenses				
Program services				
Program services	4,071	-	-	4,071
Scholarships	10,628	-	-	10,628
Institutional activities	1,331	-	-	1,331
Special projects	1,932	-	-	1,932
Total program services	17,962	-	-	17,962
Supporting services				
Interest expense	372	-	-	372
Management and general	3,244	-	-	3,244
Fundraising	4,742	-	-	4,742
Other expense	22	-	-	22
Total supporting services	8,380	-	-	8,380
Total expenses	26,342	-	-	26,342
Change in Net Assets	(8,119)	28,990	6,982	27,853
Net Assets, Beginning of Year	14,321	51,273	99,952	165,546
Net Assets, End of Year	$ 6,202	$ 80,263	$ 106,934	$ 193,399

The notes are an integral part of the financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Support and Revenue				
Contributions	$ 5,937	$ 13,010	$ 3,989	$ 22,936
Endowment gifts	-	-	3,503	3,503
In-kind contributions	4,060	560	10	4,630
Investment income	1,369	4,294	3	5,666
Realized gains (losses)	3,035	382	1	3,418
Unrealized gains (losses)	161	4,843	(57)	4,947
Program income	1,292	263	-	1,555
Special events	-	12	-	12
Fundraising income	26	214	-	240
Other income	815	115	1	931
Reclassification of net assets	455	(755)	300	-
Net assets released from restrictions	11,110	(11,128)	18	-
Total support and revenue	28,260	11,810	7,768	47,838
Expenses				
Program services				
Program services	4,593	-	-	4,593
Scholarships	9,963	-	-	9,963
Institutional activities	1,056	-	-	1,056
Special projects	1,299	-	-	1,299
Total program services	16,911	-	-	16,911
Supporting services				
Interest expense	444	-	-	444
Management and general	2,843	-	-	2,843
Fundraising	4,572	-	-	4,572
Other expense	7	-	-	7
Total supporting services	7,866	-	-	7,866
Total expenses	24,777	-	-	24,777
Change in Net Assets	3,483	11,810	7,768	23,061
Net Assets, Beginning of Year	10,838	39,463	92,184	142,485
Net Assets, End of Year	$ 14,321	$ 51,273	$ 99,952	$ 165,546

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	$ 825,472	$ 852,672
Cash repayment of program loans	4,396	4,098
Cash paid to suppliers for goods or services	(450,544)	(442,474)
Cash payments for employees	(1,279,654)	(1,225,007)
Financial aid disbursements	(38,507)	(43,949)
Cash payments for program loans	(4,965)	(4,758)
Net cash flows used in operating activities	(943,802)	(859,418)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	591,242	553,246
Federal grants	362,086	356,466
State grants	92,917	91,665
Private grants	22,418	19,809
Agency activity	(451)	(1,003)
Grants to other organizations	(10,236)	(12,004)
Net cash flows provided by noncapital and related financing activities	1,057,976	1,008,179
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(175,743)	(200,937)
Capital appropriation	67,984	86,285
Capital grants	-	24
Proceeds from sale of capital assets and insurance proceeds	1,011	1,563
Proceeds from borrowing	25,806	99,783
Proceeds from bond premiums	2,460	11,519
Interest paid	(23,622)	(22,180)
Repayment of lease principal	(4,563)	(4,671)
Repayment of note principal	(779)	(693)
Repayment of bond principal	(32,394)	(57,579)
Net cash flows used in capital and related financing activities	(139,840)	(86,886)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,871	6,664
Purchase of investments	(3,316)	(6,518)
Investment earnings	2,599	3,306
Net cash flows provided by investing activities	3,154	3,452
Net Increase (Decrease) in Cash and Cash Equivalents	(22,512)	65,327
Cash and Cash Equivalents, Beginning of Year	972,664	907,337
Cash and Cash Equivalents, End of Year	$ 950,152	$ 972,664

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Operating Loss	$ (1,078,171)	$ (1,005,640)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	113,497	107,890
Provision for loan defaults	25	38
Loan principal repayments	4,396	4,098
Loans issued	(4,965)	(4,758)
Forgiven loans	448	448
Donated and lease equipment not capitalized	4,452	4,630
Change in assets and liabilities		
Inventory	(704)	(87)
Accounts receivable	226	321
Accounts payable	(1,299)	6,351
Salaries and benefits payable	13,458	22,023
Other compensation benefits	3,286	5,900
Capital contributions payable	(61)	(168)
Unearned revenues	1,056	975
Other	554	(1,439)
Net reconciling items to adjust operating loss	134,369	146,222
Net cash flow used in operating activities	$ (943,802)	$ (859,418)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 14,891	$ 28,684
Amortization of bond premium	3,025	2,707

