# ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

ST. CLOUD STATE
UNIVERSITY™

EDUCATION FOR LIFE.

A member of the
Minnesota State Colleges
and Universities system.

# ST. CLOUD STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

# ANNUAL FINANCIAL REPORT

## FOR THE YEARS ENDED JUNE 30, 2012 and 2011

Prepared by:

Chief Financial Officer
St. Cloud State University
720 4th Avenue South, AS 124
St. Cloud, Minnesota 56301

# ST. CLOUD STATE UNIVERSITY

# ANNUAL FINANCIAL REPORT
## FOR THE YEARS ENDED JUNE 30, 2012 and 2011

## TABLE OF CONTENTS

### INTRODUCTION



### FINANCIAL SECTION



### REQUIRED SUPPLEMENTARY INFORMATION SECTION



### SUPPLEMENTARY SECTION

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# INTRODUCTION

# ST. CLOUD STATE UNIVERSITY

OFFICE OF THE PRESIDENT
720 Fourth Avenue South
St. Cloud, MN 56301-4498
tel 320.308.2122
fax 320.308.5139
www.stcloudstate.edu/president

December 21, 2012

Steven J. Rosenstone, Chancellor
Minnesota State Colleges and Universities
30 East Seventh Street, Suite 350
St. Paul, MN 55101

Dear Chancellor Rosenstone:

I am pleased to submit to you the audited financial statements for St. Cloud State University for the fiscal year ending June 30, 2012. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of our financial activities for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

St. Cloud State University is one of 31 colleges and universities in the Minnesota State Colleges and Universities (MnSCU) system. The University is governed by a Board of Trustees, which is comprised of community and business leaders and students appointed by the Governor. The System is led by a Chancellor, appointed by the Board of Trustees, who in turn appoints a president to oversee the operations of each of the seven MnSCU universities.

The mission of St. Cloud State University is to prepare our graduates for life, work and citizenship in the 21st Century. In fiscal year 2012, the University served 20,895 students through our credit-based instruction with a full year equivalent of 13,938. In 2012 the University hosted 1,046 international students from 82 countries and sent University students to 38 education-abroad programs in 17 countries.

During fiscal year 2012, the University implemented a new organizational framework for its academic units which will enable academic program development from an interdisciplinary perspective and be more responsive to a rapidly changing environment. These changes are aimed at educating all University students to be creative, nimble and confident, enabling them to evolve with the inevitable progression of change, both in the workplace and in the global environment. The University also launched a new branding campaign, "Education for Life." A new website, social media, billboards, recruiting materials, print advertisements and more laud the University's strengths and describe academic systems committed to cross-disciplinary teaching and learning.

During the last year, the University also continued efforts to align its teaching, research and service with the needs of the region that we serve, in order to provide our students with a relevant education that prepares them to make a difference in the world. A St. Cloud State University education integrates classroom learning with real world practice in an environment where faculty members keep a close eye on the needs of the employers of our graduates.

These next few examples demonstrate why we are very proud of the accomplishments of our students. A group of St. Cloud State University students won the Open Web Application Security Project USA University Challenge in September 2011 and another group won the Minnesota Collegiate Cyber Defense competition in February 2012. Students in a Business Consulting class worked with local businesses in aspects the businesses were struggling with. For example, students helped the creators of the board game "Life on the Farm" from Prior Lake, Minnesota by raising the game's visibility by using social media. Two other students were recognized for their work at the University's television station, UTVS, by the Academy of Television and Arts & Sciences Foundation with a second place finish for Best Newscast. Lastly, the partnership between St. Cloud State University, CentraCare Health Systems and the Universidad de Concepción in Chile continues to flourish. The benefits of this partnership include having St. Cloud State University nursing students spend one month in Concepción, following their Chilean counterparts in their Public and Community Health class. Also, Universidad de Concepción nursing students visit St. Cloud State University under the Leadership and Management Initiative (financially supported by the CentraCare Health Foundation). Of particular importance is the enhancement of CentraCare Health System's outreach work with the local Latino population.

St. Cloud State University employees understand that they must be good stewards of its resources, including facilities. The University continued its programs of comprehensive planning and capital investment. The University has broken ground for the Integrated Science and Engineering Laboratory Facility with an anticipated completion date of June 2013. The facility will be integral to the implementation of the goals of the academic reorganization. Also, construction has begun on the $14.6 million addition and renovation of the National Hockey and Event Center, the completion of which will coordinate with the University joining the newly created National Collegiate Hockey Conference (HCNC) for the 2013-2014 hockey season.

This past year, St. Cloud State University's Foundation experienced positive growth. Donors contributed almost $4.5 million for scholarships, program support, capital projects and unrestricted purposes. Net investment resulted in a loss of approximately 1%. The annual faculty and staff fundraising campaign raised more than $210,000.

The financial statements, which were audited by the firm of Kern, DeWenter, Viere, Ltd., contains statements of net assets, a statements of revenue, expense and changes in net assets and statements of cash flows. The University ended fiscal year 2012 with total net assets of $198.4 million, an increase of $23.9 million. For a summary review and explanation of the financial statements please review the Management's Discussion and Analysis section of this report.

The faculty and staff roster is comprised of approximately 1,600 full and part-time employees. Organized bargaining units represent the majority of employees. All bargaining units are statewide, and all negotiations happen at the state level, either through the system office within Minnesota State Colleges and Universities, or through Minnesota Management & Budget. St. Cloud State University is managing the renewal and transformation of its workforce to address new needs and challenges. Many employees are nearing retirement age; in the next several years, turnover will increase and the opportunities to reshape our workforce will be significant. At the same time we will continue to rethink the way we work in order to protect our ability to meet Minnesota's future needs. The partnership with our bargaining units to design and implement essential changes to assure our future will never be more important than it is right now.

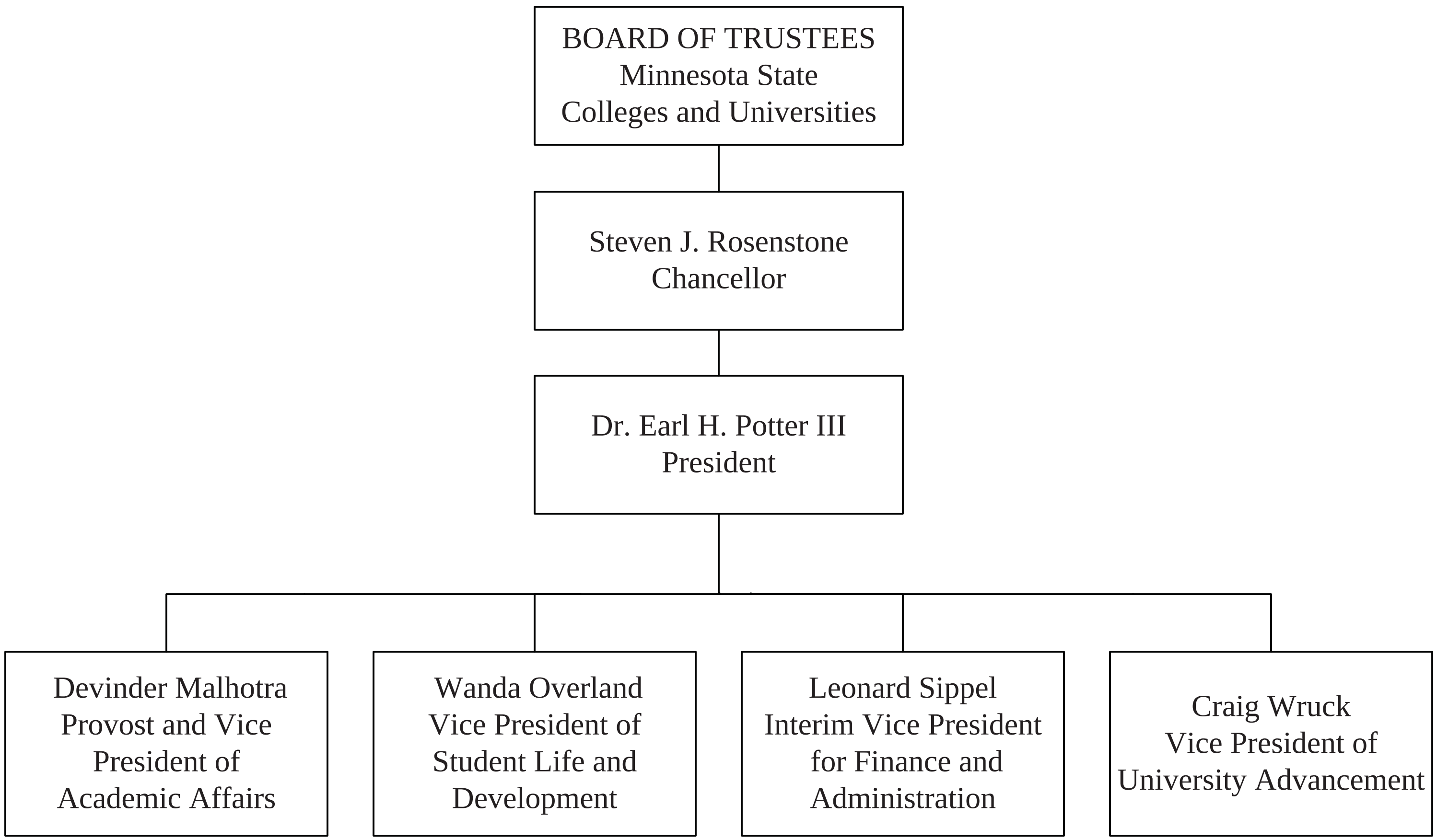
The management of the University is responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. The President relies upon the financial division of St. Cloud State University for that assurance. We take our responsibility very seriously and know that we must serve well to continue to deserve the trust of the people of Minnesota. As President of this University, I am proud of our team and of their commitment to our mission. Thank you for the opportunity to serve the people of Minnesota.

