

To: Funding Agency Proposal Reviews

From: Michael Spitzer
Provost and Vice President for Academic Affairs

Date: December 15, 2008

Re: Auditor's Report, Financial Statements, Organizational Budget, Grant Accounting



- The most recent independent auditor's report for the fiscal year ended June 30, 2008, of Minnesota State Colleges and Universities (MnSCU), of which St. Cloud State University is a part may be found at <http://www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/index.html>. Select St. Cloud State University. The document is 52 pages.
- The independent auditor's report and excerpts from management's discussion and analysis and financial highlights are attached.
- The auditor that prepared the report was Virchow Krause & Company, 7900 Xerxes Avenue South, Suite 2400, Minneapolis, MN 55431, Ph. 952-835-1344.
- The total organizational budget of St. Cloud State University is approximately \$163 million annually.
- A copy of our organizational budget is available upon request from Mr. Jeff Wagner, Business Services Director, Administrative Services (AS-122), Ph. 320-308-4289.
- The University uses an automated double entry accounting system that conforms to the MN Accounting and Procurement System (MAPS) and allows grant funds to be separate and identifiable.
- St. Cloud State University is an agency of the State of Minnesota, and, as such, payroll is processed centrally by the Minnesota State Department of Finance, including all aspects of tax withholding, remittance, and reporting.



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of St. Cloud State University, a member of the Minnesota State Colleges and Universities (MnSCU) system of the State of Minnesota, as of June 30, 2008 and 2007, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of MnSCU and University management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of St. Cloud State University Foundation, Inc, a discretely presented component unit of St. Cloud State University, which statements reflect total assets of \$42,619,976 and \$43,004,269 at June 30, 2008 and 2007, respectively, and total revenues of \$6,985,014 and \$8,477,894, respectively, for the years then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for St. Cloud State University Foundation, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the St. Cloud State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of St. Cloud State University and its component unit and are not intended to present fairly the financial position of the MnSCU system, changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of St. Cloud State University as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, St. Cloud State University has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)* as of July 1, 2007.

Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of St. Cloud State University. The introductory section identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audits of the financial statements and, accordingly, we express no opinion on the introductory information.

In accordance with *Governmental Auditing Standards*, we have issued a report dated November 4, 2008 on our consideration of St. Cloud State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Winkler Krasner & Company, LLP

Minneapolis, Minnesota
November 4, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of St. Cloud State University, a member of Minnesota State Colleges and Universities at June 30, 2008, 2007, and 2006, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes, which follow this section.

St. Cloud State University is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member Board of Trustees appointed by the governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at large. Three student trustees – one from a state University, one from a community college and one from a technical college – serve two-year terms. The Board of Trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public institution of higher learning, with approximately 16,900 students including 1,800 graduate and professional students. Approximately 1,600 faculty and staff members are employed by the University. The University offers 175 majors, minors, and pre-professional programs in business, education, fine arts and humanities, science and engineering and social sciences, and 50 master's degrees through the School of Graduate Studies. Our largest programs are elementary education, communications, psychology, business computer information systems and biology. Our most unique programs are meteorology, aviation, aviation maintenance management and nuclear medical technology. Professors rather than graduate assistants teach university classes, and students work side-by-side with our professors on research projects.

The University has nearly 220 student organizations in areas such as the arts, communication, fraternities and sororities, honorary, language and culture, political and social concerns, recreational sports and student government. We offer intercollegiate sports such as Men's hockey, tennis, basketball, football, track, swimming and diving, cross country, golf, baseball, wrestling; Women's hockey, volleyball, tennis, basketball, soccer, track, Nordic skiing, swimming and diving, cross country, golf and softball.

FINANCIAL HIGHLIGHTS

The University's financial position improved, during fiscal year 2008. Assets totaled \$229.7 million compared to liabilities of \$90.9 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt, of \$108.7 million, restricted assets of \$20.7 million, and unrestricted assets of \$9.4 million. The fiscal year 2008 net assets total of \$138.8 million represents an increase of \$13.6 million over fiscal year 2007 and \$21.4 million over fiscal year 2006. The University's combined fiscal year 2008 appropriation revenue of \$62.4 million represents a 10.4 percent increase compared to fiscal year 2007, and a 10.3 percent increase compared to fiscal year 2006.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the Statement of Revenues, Expenses and Changes in Net Assets.