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Assets		
Mutual Funds	$ 1,559,662	$ 1,319,941
Total Assets	1,559,662	1,319,941
Liabilities		
Total Liabilities	-	-
Net Position Held in Trust for Pension Benefits	$ 1,559,662	$ 1,319,941

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT FUND
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Additions:		
Contributions		
Employer	$ 42,357	$ 41,965
Member	35,564	35,289
Contributions from roll overs and other sources	1,290	1,814
Total Contributions	79,211	79,068
Net Investment Gain	222,078	143,750
Total Additions	301,289	222,818
Deductions:		
Benefits and refunds paid to plan members	61,320	53,237
Administrative fees	248	246
Total Deductions	61,568	53,483
Net Increase	239,721	169,335
Net Position Held in Trust for Pension Benefits, Beginning of Year	1,319,941	1,150,606
Net Position Held in Trust for Pension Benefits, End of Year	$ 1,559,662	$ 1,319,941

The notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State Colleges and Universities conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows represent the financial activities of each institution and the System's activity in total.

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

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund, a legally separate entity are also included here. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund Financial Report. Copies are available from the financial reporting director at the address listed at the end of the Management's Discussion and Analysis section.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 19. For GASB financial statement purposes, most college foundations are not considered significant to the Minnesota State Colleges and Universities System and, therefore, are not included as discretely presented component units.

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

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

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

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

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

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

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

Winona State University Foundation
P.O.Box 583
175 West Mark Street
Winona, MN 55987-5838

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

Joint Ventures and Jointly Governed Organizations — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2014, joint ventures received revenues of $7,456,136 and incurred expenses of $7,460,914. In fiscal year 2013 the amounts for revenues and expenses were $7,559,502 and $7,200,708, respectively.

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

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

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

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

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

State appropriations do not lapse at fiscal yearend. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums. State appropriation included $3,324,564 and $7,424,163 in fiscal years 2014 and 2013 respectively, for asset repairs and improvements that are not capitalized.

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

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

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

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. Each campus has at least one account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

Investments — The Minnesota State Board of Investment invests Minnesota State Colleges and Universities' balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The Revenue Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services. Investments are reported at fair value using quoted market prices. Restricted investments are investments held in the Revenue Fund for capital projects and debt service. In addition, Minnesota State Colleges and Universities invests funds held for auxiliary and student activities in various brokerage accounts.

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

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

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

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

Estimated useful lives are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

  Restricted for bond covenants — revenue bond restrictions.

  Restricted for other — includes restrictions for the following:

    Capital projects — restricted for completion of capital projects.
    Debt service — legally restricted debt repayment.
    Donations — restricted per donor requests.
    Faculty contract obligations — for faculty development and travel as required.
    Loans — college and university capital contributions for Perkins Loans.

Net Position Restricted for Other
(In Thousands)

	2014	2013
Capital projects	$ 821	$ 4,536
Debt service	49,966	48,160
Donations	5,321	4,554
Faculty contract obligations	7,389	6,882
Loans	3,960	3,881
Total	$ 67,457	$ 68,013

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

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

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State Colleges and Universities' name. All cash and cash equivalents are included in Category 1. At June 30, 2014 and 2013, the local bank balances were $81,715,585 and $85,107,805, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

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

Year Ended June 30 (In Thousands)		
Carrying Amount	2014	2013
Cash, in bank	$ 49,799	$ 38,707
Money markets	5,678	9,791
Repurchase agreements	25,998	29,982
Cash, trustee account (US Bank)	55,311	80,253
Total local cash and cash equivalents	136,786	158,733
Total treasury cash accounts	813,366	813,931
Grand Total	$ 950,152	$ 972,664

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

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

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has foreign checking accounts, denominated entirely in British Pounds. At June 30, 2014 and 2013, the fair value in U.S. Dollars is $169,238 and $160,218, respectively.

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

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

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

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

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Minnesota State Colleges and Universities' policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit investments to the top quality rating categories of a nationally recognized rating agency.