Sincerely,

Earl H. Potter III

Earl H. Potter III
President

# St. Cloud State University
## Organizational Chart



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

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

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

# FINANCIAL SECTION

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# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Cloud State University
Minnesota State Colleges and Universities
St. Cloud, Minnesota

We have audited the accompanying financial statements of St. Cloud State University, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2012 and 2011, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of St. Cloud State University Foundation, Inc., a component unit of the University, which statements reflect total assets of $ 42,350,000 and $ 43,985,000 at June 30, 2012 and 2011, respectively and total revenues of $ 6,401,000 and $ 9,275,000, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. The financial statements of 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 audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of St. Cloud State University, a campus of Minnesota State Colleges and Universities, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the University's internal control over financial reporting and 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 and 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 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 audit.

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U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress for Net Other Postemployment benefits, 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 (GASB), 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 U.S. generally accepted auditing standards, 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.

Our audits were conducted for the purpose of forming opinions on the basic financial statements of the University. The accompanying introductory section identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
December 21, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** (Unaudited)

### INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of St. Cloud State University, a member of Minnesota State Colleges and Universities system at June 30, 2012 and 2011, 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 31 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a fifteen member Board of Trustees appointed by the Governor. Twelve trustees serve six-year terms; eight represent each of Minnesota's congressional districts and four serve 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.

The University is a comprehensive public institution of higher learning, with approximately 20,895 students including 2,518 graduate and professional students. Approximately 1,600 faculty and staff members are employed by the University. The University offers 200 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. The largest programs are mass communications, criminal justice, management and accounting. The most unique programs are meteorology, technology education, land surveying/mapping science and advertising. Professors rather than graduate assistants teach university classes, and students work side-by-side with University 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. The University offers 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 2012. Assets totaled $333.9 million compared to liabilities of $135.5 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 $131.6 million, restricted assets of $34.6 million, and unrestricted assets of $32.2 million. The fiscal year 2012 net assets total of $198.4 million represents an increase of $23.9 million, or 13.7 percent, over fiscal year 2011 and $34.7 million, or 21.2 percent, over fiscal year 2010. The University's fiscal year 2012 appropriation revenue of $53.2 million represents a 9.0 percent decrease compared to fiscal year 2011, and a 9.7 percent decrease compared to fiscal year 2010.

### USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net assets, the statements of revenues, expenses and changes in net assets, and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET ASSETS

The statements of net assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University as measured 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 net of accumulated depreciation, with current year depreciation reflected as a period expense on the statements of revenues, expenses and changes in net assets.

A summary of the University's assets, liabilities and net assets as of June 30, 2012, 2011, and 2010, respectively, is as follows:

| | (In Thousands) | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Current assets | $ 93,328 | $ 86,762 | $ 77,629 |
| Current restricted assets | 24,103 | 20,113 | 3,177 |
| Noncurrent assets | | | |
| Student loans receivable | 4,984 | 5,102 | 5,566 |
| Capital assets, net | 201,861 | 197,489 | 170,915 |
| Restricted assets | 9,639 | 2,995 | 18 |
| Total assets | 333,915 | 312,461 | 257,305 |
| Current liabilities | 34,852 | 36,397 | 31,248 |
| Noncurrent liabilities | 100,664 | 101,522 | 62,396 |
| Total liabilities | 135,516 | 137,919 | 93,644 |
| Total net assets | $ 198,399 | $ 174,542 | $ 163,661 |

Current unrestricted assets consist primarily of cash, cash equivalents and investments totaling $84.9 million at June 30, 2012. This is an increase of $7.5 million, or 9.7 percent, over the prior year and represents approximately 5.9 months of operating expenses (excluding depreciation), which is an increase of 1.0 month from fiscal year 2011.

Total current assets increased by $6.6 million, or 7.6 percent, primarily due to an increase in cash from fiscal year 2011 to fiscal year 2012. Unrestricted cash and cash equivalents increased by $7.5 million from fiscal year 2011 to fiscal year 2012. Restricted assets increased from $25.2 million in fiscal year 2011 to $34.6 million in fiscal year 2012, as a result of normal timing differences in capital projects activity. The University completed a $4.9 million renovation of Shoemaker Hall North wing in the summer of 2011 and began an $11.1 million renovation of Case-Hill Hall in the summer of 2012.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $10.5 million at June 30, 2012, a decrease of $4.3 million, or 29.3 percent, over the prior year. Included within the salary payable accrual is $10.0 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.

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets as of June 30, 2012, 2011, and 2010, respectively, are summarized as follows:

| | (In Thousands) | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Invested in capital assets, net of related debt | $ 131,599 | $ 128,842 | $ 128,151 |
| Restricted | 34,578 | 25,196 | 23,928 |
| Unrestricted | 32,222 | 20,504 | 11,582 |
| Total net assets | $ 198,399 | $ 174,542 | $ 163,661 |

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. Unrestricted net assets represent reserves for University investments in future years and also provides for reserves set by board policy. As shown in the table above, unrestricted net assets increased by 11.7 million, or 57 percent from fiscal year 2011 to fiscal year 2012, which reflects a plan for investments in academic programs and positions the University with increased reserves for future years. The continued improvement in 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, 2012, totaled $211.5 million, an increase of $11.0 million, or 5.5 percent over fiscal year 2011.

Capital outlay totaled $23.3 million during fiscal year 2012. The University expended $8.6 million for construction of the Integrated Science and Engineering Laboratory Facility (ISELF), $8.4 million for the Hill Case Hall renovation, and $3.7 million for the Shoemaker Hall renovation. Additional capital expenses were primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment.

Construction in progress at June 30, 2012, totaled $24.5 million and is primarily funded by general obligation bonds or revenue fund bonds. This includes $9.8 million for the Integrated Science and Engineering Lab Facility, $8.5 million for the Hill Case Hall renovation, $2.9 million for the National Hockey and Event Center.

Long-term debt payable on June 30, 2012 consisted of $22.3 million of general obligation bonds, $30.2 million of revenue bonds and $34.4 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 8 in the financial statements.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets represents the University's results of operations for the year. Users of these statements 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 decreased from $93.2 million in fiscal year 2011 to $90.7 million in fiscal year 2012 as a result of a 5 percent increase in tuition rates and a 6.9 percent decrease in enrollment. Total state appropriations totaled $53.2 million in 2012, a decrease of $5.3 million from fiscal year 2011.