A summary of the University's assets, liabilities and net assets as of June 30, 2008, 2007, and 2006, respectively, is as follows:

	(In Thousands)		
	2008	2007	2006
Current assets	\$ 68,772	\$ 69,440	\$ 66,601
Restricted assets	10,586	9,091	13,708
Noncurrent assets			
Student loans receivable	5,347	5,330	5,385
Capital assets, net	<u>145,010</u>	<u>130,314</u>	<u>114,857</u>
Total assets	<u>229,715</u>	<u>214,175</u>	<u>200,551</u>
Current liabilities	33,258	34,404	28,836
Noncurrent liabilities	<u>57,627</u>	<u>54,579</u>	<u>54,293</u>
Total liabilities	<u>90,885</u>	<u>88,983</u>	<u>83,129</u>
Net assets	<u>\$ 138,830</u>	<u>\$ 125,192</u>	<u>\$ 117,422</u>

Current unrestricted assets consist primarily of cash, cash equivalents and investments totaling \$61.3 million at June 30, 2008. This is an increase of \$3.4 million over the prior year and represents approximately 4.3 months of operating expenses (excluding depreciation), which is consistent with fiscal year 2007.

Total current assets decreased by \$0.7 million primarily due a decrease of \$3.9 million in securities lending collateral from fiscal year 2007 to fiscal year 2008. Cash and cash equivalents increased by \$3.3 million from fiscal year 2007 to fiscal year 2008. The increase in restricted assets from \$9.1 million in fiscal year 2007 to \$10.6 million in fiscal year 2008 is the primary contributor towards an overall decrease in unrestricted net assets, due to a \$4 million increase in construction in progress from Revenue Bond projects. Unrestricted net assets represent reserves for University investments in future years and also provide for reserves set by board policy. The table of net assets below shows a decline in unrestricted net assets from \$11.7 million in 2007 to \$9.4 million in 2008, this was done to offset tuition increases and still leaves the University with a solid reserve foundation for future years.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$13.2 million at June 30, 2008, an increase of \$0.4 million over the prior year caused primarily by increases in salary and benefit rates. Included within the salary payable accrual is \$12.4 million representing approximately two months of earned salary for faculty who have elected to receive salaries over twelve months on a September 1 through August 31 year. Current liabilities also reflect a decline in securities lending collateral from \$4.6 million in fiscal year 2007 to \$675 thousand in fiscal year 2008.

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets as of June 30, 2008, 2007, and 2006, respectively, are summarized as follows:

	(In Thousands)		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Invested in capital assets, net of related debt	\$ 108,716	\$ 95,315	\$ 84,903
Restricted	20,686	18,173	16,798
Unrestricted	9,428	11,704	15,721
Total net assets	<u>\$ 138,830</u>	<u>\$ 125,192</u>	<u>\$ 117,422</u>

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

Restricted net assets primarily include capital projects, bond covenants, debt service, and funds reserved for faculty contract obligations. The continued improvement, in fiscal year 2008 net assets, reflects the overall improvement in the University's financial position.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities, balanced with new construction. Capital assets, net of accumulated depreciation, as of June 30, 2008, totaled \$149.2 million, an increase of \$18.9 million over fiscal year 2007.

Capital outlay totaled \$26.3 million in 2008, an increase of \$7.2 million from the prior year. Capital expenses are primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment.

Construction in process at June 30, 2008, totaled \$22.0 million and is primarily comprised of costs associated with two significant construction projects. First, the \$14.0 million addition to Robert A. Wick Science building, which is funded with general obligation bonds; second, the construction of a \$10.8 million parking ramp, which is funded by a combination of revenue bonds and general obligation bonds.

Long-term debt payable on June 30, 2008 consisted of \$15.4 million of general obligation bonds, \$11.8 million of revenue bonds and \$12.6 million of capital leases. The general obligation bonds are primarily issued to finance construction of buildings and repairs. Additional information on capital debt and debt activities can be found in Notes 6 and 7 in the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets represent the University's results of operations for the year. When reviewing the full Statement, users should note that GASB requires classification of State appropriations as non-operating revenue.

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Tuition revenue increased in fiscal year 2008 as a result of a 4.0 percent increase in tuition. Total state appropriations totaled \$62.4 million in 2008, an increase of \$5.9 million.

The resources expended for compensation and benefits increased \$10.0 million to \$129.7 million in fiscal year 2008. Of this increase, compensation increased about 6.0 percent as a result of annual salary increases.