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

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

As of June 30, 2014 and 2013, the Minnesota State Colleges and Universities had the following investments and maturities held in various brokerage accounts:

Year Ended June 30
(In Thousands)

Investment Type	2014 Fair Value	Weighted Maturity (Years)	2013 Fair Value	Weighted Maturity (Years)
Corporate/municipal bonds	$ 6,283	2.77	$ 8,477	2.88
U.S. agencies	11,824	6.59	10,763	8.73
Asset backed security	2	2.32	4	2.53
State investment pool cash equivalents	874	-	743	-
U.S. treasuries	809	2.02	122	1.69
Total	19,792		20,109	
Portfolio weighted average maturity		4.90		5.90
Certificates of deposit	3,082		1,936	
Money market mutual funds	-		610	
Stock	4,045		3,510	
Total	$ 26,919		$ 26,165	

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2014 and 2013. At June 30, 2014 and 2013, the total accounts receivable balances were $89,411,962 and $91,741,635, respectively, less an allowance for uncollectible receivables of $31,524,422 and $30,656,815, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2014	2013
Tuition	$ 45,013	$ 45,049
Fees	10,195	10,727
Sales and service	11,397	11,720
Room and board	4,230	3,876
Third party obligations	3,068	2,675
Capital projects	-	2,971
Financial Aid	6,095	5,486
Other	9,414	9,238
Total accounts receivable	89,412	91,742
Allowance for doubtful accounts	(31,525)	(30,657)
Net accounts receivable	$ 57,887	$ 61,085

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

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

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

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $27,587,619 and $26,771,315 for fiscal years 2014 and 2013, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. Also, included in prepaid expenses for fiscal years 2014 and 2013 were $1,119,419 and $1,740,829, respectively, stemming from prepaid maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State Colleges and Universities' loans collection unit and the colleges and universities are responsible for loans collection. As of June 30, 2014 and 2013, the loans receivable for this program totaled $32,892,486 and $32,769,779, respectively, less an allowance for uncollectible loans of $2,826,484 and $2,799,406, respectively.

6. CAPITAL ASSETS

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

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 84,013	$ 1,065	$ -	$ -	$ 85,078
Construction in progress	170,113	138,224	-	(145,444)	162,893
Total capital assets, not depreciated	254,126	139,289	-	(145,444)	247,971
Capital assets, depreciated:					
Buildings and improvements	2,934,797	-	1,766	145,444	3,078,475
Equipment	232,582	15,266	11,769	-	236,079
Internally developed software	12,628	1,535	3,449	-	10,714
Library collections	45,038	5,864	7,022	-	43,880
Total capital assets, depreciated	3,225,045	22,665	24,006	145,444	3,369,148
Less accumulated depreciation:					
Buildings and improvements	1,305,400	91,680	1,702	-	1,395,378
Equipment	173,350	13,718	12,088	-	174,980
Internally developed software	7,001	1,830	3,449	-	5,382
Library collections	26,620	6,269	7,022	-	25,867
Total accumulated depreciation	1,512,371	113,497	24,261	-	1,601,607
Total capital assets depreciated, net	1,712,674	(90,832)	(255)	145,444	1,767,541
Total capital assets, net	$ 1,966,800	$ 48,457	$ (255)	$ -	$ 2,015,512

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 83,322	$ 731	$ 40	$ -	$ 84,013
Construction in progress	180,082	175,802	-	(185,771)	170,113
Total capital assets, not depreciated	263,404	176,533	40	(185,771)	254,126
Capital assets, depreciated:					
Buildings and improvements	2,751,901	3,350	6,225	185,771	2,934,797
Equipment	229,249	13,583	10,250	-	232,582
Internally developed software	13,776	961	2,109	-	12,628
Library collections	46,124	5,935	7,021	-	45,038
Total capital assets, depreciated	3,041,050	23,829	25,605	185,771	3,225,045
Less accumulated depreciation:					
Buildings and improvements	1,224,519	85,982	5,101	-	1,305,400
Equipment	170,458	13,409	10,517	-	173,350
Internally developed software	7,046	2,064	2,109	-	7,001
Library collections	27,206	6,435	7,021	-	26,620
Total accumulated depreciation	1,429,229	107,890	24,748	-	1,512,371
Total capital assets, depreciated, net	1,611,821	(84,061)	857	185,771	1,712,674
Total capital assets, net	$ 1,875,225	$ 92,472	$ 897	$ -	$ 1,966,800