The resources expended for compensation and benefits decreased $14.3 million to $128.2 million in fiscal year 2012. A significant savings is being recognized due to early retirement options offered in fiscal year 2011. These factors resulted in an improved overall financial position.

A summary table of the information contained in the statements of revenues, expenses and changes in net assets is below. Operating revenues are presented net of scholarship allowance.

| | (In Thousands) | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Operating revenue: | | | |
| Student tuition and fees | $ 75,840 | $ 80,569 | $ 77,104 |
| Room and board | 17,195 | 17,303 | 16,446 |
| Sales | 12,071 | 12,641 | 12,545 |
| Other | 5,239 | 4,282 | 3,705 |
| Total operating revenue | 110,345 | 114,795 | 109,800 |
| Nonoperating revenue: | | | |
| State appropriations | 53,186 | 58,476 | 58,905 |
| Grants | 39,327 | 37,002 | 37,763 |
| Capital appropriations | 7,212 | 2,474 | 10,487 |
| Investment and other income | 528 | 507 | 1,332 |
| Total nonoperating revenue | 100,253 | 98,459 | 108,487 |
| Total revenues | 210,598 | 213,254 | 218,287 |
| Operating expense: | | | |
| Salaries and benefits | 128,184 | 142,467 | 143,146 |
| Supplies and services | 41,718 | 43,570 | 43,252 |
| Depreciation | 12,220 | 10,343 | 8,392 |
| Financial aid | 1,742 | 3,534 | 5,494 |
| Total operating expense | 183,864 | 199,914 | 200,284 |
| Nonoperating expense: | | | |
| Loss on disposal of capital assets | 19 | — | 38 |
| Grants to other organizations | 134 | 204 | 144 |
| Interest expense | 2,724 | 2,255 | 2,065 |
| Total nonoperating expense | 2,877 | 2,459 | 2,247 |
| Total expenses | 186,741 | 202,373 | 202,531 |
| Increase in net assets | 23,857 | 10,881 | 15,756 |
| Net assets, beginning of year | 174,542 | 163,661 | 147,905 |
| Net assets, end of year | $ 198,399 | $ 174,542 | $ 163,661 |

## FOUNDATION

The St. Cloud State University Foundation, Inc. is a component unit of St. Cloud State University. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. In fiscal year 2012 the Foundation made a one-time transfer of $8.2 million to finance a capital project, additional information has been provided in Note 18.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue its strong financial condition and level of excellence. However, the University will face challenges in maintaining adequate state appropriation support in future years. As a result, the University is strategically managing a variety of core university functions to insure better effectiveness and efficiency in the future. The uncertain state appropriation picture coupled with student enrollment that has remained stable during the past 5 years may result in serious financial challenges for the University in fiscal years 2013, 2014 and beyond.

REQUESTS FOR INFORMATION

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

Director, Business Services
St. Cloud State University
720 Fourth Avenue South, AS124
St. Cloud, MN 56301-4498

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**ST. CLOUD STATE UNIVERSITY**
**STATEMENTS OF NET ASSETS**
**AS OF JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 82,460 | $ 74,931 |
| Investments | 2,424 | 2,465 |
| Grants receivable | 853 | 1,408 |
| Accounts receivable, net | 3,445 | 4,211 |
| Prepaid expense | 2,567 | 2,203 |
| Inventory | 199 | 128 |
| Student loans, net | 950 | 1,000 |
| Other assets | 430 | 416 |
| Total current assets | 93,328 | 86,762 |
| Current Restricted Assets | | |
| Cash and cash equivalents | 24,103 | 20,113 |
| Total current restricted assets | 24,103 | 20,113 |
| Noncurrent Restricted Assets | | |
| Other assets | 15 | 17 |
| Construction in progress | 9,624 | 2,978 |
| Total noncurrent restricted assets | 9,639 | 2,995 |
| Total restricted assets | 33,742 | 23,108 |
| Noncurrent Assets | | |
| Student loans, net | 4,984 | 5,102 |
| Capital assets, net | 201,861 | 197,489 |
| Total noncurrent assets | 206,845 | 202,591 |
| Total Assets | 333,915 | 312,461 |
| Liabilities | | |
| Current Liabilities | | |
| Salaries and benefits payable | 10,491 | 14,838 |
| Accounts payable | 2,584 | 3,167 |
| Unearned revenue | 5,142 | 5,394 |
| Payable from restricted assets | 6,139 | 2,818 |
| Interest payable | 358 | 378 |
| Funds held for others | 609 | 1,482 |
| Current portion of long-term debt | 7,230 | 6,172 |
| Other compensation benefits | 1,688 | 2,148 |
| Other liabilities | 611 | - |
| Total current liabilities | 34,852 | 36,397 |
| Noncurrent Liabilities | | |
| Noncurrent portion of long-term debt | 79,590 | 80,791 |
| Other compensation benefits | 15,242 | 14,799 |
| Capital contributions payable | 5,832 | 5,932 |
| Total noncurrent liabilities | 100,664 | 101,522 |
| Total Liabilities | 135,516 | 137,919 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 131,599 | 128,842 |
| Restricted expendable, bond covenants | 18,443 | 18,548 |
| Restricted expendable, other | 16,135 | 6,648 |
| Unrestricted | 32,222 | 20,504 |
| Total Net Assets | $ 198,399 | $ 174,542 |

The notes are an integral part of the financial statements.

**ST. CLOUD STATE UNIVERSITY FOUNDATION, INC.**
**STATEMENTS OF FINANCIAL POSITION**
**AS OF JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 1,221 | $ 1,226 |
| Investments | 27,056 | 27,661 |
| Restricted cash and cash equivalents | 1,102 | 1,379 |
| Pledges and contributions receivable | 909 | 572 |
| Other receivables | 10 | 10 |
| Accrued investment/Interest income | 29 | 100 |
| Finance lease receivable from University | 805 | 750 |
| Total current assets | 31,132 | 31,698 |
| | | |
| Noncurrent Assets | | |
| Long-term pledges receivable | 2,048 | 1,669 |
| Finance lease receivable, net | 8,393 | 9,808 |
| Annuities/Remainder interests/Trusts | 285 | 288 |
| Investment property | 5 | 100 |
| Property and equipment, net | 177 | 178 |
| Other assets | 310 | 244 |
| Total noncurrent assets | 11,218 | 12,287 |
| Total Assets | $ 42,350 | $ 43,985 |
| | | |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | $ 260 | $ 41 |
| Interest payable | 48 | 100 |
| Annuities payable | 42 | 46 |
| Notes payable | 1,320 | - |
| Bonds payable | 805 | 750 |
| Other liabilities | 75 | 92 |
| Total current liabilities | 2,550 | 1,029 |
| | | |
| Noncurrent Liabilities | | |
| Annuities payable | 300 | 317 |
| Notes payable | 5,280 | - |
| Bonds payable | 10,482 | 11,345 |
| Total noncurrent liabilities | 16,062 | 11,662 |
| Total Liabilities | 18,612 | 12,691 |
| | | |
| Net Assets | | |
| Unrestricted | (6,604) | 735 |
| Temporarily restricted | 13,745 | 14,675 |
| Permanently restricted | 16,597 | 15,884 |
| Total Net Assets | 23,738 | 31,294 |
| Total Liabilities and Net Assets | $ 42,350 | $ 43,985 |

The notes are an integral part of the financial statements.