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2014	2013
Purchased services	$ 17,354	$ 16,137
Supplies	6,603	7,764
Repairs and maintenance	6,264	5,564
Other payables	7,192	4,701
Employee benefits	3,001	2,511
Inventory/Equipment	2,214	582
Capital projects	1,049	3,970
Grants to others	9	6,678
Total	$ 43,686	$ 47,907

In addition, as of June 30, 2014 and 2013, Minnesota State Colleges and Universities had payable from restricted assets in the amounts of $13,841,917 and $24,713,829, respectively, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2014 and 2013 follow:

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 27,901	$ 2,460	$ 3,025	$ 27,336	$ -
Capital leases	34,889	-	4,563	30,326	4,396
General obligation bonds	231,199	25,806	18,993	238,012	19,854
Notes payable	4,414	-	779	3,635	429
Revenue bonds	309,670	-	12,555	297,115	14,180
Total long-term debt	$ 608,073	$ 28,266	$ 39,915	$ 596,424	$ 38,859

Year Ended June 30, 2013
(In Thousands)

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

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	$ 133,079	$ 15,419	$ 15,654	$ 132,844	$ 16,226
Early termination benefits	3,530	1,516	1,838	3,208	1,774
Net other postemployment benefits	27,770	8,551	5,307	31,014	-
Workers' compensation	4,978	3,163	2,565	5,576	2,676
Total other compensation benefits	$ 169,357	$ 28,649	$ 25,364	$ 172,642	$ 20,676

Year Ended June 30, 2013
(In Thousands)

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

Bond Premium — Bonds were issued in fiscal years 2014 and 2013, resulting in net premiums of $2,460,191 and $11,518,917 respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

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

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

Notes Payable — Notes payable consist of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings, and financing agreements on computers and equipment that are under the equipment capitalization threshold. All projects completed under Minnesota Statutes, section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Section 16C.14, have an interest component. The interest rate for the energy loans is tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 3.65 percent to 8.98 percent.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 0.45 percent to 5.75 percent.

The revenue bonds are payable solely from and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2034. Annual principal and interest payments on the bonds are expected to require less than 23.83 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $411,365,157. Principal and interest paid for the current year and total customer net revenues were $24,877,293 and $109,857,394, respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 37.12 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $2,228,990. For the current year, principal and interest paid and total customer net revenues were $178,677 and $473,405, respectively. These revenue bonds have a variable interest rate of 0.75 percent to 3.65 percent.

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

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned. See Note 9 for details.

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

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $5,575,802 and $4,977,796 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.

Capital Contributions — The liabilities of $29,600,705 and $29,661,815 at June 30, 2014 and 2013, respectively, represent the amount Minnesota State Colleges and Universities would owe the federal government if it were to discontinue the Perkins loan program. The net decrease was $61,110 and $167,658 for fiscal years 2014 and 2013, respectively.

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

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

Long-Term Debt Repayment Schedule
(In Thousands)

	General Obligation Bonds		Revenue Bonds	
Fiscal Years	Principal	Interest	Principal	Interest
2015	$ 19,854	$ 10,833	$ 14,180	$ 11,895
2016	19,381	9,866	14,565	11,415
2017	18,762	8,913	15,635	10,901
2018	18,595	7,993	16,055	10,340
2019	17,983	7,094	16,665	9,725
2020-2024	79,274	22,973	86,790	38,281
2025-2029	49,235	7,592	83,740	20,000
2030-2034	14,928	1,106	49,485	3,923
Total	$ 238,012	$ 76,370	$ 297,115	$ 116,480

Long-Term Debt Repayment Schedule
(In Thousands)

	Capital Leases		Notes Payable	
Fiscal Years	Principal	Interest	Principal	Interest
2015	$ 4,396	$ 1,099	$ 429	$ 157
2016	4,297	1,201	410	139
2017	4,275	1,295	366	122
2018	4,264	1,389	390	106
2019	4,226	1,480	376	89
2020-2024	7,246	2,362	1,257	243
2025-2029	1,022	301	407	27
2030-2034	600	40	-	-
Total	$ 30,326	$ 9,167	$ 3,635	$ 883

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2014 and 2013.