**ST. CLOUD STATE UNIVERSITY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | 2012 | 2011 |
|---|---|---|
| Operating Revenues | | |
| Tuition, net | $ 63,799 | $ 67,650 |
| Fees, net | 8,863 | 9,477 |
| Sales, net | 12,904 | 12,523 |
| Restricted student payments, net | 19,540 | 20,863 |
| Other income | 5,239 | 4,282 |
| Total operating revenues | 110,345 | 114,795 |
| Operating Expenses | | |
| Salaries and benefits | 128,184 | 142,467 |
| Purchased services | 20,019 | 21,093 |
| Supplies | 10,067 | 10,522 |
| Repairs and maintenance | 2,123 | 2,543 |
| Depreciation | 12,220 | 10,343 |
| Financial aid, net | 1,742 | 3,534 |
| Other expense | 9,509 | 9,412 |
| Total operating expenses | 183,864 | 199,914 |
| Operating loss | (73,519) | (85,119) |
| Nonoperating Revenues (Expenses) | | |
| Appropriations | 53,186 | 58,476 |
| Federal grants | 20,733 | 28,254 |
| State grants | 7,868 | 6,393 |
| Private grants | 10,726 | 2,355 |
| Interest income | 499 | 419 |
| Interest expense | (2,724) | (2,255) |
| Grants to other organizations | (134) | (204) |
| Total nonoperating revenues (expenses) | 90,154 | 93,438 |
| Income Before Other Revenues, Expenses, Gains, or Losses | 16,635 | 8,319 |
| Capital appropriations | 7,212 | 2,474 |
| Donated assets and supplies | 29 | - |
| Gain (loss) on disposal of capital assets | (19) | 88 |
| Change in net assets | 23,857 | 10,881 |
| Total Net Assets, Beginning of Year | 174,542 | 163,661 |
| Total Net Assets, End of Year | $ 198,399 | $ 174,542 |

The notes are an integral part of the financial statements.

**ST. CLOUD STATE UNIVERSITY FOUNDATION, INC.**
**STATEMENTS OF ACTIVITIES**
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2012 Total | 2011 Total |
|---|---|---|---|---|---|
| Support and Revenue | | | | | |
| Contributions | $ 299 | $ 3,166 | $ 799 | $ 4,264 | $ 2,641 |
| In-kind contributions | 1,447 | 584 | 10 | 2,041 | 2,098 |
| Investment income (loss) | (71) | 424 | 10 | 363 | 1,103 |
| Realized gain | 13 | 200 | 3 | 216 | 324 |
| Unrealized gain (loss) | (107) | (368) | (6) | (481) | 3,109 |
| Transfers | 342 | (239) | (103) | - | - |
| Net assets released from restrictions | 4,697 | (4,697) | - | - | - |
| Total support and revenue | 6,620 | (930) | 713 | 6,403 | 9,275 |
| Expenses | | | | | |
| Program services | | | | | |
| Program services | 10,933 | - | - | 10,933 | 661 |
| Scholarships | 599 | - | - | 599 | 1,752 |
| Total program services | 11,532 | - | - | 11,532 | 2,413 |
| Supporting services | | | | | |
| Interest expense | 616 | - | - | 616 | 610 |
| Management and general | 1,157 | - | - | 1,157 | 788 |
| Fundraising | 654 | - | - | 654 | 1,005 |
| Total supporting services | 2,427 | - | - | 2,427 | 2,403 |
| Total expenses | 13,959 | - | - | 13,959 | 4,816 |
| Change in Net Assets | (7,339) | (930) | 713 | (7,556) | 4,459 |
| Net Assets, Beginning of Year | 735 | 14,675 | 15,884 | 31,294 | 26,835 |
| Net Assets, End of Year | $ (6,604) | $ 13,745 | $ 16,597 | $ 23,738 | $ 31,294 |

The notes are an integral part of the financial statements.

**ST. CLOUD STATE UNIVERSITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | 2012 | 2011 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash received from customers | $ 109,955 | $ 112,222 |
| Cash repayment of program loans | 967 | 1,001 |
| Cash paid to suppliers for goods or services | (38,358) | (43,361) |
| Cash payments to employees | (132,357) | (142,710) |
| Financial aid disbursements | (1,808) | (3,596) |
| Cash payments of program loans | (926) | (864) |
| Net cash flows used in operating activities | (62,527) | (77,308) |
| Cash Flows from Noncapital Financing Activities | | |
| Appropriations | 53,186 | 58,476 |
| Federal grants | 21,617 | 28,842 |
| State grants | 7,868 | 6,393 |
| Private grants | 10,726 | 2,355 |
| Agency activity | (213) | (297) |
| Grants to other organizations | (134) | (204) |
| Net cash flows provided by noncapital financing activities | 93,050 | 95,565 |
| Cash Flows from Capital and Related Financing Activities | | |
| Investment in capital assets | (23,441) | (6,712) |
| Capital appropriation | 7,131 | 2,474 |
| Proceeds from sale of capital assets | 45 | 134 |
| Proceeds from borrowing | 6,280 | 17,213 |
| Proceeds from bond premium | 561 | 615 |
| Interest paid | (2,920) | (1,982) |
| Repayment of lease principal | (4,754) | (3,804) |
| Repayment of bond principal | (2,238) | (2,002) |
| Net cash flows provided by (used in) capital and related financing activities | (19,336) | 5,936 |
| Cash Flows from Investing Activities | | |
| Investment earnings | 332 | 311 |
| Net cash flows provided by investing activities | 332 | 311 |
| Net Increase in Cash and Cash Equivalents | 11,519 | 24,504 |
| Cash and Cash Equivalents, Beginning of Year | 95,044 | 70,540 |
| Cash and Cash Equivalents, End of Year | $ 106,563 | $ 95,044 |

The notes are an integral part of the financial statements.

**ST. CLOUD STATE UNIVERSITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**
**(IN THOUSANDS)**

| | 2012 | 2011 |
|---|---|---|
| Operating Loss | $ (73,519) | $ (85,119) |
| Adjustment to Reconcile Operating Loss to | | |
| Net Cash Flows used in Operating Activities | | |
| Depreciation | 12,220 | 10,343 |
| Provision for loan defaults | 33 | 28 |
| Loan principal repayments | 967 | 1,001 |
| Loans issued | (926) | (864) |
| Loans forgiven | 94 | 99 |
| Change in assets and liabilities | | |
| Accounts receivable | 847 | (1,139) |
| Accounts payable | 2,900 | 137 |
| Salaries and benefits payable | (4,347) | 391 |
| Other compensation benefits | (17) | (634) |
| Capital contributions payable | (100) | (62) |
| Unearned revenues | (580) | (1,434) |
| Other assets and liabilities | (99) | (55) |
| Net reconciling items to adjust to operating loss | 10,992 | 7,811 |
| Net cash flow used in operating activities | $ (62,527) | $ (77,308) |
| Non-Cash Investing, Capital, and Financing Activities | | |
| Capital projects on account | $ 6,139 | $ 2,910 |
| Fixed assets acquired through a capital lease | - | 31,656 |
| Amortization of bond premium | 199 | 154 |

**ST. CLOUD STATE UNIVERSITY**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

*Basis of Presentation* — The reporting policies of St. Cloud State University, a member of Minnesota State Colleges and Universities system, conform to Generally Accepted Accounting Principles (GAAP) in the United States, as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows include financial activities of St. Cloud State University.

*Financial Reporting Entity* — Minnesota State Colleges and Universities is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. St. Cloud State University receives a portion of Minnesota State Colleges and Universities' appropriation. The operations of most student organizations are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The St. Cloud State University Foundation, Inc. is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the St. Cloud State University Foundation, Inc. Alumni and Foundation Center, 720 Fourth Avenue South, St. Cloud, MN 56301-4498.

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

Minnesota State Colleges and Universities applies all applicable Financial Accounting Standards Board (FASB) statements issued prior to November 30, 1989, and GASB statements issued since that date.

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

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

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

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

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

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

Restricted cash is cash held for capital projects 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 assets of revenue producing facilities which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. The University also has two accounts 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 the University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is retained by the system office and allocated to the colleges and universities.

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

*Receivables* — Receivables are shown net of an allowance for uncollectibles.

*Inventories* — Inventories are valued at cost using the first in, first out method.

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

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

| | |
|---|---|
| Buildings | 35-40 years |
| Building improvements | 15-20 years |
| Equipment | 3-20 years |
| Library collections | 7 years |

Equipment includes all items with an original cost of $10,000 and over for items purchased since July 1, 2008; $5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and $2,000 and over for items purchased prior to July 1, 2003. Buildings, building improvements, and internally developed software 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 mainly held for student organizations, student prepayments, and payables to third parties.

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

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

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

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

*Tuition, Fees, and Sales, Net* — Tuition, fees, and sales are reported net of scholarship allowances. Sales consist of room, board and other miscellaneous sales and services. See Note 12 for additional information.

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

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

*Capital Grants* — The University 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 allowances for uncollectible accounts, scholarship allowances, workers' compensation claims, and compensated absences.

*Net Assets* — The difference between assets and liabilities is net assets. Net assets are further classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets, net of related debt*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted expendable*: Net assets subject to externally imposed stipulations. Net asset restrictions for St. Cloud State University are as follows:

  *Restricted for bond covenants* — revenue bond restrictions;

  *Restricted for other* — includes restrictions for the following:
  *Capital projects* — restricted for completion of capital projects,
  *Debt service* — legally restricted for bond debt repayment,
  *Donations* — donation restrictions,
  *Faculty contract obligations* — faculty development and travel required,
  *Loans* — University capital contribution for Perkins loans.

Net Assets Restricted for Other
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Capital projects | $ 8,037 | $ 16 |
| Debt service | 5,262 | 3,942 |
| Donations | 480 | 505 |
| Faculty contract obligations | 1,654 | 1,471 |
| Loans | 702 | 714 |
| Total | $ 16,135 | $ 6,648 |

- *Unrestricted*: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the System Office, or the Board of Trustees.

*New Accounting Pronouncements* — In June 2011, the GASB issued Statement No. 60, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement are effective for Minnesota State Colleges and Universities for the year ended June 30, 2013. The effect GASB Statement No. 60 will have on the fiscal year 2013 basic financial statements has not been determined.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

*Cash and Cash Equivalents* — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has two accounts in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

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

The following table summarizes cash and cash equivalents:

Year Ended June 30
(In Thousands)

| Carrying Amount | 2012 | 2011 |
|---|---|---|
| Cash and repurchase agreements | $ 9,410 | $ 10,808 |
| Cash in bank - Foreign currencies | 92 | 120 |
| Change fund | 25 | 28 |
| Cash , trustee account (US Bank) | 2,769 | 13,531 |
| Total local cash and cash equivalents | 12,296 | 24,487 |
| Total treasury cash accounts | 94,267 | 70,557 |
| Grand Total | $ 106,563 | $ 95,044 |

At June 30, 2012 and 2011, the University's bank balances were $12,010,785 and $11,443,879, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance. The University's balance in the 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 University's excess cash in the local bank is swept nightly to purchase interest bearing cash equivalents. As of June 30, 2012 and 2011, the University had $11,381,637 and $10,725,878, respectively, in repurchase agreements. 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 in both the European Euro and the British Pound. For fiscal year 2012, the fair value is $92,271 in U.S. dollars, all of which is represented in British Pounds. The fair value of these accounts for fiscal year 2011 is $120,000 in US dollars, of which $13,345 is represented in Euros and $106,655 is represented in British Pounds.

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

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

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

*Credit Risk* — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04. This statute limits investments to the top quality rating categories of a nationally recognized rating agency. At June 30, 2012 and 2011, the University's debt securities were rated equivalent to *Standard and Poor's* AA or higher.

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

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

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

Year Ended June 30
(In Thousands)

| Investment Type | 2012 Fair Value | Weighted Maturity (Years) | 2011 Fair Value | Weighted Maturity (Years) |
|---|---|---|---|---|
| U.S. agencies | $ 776 | 8.56 | $ 1,640 | 6.90 |
| Municipal obligations | 1,648 | 1.06 | 825 | 1.00 |
| Total fair value | $ 2,424 | | $ 2,465 | |
| Portfolio weighted average maturity | | 3.46 | | 4.93 |

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2012 and 2011, the total accounts receivable balances for the University were $7,069,192 and $7,670,377, respectively, less an allowance for uncollectible receivables of $3,624,590 and $3,459,534, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Tuition | $ 3,873 | $ 3,966 |
| Room and board | 1,516 | 1,457 |
| Fees | 1,069 | 1,170 |
| Sales and services | 307 | 233 |
| Capital appropriation bond proceeds | 81 | — |
| System office | — | 630 |
| Other income | 223 | 214 |
| Total accounts receivable | 7,069 | 7,670 |
| Allowance for uncollectible accounts | (3,624) | (3,459) |
| Net accounts receivable | $ 3,445 | $ 4,211 |

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

Fiscal Year 2012
(In Thousands)

| Year | Allowance Amount | Allowance Percentage |
|---|---|---|
| Summer 2012 | $ 15 | 10% |
| 2012 | 812 | 25% |
| 2011 | 659 | 50% |
| 2010 | 529 | 80% |
| 2009 and before | 1,609 | 100% |
| Total | $ 3,624 | |

Fiscal Year 2011
(In Thousands)

| Year | Allowance Amount | Allowance Percentage |
|---|---|---|
| Summer 2011 | $ 26 | 10% |
| 2011 | 813 | 25% |
| 2010 | 506 | 50% |
| 2009 | 597 | 80% |
| 2008 and before | 1,517 | 100% |
| Total | $ 3,459 | |

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 $2,467,128 and $2,083,961 for fiscal years 2012 and 2011, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand at December 1, of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year. Also, included in prepaid expense for fiscal years 2012 and 2011 was $99,804 and $119,232, respectively, stemming from prepaid software maintenance agreements, primarily for software fees.

5. LOANS RECEIVABLE

Loans receivable balances consist primarily of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The University is responsible for loan collections. As of June 30, 2012 and 2011, the loans receivable for this program totaled $6,204,729 and $6,339,849, respectively, less an allowance for uncollectible loans of $270,455 and $237,887, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

| | Beginning Balance | Increases | Decreases | Completed Construction | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 13,634 | $ — | $ — | $ — | $ 13,634 |
| Construction in-progress | 11,009 | 22,211 | — | (8,760) | 24,460 |
| Total capital assets, not depreciated | 24,643 | 22,211 | | (8,760) | 38,094 |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 273,655 | — | — | 8,760 | 282,415 |
| Equipment | 17,085 | 361 | 1,269 | — | 16,177 |
| Library collections | 7,483 | 736 | 1,103 | — | 7,116 |
| Total capital assets, depreciated | 298,223 | 1,097 | 2,372 | 8,760 | 305,708 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 105,007 | 10,291 | — | — | 115,298 |
| Equipment | 12,808 | 912 | 1,199 | — | 12,521 |
| Library collections | 4,584 | 1,017 | 1,103 | — | 4,498 |
| Total accumulated depreciation | 122,399 | 12,220 | 2,302 | — | 132,317 |
| Total capital assets, depreciated, net | 175,824 | (11,123) | 70 | 8,760 | 173,391 |
| Total capital assets, net | $ 200,467 | $ 11,088 | $ 70 | $ — | $ 211,485 |

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Completed Construction | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 13,634 | $ — | $ — | $ — | $ 13,634 |
| Construction in-progress | 8,497 | 7,056 | — | (4,544) | 11,009 |
| Total capital assets, not depreciated | 22,131 | 7,056 | — | (4,544) | 24,643 |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 237,455 | 31,656 | — | 4,544 | 273,655 |
| Equipment | 17,362 | 524 | 801 | — | 17,085 |
| Library collections | 7,912 | 713 | 1,142 | — | 7,483 |
| Total capital assets, depreciated | 262,729 | 32,893 | 1,943 | 4,544 | 298,223 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 96,682 | 8,325 | — | — | 105,007 |
| Equipment | 12,606 | 949 | 747 | — | 12,808 |
| Library collections | 4,657 | 1,069 | 1,142 | — | 4,584 |
| Total accumulated depreciation | 113,945 | 10,343 | 1,889 | — | 122,399 |
| Total capital assets, depreciated, net | 148,784 | 22,550 | 54 | 4,544 | 175,824 |
| Total capital assets, net | $ 170,915 | $ 29,606 | $ 54 | $ — | $ 200,467 |

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payables at June 30
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Capital projects | $ 23 | $ 92 |
| Supplies | 1,022 | 1,133 |
| Purchased services | 709 | 1,153 |
| Repairs & maintenance | 354 | 139 |
| Student Payroll | 192 | 194 |
| Other | 284 | 456 |
| Total | $ 2,584 | $ 3,167 |

In addition, as of June 30, 2012 and 2011, the University also had payables from restricted assets in the amounts of $6,138,987 and $2,818,165, 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 assets.