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	28	$ 705
2013	23	780

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	71	$ 1,931
2013	88	2,365

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	21	$ 346
2013	15	312

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2014	12	$ 226
2013	3	73

10. NET OTHER POSTEMPLOYMENT BENEFITS

Minnesota State Colleges and Universities provide health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2012 there were approximately 671 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for 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)	$ 8,343	$ 7,954
Interest on net OPEB obligation	1,319	1,159
Adjustment to ARC	(1,111)	(977)
Annual OPEB cost	8,551	8,136
Contributions during the year	(5,307)	(4,752)
Increase in net OPEB obligation	3,244	3,384
Net OPEB obligation, beginning of year	27,770	24,386
Net OPEB obligation, end of year	$ 31,014	$ 27,770

Minnesota State Colleges and Universities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2014 and 2013 were as follows:

Year Ended June 30
(In Thousands)

	2014	2013
Beginning of year net OPEB obligation	$ 27,770	$ 24,386
Annual OPEB cost	8,551	8,136
Employer contribution	(5,307)	(4,752)
End of year net OPEB obligation	$ 31,014	$ 27,770
Percentage contributed	62.06%	58.41%

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	$ -	$ 80,571	$ 80,571	0.00	$ 914,791	8.81

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

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

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

11. LEASE AGREEMENTS

Operating Leases — Minnesota State Colleges and Universities is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2014 and 2013, totaled $18,137,251 and $18,334,228, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net position.

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

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2015	$ 13,126
2016	7,180
2017	5,235
2018	4,191
2019	2,730
2020-2024	9,335
2025-2029	3,794
2030-2034	419
Total	$ 46,010

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

- In fiscal year 2003, Minnesota State University Moorhead entered into a lease with the Minnesota State University Alumni Foundation. The lease was a $3,940,000, thirty year capital lease for John Neumaier Hall Apartments.
- In fiscal year 2005, the Minnesota State University, Mankato entered into a fifteen year, $3,281,428 (principal and interest) capital lease for an emergency generator.
- In March 2002, St. Cloud State University guaranteed revenue bonds issued by the city of Saint Cloud, Minnesota Housing and Redevelopment Authority to the Foundation. The proceeds of the bonds were used to fund an addition to the Atwood Memorial Center in the amount of $4,704,344 and a stadium and student recreation center in the amount of $10,084,954.
- In fiscal year 2011, St. Cloud State University entered into lease agreements with Wedum St. Cloud Housing LLLC for the Coborn Plaza residence hall and Welcome Center space for a term of ten years with two successive options for five year extensions. The annual rent ranges from $3,579,960 to $4,165,032.

The total cost of all capital assets acquired with capital leases and corresponding accumulated depreciation at June 30, 2014, are $53,023,604 and $18,458,846 respectively.

Income Leases — Minnesota State Colleges and Universities has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2014 and 2013 totaled $2,499,475 and $2,057,377, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position.

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2015	$ 2,046
2016	1,342
2017	1,057
2018	483
2019	351
2020-2024	726
Total	$ 6,005

12. TUITION, FEES, SALES AND ROOM AND BOARD

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

Year Ended June 30 (In Thousands)

	2014			2013		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 837,191	$ (316,151)	$ 521,040	$ 864,849	$ (322,650)	$ 542,199
Fees	87,812	(20,202)	67,610	90,094	(21,725)	68,369
Sales and room and board	129,714	(13,566)	116,148	136,235	(14,356)	121,879
Restricted student payments	107,404	(2,110)	105,294	106,955	(2,249)	104,706
Total	$ 1,162,121	$ (352,029)	$ 810,092	$1,198,133	$ (360,980)	$ 837,153

13. 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	$ 134,839	$ 45,143	$ 74,991	$ 1,984	$ 256,957
Institutional support	124,261	42,173	90,051	1,702	258,187
Instruction	521,878	166,862	153,411	7,213	849,364
Public service	7,854	2,395	8,123	122	18,494
Research	4,125	1,100	4,052	53	9,330
Student services	145,170	46,798	79,345	2,170	273,483
Auxiliary enterprises	40,515	13,776	157,053	10,220	221,564
Scholarships & fellowships	-	-	38,446	-	38,446
Less interest expense	-	-	-	(23,464)	(23,464)
Total operating expenses	$ 978,642	$ 318,247	$ 605,472	$ -	$ 1,902,361

Year Ended June 30, 2013 (In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 128,174	$ 41,854	$ 82,957	$ 1,843	$ 254,828
Institutional support	124,006	35,143	75,018	1,647	235,814
Instruction	504,707	166,383	148,602	7,521	827,213
Public service	8,546	2,559	9,994	128	21,227
Research	4,138	1,089	3,896	51	9,174
Student services	138,853	42,228	77,436	2,191	260,708
Auxiliary enterprises	40,603	13,352	163,697	9,377	227,029
Scholarships & fellowships	-	-	43,782	-	43,782
Less interest expense	-	-	-	(22,758)	(22,758)
Total operating expenses	$ 949,027	$ 302,608	$ 605,382	$ -	$ 1,857,017

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal years 2012, 2013 and 2014 the funding requirement was 5 percent for both employer and employee. 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 Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 11,599
2013	11,149
2012	10,856

Teachers Retirement Fund (TRF)

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

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

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

The statutory authority for TRF is Minnesota Statutes, Chapter 354. For fiscal 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 Minnesota State Colleges and Universities were:

(In Thousands)	
Fiscal Year	Amount
2014	$ 12,306
2013	11,432
2012	9,844

General Employees Retirement Fund (GERF)

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

GERF is a cost sharing, multiple employer defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts, and related organizations participate in the plan. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for members are 1.2 percent and 1.7 percent. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for GERF is Minnesota Statutes, Chapter 353. GERF establishes the employer and employee contribution rates on a calendar year basis rather than on a fiscal year basis. Effective January 1, 2011 and thereafter, employee and employer contribution rates were 6.25 percent and 6.25 percent, respectively. Actual contributions were 100 percent of required contributions.

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year	Employer	Employee
2014	$ 1,129	$ 955
2013	1,167	986
2012	1,229	1,037

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for the Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year	Employer	Employee
2014	$ 28,574	$ 21,356
2013	27,993	20,931
2012	26,291	19,685

Supplemental Retirement Plan (SRP)

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

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

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

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

Required contributions for Minnesota State Colleges and Universities were:

(In Thousands)		
Fiscal Year		Amount
2014	$	14,887
2013		14,926
2012		14,645

Voluntary Retirement Savings Plans

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

The Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2014, the plan has 4,348 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 has 2,439 participants.

15. SEGMENT INFORMATION

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

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

Summary financial information for Revenue Fund for the fiscal years ended June 30, 2014 and 2013 follows.

Summary Information for Revenue Fund
(In Thousands)

	2014	2013
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 84,111	$ 81,700
Restricted assets	104,490	139,858
Capital assets, net	357,921	334,980
Total assets	546,522	556,538
Liabilities		
Current liabilities	30,874	25,886
Noncurrent liabilities	298,092	313,069
Total liabilities	328,966	338,955
Net Position		
Net investment in capital assets	125,495	121,093
Restricted	92,061	96,490
Total net position	$ 217,556	$ 217,583
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 109,857	$ 109,368
Depreciation expense	(17,750)	(16,196)
Other operating expenses	(81,624)	(78,410)
Net operating income	10,483	14,762
Nonoperating revenues (expenses)		
Interest income	582	674
Interest expense	(11,274)	(10,615)
Private grants	181	-
Capital contributions	-	3,331
Gain (loss) on disposal of capital assets	1	(312)
Total nonoperating revenues (expenses)	(10,510)	(6,922)
Change in net position	(27)	7,840
Net position, beginning of year	217,583	209,743
Net position, end of year	$ 217,556	$ 217,583
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 31,529	$ 35,211
Noncapital and related financing activities	181	-
Capital and related financing activities	(59,517)	(3,641)
Investing activities	(67)	213
Net increase (decrease) in cash and cash equivalents	(27,874)	31,783
Cash and cash equivalents, beginning of year	191,847	160,064
Cash and cash equivalents, end of year	$ 163,973	$ 191,847

Summary financial information for Itasca Community College's Residence Halls (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2014 and 2013, respectively, follows.

Itasca Community College Financial Summary
(In Thousands)

	2014	2013
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 156	$ 89
Restricted assets	297	293
Capital assets, net	3,071	3,190
Total assets	3,524	3,572
Liabilities		
Current liabilities	138	146
Noncurrent liabilities	1,720	1,840
Total liabilities	1,858	1,986
Net Assets		
Net investment in capital assets	1,231	1,220
Restricted	298	293
Unrestricted	137	73
Total net position	$ 1,666	$ 1,586
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 473	$ 450
Depreciation expense	(119)	(119)
Other operating expenses	(230)	(205)
Net operating income	124	126
Nonoperating revenues (expenses)		
Interest/Other income	5	29
Interest expense	(49)	(139)
Total nonoperating revenues (expenses)	(44)	(110)
Changes in net position	80	16
Net position, beginning of year	1,586	1,655
Change in accounting principle	-	(85)
Net position, beginning of year, as restated	1,586	1,570
Net position, end of year	$ 1,666	$ 1,586
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 236	$ 243
Noncapital and related financing activities	-	150
Capital and related financing activities	(179)	(333)
Investing activities	-	21
Net increase in cash and cash equivalents	57	81
Cash and cash equivalents, beginning of year	79	(2)
Cash and cash equivalents, end of year	$ 136	$ 79