The changes in long term debt for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Bond premium | $ 1,607 | $ 561 | $ 199 | $ 1,969 | $ — |
| Capital leases | 39,136 | — | 4,754 | 34,382 | 4,118 |
| General obligation bonds | 18,868 | 2,880 | 1,455 | 20,293 | 1,586 |
| Revenue bonds | 27,352 | 3,400 | 576 | 30,176 | 1,526 |
| Total long term debt | $ 86,963 | $ 6,841 | $ 6,984 | $ 86,820 | $ 7,230 |

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Bond premium | $ 1,146 | $ 615 | $ 154 | $ 1,607 | $ — |
| Capital leases | 11,284 | 31,656 | 3,804 | 39,136 | 4,142 |
| General obligation bonds | 20,207 | 98 | 1,437 | 18,868 | 1,454 |
| Revenue bonds | 10,784 | 17,115 | 547 | 27,352 | 576 |
| Total long term debt | $ 43,421 | $ 49,484 | $ 5,942 | $ 86,963 | $ 6,172 |

The changes in other compensation benefits for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Compensated absences | $ 14,258 | $ 1,524 | $ 1,568 | $ 14,214 | $ 1,523 |
| Early termination benefits | 393 | 18 | 393 | 18 | 18 |
| Net other postemployment benefits | 1,871 | 1,203 | 702 | 2,372 | — |
| Workers' compensation | 425 | 246 | 345 | 326 | 147 |
| Total other compensation benefits | $ 16,947 | $ 2,991 | $ 3,008 | $ 16,930 | $ 1,688 |

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Compensated absences | $ 15,540 | $ 217 | $ 1,499 | $ 14,258 | $ 1,568 |
| Early termination benefits | 130 | 393 | 130 | 393 | 393 |
| Net other postemployment benefits | 1,311 | 1,138 | 578 | 1,871 | — |
| Workers' compensation | 600 | 366 | 541 | 425 | 187 |
| Total other compensation benefits | $ 17,581 | $ 2,114 | $ 2,748 | $ 16,947 | $ 2,148 |

*Bond Premium* — In fiscal years 2012 and 2011 bonds were issued, resulting in premiums of $561,110 and $614,939, 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 meet the criteria in the FASB Accounting Standards Codification (ASC) 840, *Leases*. See Note 11 for details.

*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 those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based primarily upon the specific projects funded. The general obligation bond liability included in these financial statements represents the University's share.

*Revenue Bonds*— The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $300,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates between 1.0 percent and 6.5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2032. Annual principal and interest payments on the bonds are expected to require less than 13.71 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $42,889,863. Principal and interest paid for the current year and total customer net revenues were $1,882,051 and $20,525,446 respectively.

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

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

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

*Workers' Compensation* — The State of Minnesota Department of Management and Budget manages the self insured workers' compensation claims activities for the state of Minnesota. The reported liability for workers' compensation of $326,377 and $424,690, at June 30, 2012 and 2011, 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* — Liabilities of $5,831,845 and $5,932,346 at June 30, 2012 and 2011, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net decrease is $100,501 for fiscal year 2012. There was a net decrease of $62,299 for fiscal year 2011.

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

Long Term Debt Repayment Schedule
(In Thousands)

| Fiscal Years | Capital Leases | | General Obligation Bonds | | Revenue Bonds | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | $ 4,118 | $ 628 | $ 1,586 | $ 938 | $ 1,526 | $ 1,287 |
| 2014 | 4,092 | 774 | 1,585 | 863 | 1,574 | 1,236 |
| 2015 | 4,051 | 893 | 1,572 | 786 | 1,631 | 1,181 |
| 2016 | 4,002 | 1,012 | 1,563 | 709 | 1,681 | 1,119 |
| 2017 | 3,965 | 986 | 1,462 | 632 | 1,761 | 1,054 |
| 2018-2022 | 14,154 | 5,302 | 6,344 | 2,147 | 9,939 | 4,054 |
| 2023-2027 | — | — | 4,423 | 871 | 6,459 | 2,053 |
| 2028-2032 | — | — | 1,758 | 123 | 5,605 | 729 |
| Total | $ 34,382 | $ 9,595 | $ 20,293 | $ 7,069 | $ 30,176 | $ 12,713 |

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts, including the Inter Faculty Organization (IFO) contract, provides 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 2012 and 2011.

*Inter Faculty Organization (IFO) contract*

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

The number of retired faculty who received this benefit and the amount of future liability for those faculty, as of the end of fiscal years 2012 and 2011, follow:

| Fiscal Year | Number of Faculty | Future Liability (In Thousands) |
|---|---|---|
| 2012 | 3 | $ 18 |
| 2011 | 20 | 393 |

10. NET OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single employer, fully insured plan, as required by Minnesota Statute 471.61 subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2010 there were approximately 67 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 Post Employment 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 2012 and 2011, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Annual required contribution (ARC) | $ 1,186 | $ 1,127 |
| Interest on net OPEB obligation | 89 | 62 |
| Adjustment to ARC | (72) | (51) |
| Annual OPEB cost | 1,203 | 1,138 |
| Contributions during the year | (702) | (578) |
| Increase in net OPEB obligation | 501 | 560 |
| Net OPEB obligation, beginning of year | 1,871 | 1,311 |
| Net OPEB obligation, end of year | $ 2,372 | $ 1,871 |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2012 and 2011 were as follows:

Year Ended June 30
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Beginning of year net OPEB obligation | $ 1,871 | $ 1,311 |
| Annual OPEB cost | 1,203 | 1,138 |
| Employer contribution | (702) | (578) |
| End of year net OPEB obligation | $ 2,372 | $ 1,871 |
| Percentage contributed | 58.35% | 50.79% |

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

Schedule of Funding Progress
(In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| July 1, 2010 | $ — | $ 11,506 | $ 11,506 | 0.00% | $ 113,311 | 10.15% |

*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, 2010 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 3.00 percent. The annual healthcare cost trend rate is 6.25 percent initially, reduced incrementally to an ultimate rate of 5.00 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* — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the years ended June 30, 2012 and 2011, totaled $522,754 and $495,340, respectively.

Future minimum lease payments for existing lease agreements follow:

| Year Ended June 30 (In Thousands) | | |
|---|---|---|
| Fiscal Year | | Amount |
| 2013 | $ | 475 |
| 2014 | | 391 |
| 2015 | | 200 |
| Total | $ | 1,066 |

*Income Leases* — The University has entered into several income lease agreements, primarily for building space. Lease income for the years ended June 30, 2012 and 2011, totaled $103,646 and $638,073 respectively, and is included in other income in the statements of revenues, expenses, and changes in net assets.

Future expected income receipts for existing lease agreements follow:

| Year Ended June 30 (In Thousands) | | |
|---|---|---|
| Fiscal Year | | Amount |
| 2013 | $ | 64 |
| 2014 | | 60 |
| 2015 | | 49 |
| 2016 | | 20 |
| 2017 | | 20 |
| 2018-2022 | | 40 |
| Total | $ | 253 |

*Capital Leases* — The University has entered into several capital lease agreements. The leases meet the criteria of a capital lease as defined by the FASB ASC 840, which defines a capital lease generally as one that transfers benefits and risk of ownership to the lessee.

In March 2002, the University guaranteed revenue bonds issued by the city of Saint Cloud, Minnesota Housing and Redevelopment Authority to the Foundation (see Note 18). 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 August 2010, the University entered into agreements with Wedum St. Cloud Housing LLLC for 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.