16. COMMITMENTS

Minnesota State Colleges and Universities Involvement in Ongoing Projects 2014
(In Thousands)

Institution Name	Project	Total Cost	Spent to Date	Balance	Completion Date
Bemidji	Memorial Hall and Decker Hall Renovations	$ 13,790	$ 1	$ 13,789	May 2016
Century	Academic Partners Classroom Addition	5,000	4,570	430	July 2014
Dakota	Transportation Lab Renovation	7,230	6,928	302	July 2014
Metropolitan	Student Center	12,272	809	11,463	July 2015
Metropolitan	Parking Ramp	24,332	3,738	20,594	July 2015
Minneapolis	Workforce Center Renovation	19,920	16,175	3,745	Dec 2015
Mankato	Clinical Sciences	35,865	489	35,376	TBD
Moorhead	Livingston Libraray Renovation	14,901	14,103	798	July 2014
North Hennepin	Bioscience & Health Careers Addition	27,139	23,455	3,684	Aug 2014
Ridgewater	Willmar Technical Instruction Lab	14,051	12,013	2,038	Sept 2014
Rochester	Workforce Center Co-Location Addition	8,946	6,825	2,121	Sept 2014
St. Cloud	Shoemaker Hall Renovation	18,097	16,342	1,755	Aug 2014
South Central	Classroom Renovation and Addition	13,775	10,726	3,049	Aug 2014

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

17. CONTINGENCIES

Lawsuits and other claims furnish a basis for potential liability. The following matters, in which Minnesota State Colleges and Universities, its officers or employees are respondents, may constitute a material claim, litigation or assessment in excess of $500,000.

Central Lakes College

A former student brought an action in federal district court claiming First Amendment and due process violations following the College's decision to dismiss him from the nursing program. In August 2014, the federal district court granted the College's motion for summary judgment. Plaintiff appealed the decision to the Eight Circuit Court of Appeals; appeal is pending. The College will continue to vigorously defend the case.

Hibbing Community College

Four former students in the now-closed helicopter pilot training program initiated a lawsuit in state district court alleging that program closure resulted in a loss of opportunity to obtain helicopter pilot licenses after the students spent a significant amount of money on flight training. The case is in discovery and the College will vigorously defend the case.

18. RISK MANAGEMENT

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

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

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2014 and 2013.

Coverage Type	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	$1,000,000
Primary re-insurer coverage	$1,000,001 to $25,000,000
Multiple re-insurers' coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by reinsurer	$2,500,000
Maintenance deductible for additional claims	$25,000

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

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

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

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

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

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/14	$ 4,978	$ 3,163	$ 2,565	$ 5,576
Fiscal Year Ended 6/30/13	6,937	2,443	4,402	4,978

19. COMPONENT UNITS

The following legally separate tax exempt foundations affiliated with Minnesota State Colleges and Universities are included as a major component unit of Minnesota State Colleges and Universities. The Bemidji State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., St. Cloud State University Foundation, Inc., Winona State University Foundation, Southwest Minnesota State University Foundation, and Metropolitan State University Foundation are formed for the purpose of obtaining and disbursing funds for the sole benefit of their college or university. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, Minnesota State Colleges and Universities presents the combined statement of financial position and the combined statement of activities of the foundations on separate pages of the financial statements.

Minnesota State Colleges and Universities received $13,557,002 and $13,203,591 in fiscal years 2014 and 2013, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State Colleges and Universities and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

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

The foundations financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*.

In fiscal year 2014, two of the foundations that were previously included as a discretely presented component unit were not included as they were no longer considered to be significant to the Minnesota State Colleges and Universities. As a result, the total net assets of the component units decreased $6,108,000, or 2.9 percent of the total net assets previously reported.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions and reported as follows:

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

In fiscal year 2014, revisions to the classification between unrestricted and temporarily restricted net assets deemed to be insignificant are presented in the statement of activities as a release from restrictions.

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

Schedule of Investments at June 30 (In Thousands)			Level 1	Level 2	Level 3
	2014	2013			
Money market	$ 2,351	$ 3,188	x		
Fixed income	7,968	6,251	x	x	
Mutual funds	111,708	91,995	x		
Equity securities	27,055	22,353	x		
Certificate of deposits	4,178	5,566		x	
Bonds/U.S treasuries	6,715	5,437		x	
Real estate	1,464	1,737			x
Other	4,717	3,526		x	x
Total	$ 166,156	$ 140,053			

Capital Assets — Summaries of the foundations' capital assets for fiscal years 2014 and 2013 follow:

Schedule of Capital Assets at June 30
(In Thousands)

	2014	2013
Capital assets, not depreciated		
Land	$ 2,421	$ 2,421
Total capital assets, not depreciated	2,421	2,421
Capital assets, depreciated:		
Leasehold improvments	107	107
Buildings and improvements	23,254	23,227
Equipment	1,960	980
Total capital assets, depreciated	25,321	24,314
Total accumulated depreciation	(8,036)	(7,290)
Total capital assets depreciated, net	17,285	17,024
Total capital assets, net	$ 19,706	$ 19,445

Long-Term Obligations— Payment schedule of the foundations' long-term obligations follow. Excluded from the table below is St. Cloud State University Foundation's unamortized bond premium of $869,674, which is amortized over the life of the bonds.

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2015	$ 2,117
2016	4,194
2017	3,480
2018	2,066
2019	1,947
Thereafter	13,580
Total	$ 27,384

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

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

Changes in endowment net assets as of June 30, 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	$ 2,432	$ 27,011	$ 98,092	$ 127,535
Change in value of trusts	9	3,234	87	3,330
Contributions	864	1,120	6,921	8,905
Investment income (loss)	180	14,195	(37)	14,338
Amounts appropriated for expenditures	(276)	(2,253)	42	(2,487)
Other transfers	(489)	(1,803)	200	(2,092)
Net assets, end of year	$ 2,720	$ 41,504	$ 105,305	$ 149,529

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 1,094	$ 18,858	$ 92,009	$ 111,961
Change in value of trusts	43	5,137	(38)	5,142
Contributions	836	226	5,818	6,880
Investment income	61	5,920	98	6,079
Amounts appropriated for expenditures	476	(2,080)	(126)	(1,730)
Other transfers	(78)	(1,050)	331	(797)
Net assets, end of year	$ 2,432	$ 27,011	$ 98,092	$ 127,535

20. ACTIVITIES WITH THE STATE OF MINNESOTA

Lending Activity — The Minnesota State Colleges and Universities general operating fund is a part of the state's general treasury account. During fiscal years 2014 and 2013 the state of Minnesota borrowed $400 million and $675 million respectively from Minnesota State Colleges and Universities general fund for cash flow purposes resulting from changes in the timing of the state tax revenue. The state of Minnesota repaid this with interest in full during fiscal years 2014 and 2013.

General Obligation Bond Issuances — In August 2014 $72.71 million in general obligation state bonds Series 2014A were issued at a true interest rate of 2.83 percent. In August 2014, an additional $23.05 million in general obligation taxable bonds Series 2014C were issued at a true interest rate of 3.01 percent and $16.44 million in general obligation taxable refunding bonds Series 2014D were issued at a true interest rate of 2.77 percent. Minnesota State Colleges and Universities pays one third of the debt service on $56.0 million, of the Series 2014A tax exempt bond issue, $23.05 million in taxable bond issue Series 2014C, $16.44 million taxable refunding bonds Series 2014D, over the life of the bonds. The first debt service payment on these bonds was in November 2014.

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 94,235	$ 94,235	0.00	$ 876,585	10.75
July 1, 2008	—	92,551	92,551	0.00	894,035	10.35
July 1, 2010	—	108,409	108,409	0.00	978,480	11.08
July 1, 2012	—	80,571	80,571	0.00	914,792	8.81

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SUPPLEMENTARY SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Minnesota State Colleges and Universities (MnSCU), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise MnSCU's basic financial statements, and have issued our report thereon dated November 14, 2014. Our report includes references to other auditors who audited the financial statements of Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation and Winona State University Foundation which cumulatively represent 79 percent of the total assets and 81 percent of the total revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Internal Control Over Financial Reporting (Continued)

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2014

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Minnesota
STATE COLLEGES
& UNIVERSITIES