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

| Description | 2012 Gross | 2012 Scholarship Allowance | 2012 Net | 2011 Gross | 2011 Scholarship Allowance | 2011 Net |
|---|---|---|---|---|---|---|
| Tuition | $ 90,748 | $ (26,949) | $ 63,799 | $ 93,176 | $ (25,526) | $ 67,650 |
| Fees | 9,995 | (1,132) | 8,863 | 10,732 | (1,255) | 9,477 |
| Sales | 12,948 | (44) | 12,904 | 12,570 | (47) | 12,523 |
| Restricted student payments | 20,244 | (704) | 19,540 | 21,834 | (971) | 20,863 |
| Total | $ 133,935 | $ (28,829) | $ 105,106 | $ 138,312 | $ (27,799) | $ 110,513 |

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2012
(In Thousands)

| Description | Salaries | Benefits | Other | Interest | Total |
|---|---|---|---|---|---|
| Academic support | $ 14,781 | $ 4,266 | $ 6,959 | $ 146 | $ 26,152 |
| Institutional support | 8,977 | 3,207 | 6,859 | 94 | 19,137 |
| Instruction | 52,921 | 15,345 | 10,451 | 524 | 79,241 |
| Public service | 595 | 132 | 1,224 | 15 | 1,966 |
| Research | 1,341 | 306 | 1,051 | 13 | 2,711 |
| Student services | 13,432 | 4,002 | 6,841 | 503 | 24,778 |
| Auxiliary enterprises | 6,653 | 2,226 | 20,553 | 1,429 | 30,861 |
| Scholarships & fellowships | — | — | 1,742 | — | 1,742 |
| Less interest expense | — | — | — | (2,724) | (2,724) |
| Total operating expenses | $ 98,700 | $ 29,484 | $ 55,680 | $ — | $ 183,864 |

Year Ended June 30, 2011
(In Thousands)

| Description | Salaries | Benefits | Other | Interest | Total |
|---|---|---|---|---|---|
| Academic support | $ 13,617 | $ 3,916 | $ 6,512 | $ 123 | $ 24,168 |
| Institutional support | 9,790 | 3,313 | 7,269 | 92 | 20,464 |
| Instruction | 63,696 | 17,342 | 11,135 | 568 | 92,741 |
| Public service | 807 | 191 | 1,352 | 10 | 2,360 |
| Research | 1,293 | 243 | 1,373 | 11 | 2,920 |
| Student services | 15,004 | 4,210 | 7,059 | 522 | 26,795 |
| Auxiliary enterprises | 6,688 | 2,357 | 19,213 | 929 | 29,187 |
| Scholarships & fellowships | — | — | 3,534 | — | 3,534 |
| Less interest expense | — | — | — | (2,255) | (2,255) |
| Total operating expenses | $ 110,895 | $ 31,572 | $ 57,447 | $ — | $ 199,914 |

## 14. EMPLOYEE PENSION PLANS

The University participates in four retirement plans: the State Employees Retirement Fund, administered by the Minnesota State Retirement System; the Teachers Retirement Fund, administered by the Minnesota Teachers Retirement Association; the General Employees Retirement Fund, administered by the Public Employees Retirement Association; and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

*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 Minnesota State Retirement System, 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. Normal retirement age is 65. 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 year 2010 the funding requirement for both employer and employee was 4.75 percent. For fiscal years 2011 and 2012 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for St. Cloud State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2012 | $ 1,156 |
| 2011 | 1,254 |
| 2010 | 1,098 |

*Teachers Retirement Fund (TRF)*

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. 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 are 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 2010 and 2011 the funding requirement was 5.5 percent for both employer and employee coordinated members. For fiscal year 2012 the funding requirement was 6 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases were and will continue to be phased in with a 0.5 percent increase, occurring every July 1 over three years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.
Required contributions for St. Cloud State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2012 | $ 609 |
| 2011 | 730 |
| 2010 | 786 |

*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.

The 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. Normal retirement age is 65. 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. For the period January 1, 2009 through December 31, 2009, employee and employer contribution rates were 6 percent and 6.75 percent, respectively. For the period January 1, 2010 through December 31, 2010, employee and employer contribution rates were 6 percent and 7 percent, respectively. Effective January 1, 2011 and thereafter, employee and employer contribution rates were 6.25 percent and 7.25 percent, respectively. Actual contributions were 100 percent of required contributions.

Required contributions for St. Cloud State University were:

| (In Thousands) | | |
|---|---|---|
| Fiscal Year | Employer | Employee |
| 2012 | $ 20 | $ 17 |
| 2011 | 19 | 16 |
| 2010 | 15 | 13 |

*Minnesota State Colleges and Universities Defined Contribution Retirement Fund*

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes 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 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. 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 — Each 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 St. Cloud State University were:

| (In Thousands) | | |
|---|---|---|
| Fiscal Year | Employer | Employee |
| 2012 | $ 3,081 | $ 2,300 |
| 2011 | 3,252 | 2,427 |
| 2010 | 3,364 | 2,504 |

*Supplemental Retirement Plan (SRP)*

Participation — Every 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 the eligible compensation up to a defined maximum annual contribution as specified in the following table.

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

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

Required contributions for St. Cloud State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2012 | $ 1,519 |
| 2011 | 1,663 |
| 2010 | 1636 |

15. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance St. Cloud State University residence halls and student union.

St. Cloud State University Portion of the Revenue Fund
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| CONDENSED STATEMENTS OF NET ASSETS | | |
| Assets | | |
| Current assets | $ 18,946 | $ 18,394 |
| Current restricted assets | 21,393 | 19,118 |
| Noncurrent restricted assets | 9,639 | 2,995 |
| Noncurrent assets | 35,541 | 32,893 |
| Total assets | 85,519 | 73,400 |
| Liabilities | | |
| Current liabilities | 6,522 | 4,042 |
| Noncurrent liabilities | 32,250 | 30,626 |
| Total liabilities | 38,772 | 34,668 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 17,473 | 18,310 |
| Restricted | 29,274 | 20,422 |
| Total net assets | $ 46,747 | $ 38,732 |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | | |
| Operating revenues | $ 20,524 | $ 21,898 |
| Operating expenses | (19,633) | (19,338) |
| Net operating income | 891 | 2,560 |
| Nonoperating revenues (expenses) | 7,124 | (742) |
| Change in net assets | 8,015 | 1,818 |
| Net assets, beginning of year | 38,732 | 36,914 |
| Net assets, end of year | $ 46,747 | $ 38,732 |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| Net cash provided (used) by | | |
| Operating activities | $ 4,269 | $ 4,396 |
| Investing activities | 99 | 148 |
| Capital and related financing activities | (9,312) | 12,845 |
| Noncapital financing activities | 8,200 | — |
| Net increase | 3,256 | 17,389 |
| Cash, beginning of year | 35,327 | 17,938 |
| Cash, end of year | $ 38,583 | $ 35,327 |

## 16. COMMITMENTS AND CONTINGENCIES

St. Cloud State University Involvement in Ongoing Projects 2012
(In Thousands)

| Project | Total Cost | Spent to Date | Balance | Completion Date |
|---|---|---|---|---|
| Integrated Science and Engineering Lab Facility (ISELF) | $ 44,851 | $ 9,755 | $ 35,096 | August 2013 |
| National Hockey and Event Center renovation and addition (NHEC) | 14,600 | 3,159 | 11,441 | August 2013 |
| Case-Hill Hall renovation | 11,126 | 8,507 | 2,619 | August 2012 |

During fiscal year 2012, the University began construction of the Integrated Science and Engineering Lab Facility (ISELF). The University secured $42.3 million in bonding from the state of Minnesota in July 2011 to fund construction of the facility. This innovative facility will have large, open, flexible spaces suitable for multidisciplinary teaching, research and student project development. The ISELF facility is scheduled to open for classes in August of 2013.

During fiscal year 2012, the University continued the $14.6 million design and construction of the National Hockey and Event Center renovation and addition. Two of the goals of this project are to enhance the fan experience and create an event center for Central Minnesota. The project is being funded by a $1.9 million investment from the state of Minnesota, $4.5 million in Revenue Bond Funds and private fund raising, sponsorships and naming rights projected at nearly $8.2 million.

The Case-Hill Hall renovation in the summer of 2012 is part of a comprehensive plan to update St. Cloud State residence halls. A $4.9 million renovation of the north wing of Shoemaker Hall was completed in the summer of 2011. Both projects received Revenue Bond Funding. Shoemaker Hall's west and east wings are also slated for renovation in the summer of 2013 and 2014, respectively.

The University has entered into operating agreements with Wedum St. Cloud Housing LLLC and also with the St. Cloud State University Foundation. These operating agreements each contain lease terms meeting the criteria of a capital lease, as defined by Financial Accounting Standards Board ASC 840, *Leases*. Additional information regarding these leases agreements can be found in Note 11.

Minnesota State Colleges and Universities is in negotiations with the faculty bargaining units for the 2011-2013 contract period. Further, the legislative sub-committee on employee relations rejected the settlements reached by the State with MAPE and AFSCME for the same period. As a result, these contracts have not been implemented. It is possible that the full legislature will consider and approve the settlements, during the regular legislative session. Whether there will be retroactive pay owed to state employees as a result of negotiated settlements, and the impact of such settlement may have on the fiscal year 2012 financials, remains unknown. Therefore, no provision for related expense or liability, if any, has been reflected in these financial statements.

17. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also purchased professional liability for employed physicians, and student health services professional liability.
Property coverage's offered by the Minnesota Risk Management Fund are as follows:

| Coverage | Amount |
|---|---|
| Institution deductible | $2,500 to $250,000 |
| Fund responsibility | Deductible to $1,000,000 |
| Primary re-insurer coverage | $1,000,001 to $25,000,000 |
| Catastrophic 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 |

St. Cloud State University retains the risk of loss. The University did not have any settlements in excess of coverage the last three years.

The Minnesota Risk Management Fund purchased student intern professional liability insurance on the open market for the University. Minnesota State Colleges and Universities participate in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2012 and 2011.

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Beginning Liability | Additions | Payments & Other Reductions | Ending Liability |
| Fiscal Year Ended 6/30/12 | $ 425 | $ 246 | $ 345 | $ 326 |
| Fiscal Year Ended 6/30/11 | 600 | 366 | 541 | 425 |

18. COMPONENT UNITS

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

The St. Cloud State University Foundation, Inc. is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete. The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

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

- *Unrestricted Net Assets:* Net assets that are not subject to donor imposed stipulations.

- *Temporarily Restricted Net Assets:* Net assets subject to donor imposed restrictions as to how the assets are to be used.

- *Permanently Restricted Net Assets:* Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The University has an agreement with the Saint Cloud State University Foundation, Inc. whereby the University has agreed to furnish services for the operation of the Foundation. The values of such services, which are included in the University's expenses, are estimated at $1,518,446 and $1,551,299, respectively, for fiscal years 2012 and 2011.

An additional estimated $1,210,820 and $1,281,538, respectively, is included in the University's revenues and the Foundation's expenditures in fiscal years 2012 and 2011, as a result of planned transfers of Foundation funds to the University, whereby actual subsequent purchases are made from University accounts.

The Foundation expended $3,331,310 and $2,329,293, respectively, toward University educational program purposes during fiscal years 2012 and 2011. Of these amounts, approximately $598,896 and $660,763 respectively went to support student scholarships, talent grants, and other awards during fiscal years 2012 and 2011. In addition to providing the University with supplemental funds for current operations, in March 2012 the Foundation transferred $8.2 million to the University as a contribution to the National Hockey and Event Center renovation and addition. The Foundation's total assets decreased $1,634,442 and increased 3,650,102, respectively, in fiscal year 2012 and 2011.

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

Schedule of Investments at June 30
(In Thousands)

| Investments | 2012 | 2011 |
|---|---|---|
| Money market & CD's | $ 5,814 | $ 6,363 |
| Balanced mutual funds | 13,774 | 14,137 |
| Equity based mutual funds | 173 | 181 |
| Fixed income/Bonds/U.S. treasuries | 4,292 | 3,295 |
| Equity securities | 3,003 | 3,685 |
| Real estate (held for investments) | 5 | 100 |
| Total investments | $ 27,061 | $ 27,761 |

*Capital Assets*— Summaries of the foundations' capital assets for fiscal years 2012 and 2011 are:

Schedule of Capital Assets at June 30
(In Thousands)

| | 2012 | 2011 |
|---|---|---|
| Capital assets, not depreciated: | | |
| Land | $ 175 | $ 175 |
| Capital assets, depreciated: | | |
| Equipment | 250 | 250 |
| Accumulated depreciation | (248) | (247) |
| Total capital assets depreciated, net | 2 | 3 |
| Total capital assets, net | $ 177 | $ 178 |

*Long Term Obligations* — In March 2002 the Foundation entered into an agreement with the Housing and Redevelopment Authority in and for the city of St. Cloud, MN and U.S. Bank National Association to issue $16,515,000 in revenue bonds. Proceeds of the bonds were transferred to the University to finance the construction costs of the Atwood Memorial Center addition and the new stadium and recreational center. In May, 2012 the bonds were paid off and refinanced with $10,220,000 of new bonds issued with the Economic Development Authority of St, Cloud, Minnesota and U.S. Bank National Association. The refunding resulted in $1,586,535 gross debt service savings over the next 11 years, and an economic gain of $1,372,639.

The Foundation has a note payable with Bremer Bank for $6,600,000. The note has a personal guarantee from a member of the board of trustees. The proceeds of the note were transferred, along with other receipts to the University to finance construction costs of the National Hockey and Events Center (NHEC) renovation and addition. The fund is anticipated to be replenished with future contributions to a capital campaign for the NHEC.

Principal payment schedules are provided in the following table for revenue bonds payable and notes payable. Excluded from the table below is the unamortized bond premium of $1,066,581, which is amortized over the life of the bonds.

Long Term Debt Principal Repayment Schedule
(In Thousands)

| Fiscal Years | Bonds Payable | Notes Payable |
|---|---|---|
| 2013 | $ 805 | $ 1,320 |
| 2014 | 845 | 1,440 |
| 2015 | 870 | 1,440 |
| 2016 | 885 | 1,440 |
| 2017 | 910 | 960 |
| Thereafter | 5,905 | — |
| Total | $ 10,220 | $ 6,600 |

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

Changes in endowment net assets as of June 30, 2012 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2012
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Endowment Net Assets |
|---|---|---|---|---|
| Net assets, beginning of year | $ (50) | $ 4,686 | $ 15,884 | $ 20,520 |
| Change in value of trusts | (1) | (247) | (4) | (252) |
| Contributions | 1 | 68 | 799 | 868 |
| Investment income | 1 | 445 | 11 | 457 |
| Amounts appropriated for expenditures | (144) | (1,131) | — | (1,275) |
| Other transfers | 9 | 118 | (93) | 34 |
| Net assets, end of year | $ (184) | $ 3,939 | $ 16,597 | $ 20,352 |

Changes in endowment net assets as of June 30, 2011 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2011
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Endowment Net Assets |
|---|---|---|---|---|
| Net assets, beginning of year | $ (793) | $ 2,751 | $ 15,405 | $ 17,363 |
| Change in value of trusts | 697 | 2,389 | 41 | 3,127 |
| Contributions | 1 | 103 | 556 | 660 |
| Investment income | 95 | 326 | 6 | 427 |
| Amounts appropriated for expenditures | (50) | (966) | — | (1,016) |
| Other transfers | — | 83 | (124) | (41) |
| Net assets, end of year | $ (50) | $ 4,686 | $ 15,884 | $ 20,520 |

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# REQUIRED SUPPLEMENTARY INFORMATION SECTION

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**ST. CLOUD STATE UNIVERSITY**
**SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS**

Schedule of Funding Progress
(In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| July 1, 2006 | $ — | $ 9,105 | $ 9,105 | 0.00% | $ 99,283 | 9.17% |
| July 1, 2008 | — | 8,915 | 8,915 | 0.00 | 103,060 | 8.65 |
| July 1, 2010 | — | 11,506 | 11,506 | 0.00 | 113,311 | 10.15 |

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# SUPPLEMENTARY SECTION

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# 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
St. Cloud State University
Minnesota State Colleges and Universities
St. Paul, Minnesota

We have audited the financial statements of St. Cloud State University, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. We did not audit the financial statements of St. Cloud State University Foundation, Inc., a component unit of the University. These statements were audited by other auditors for the year ended June 30, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 St. Cloud State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KDV

## COMPLIANCE AND OTHER MATTERS

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

This report is intended solely for the information of the Audit Committee, management, the Board of Trustees and state regulatory agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
December 21, 2012

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