

Minnesota State Colleges and Universities

Summaries of Fiscal Year 2008 Audits and Financial Reports

November 18, 2008 Audit Committee Meeting

Minnesota State Colleges and Universities  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	See KDV's report to the Board of Trustees dated November 7, 2008, other accounting, administrative, and operating matters included: <ol style="list-style-type: none"> <li>1. Exhibit I makes recommendations related to security access and segregation of duties, the structure of financial reporting processes and responsibilities and other matters</li> <li>2. Exhibit II makes observations related to MnSCU's computer processing environment.</li> <li>3. Exhibit III summarizes new accounting and auditing requirements effective with FY 2009 or beyond.</li> <li>4. Exhibit IV contains certain communications required to be made by the auditor to the Board of Trustees.</li> </ol>

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↑/\$8.4mil	↑/\$7.1mil	↑/\$6.1mil
Primary Reserve (in months of operating expense)	2.5	2.5	2.3

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Nine foundations were included in the report (not consolidated with the System) as component units based on an assessment of relative significance and materiality of the foundation to the related university or college. See Footnotes 1 and 20 for additional detail. Statements of Financial Position are included after the System's Statements of Net Assets and Statements of Activities are included after the System's Statements of Revenues, Expenses and Changes in Net Assets.
Segment information	Summary financial information is included in Footnote 17 for the Revenue Fund along with certain housing operation at Vermilion Community College and Itasca Community College. The Revenue Fund is by far the most significant segment with a reported change in net assets of \$9,413k and \$9,511k in fiscal years 2008 and 2007, respectively

Minnesota State Colleges and Universities  
Summary of Fiscal Year 2008 Audit and Financial Reports

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None.
Significant joint ventures, alliances, etc.	See Footnote 1 descriptions of joint ventures and joint use agreements with: the Project for Automated Library Services (PALS), the City of Rochester, the Internet System for Education and Employment (ISEEK), Northwest Telecommunications Region (NETS), NorthEast Alliance for Telecommunications (NEAT), Consortium of Minnesota Educational Tele-communities (COMET), Southwest/West Central Higher Education Organization (SHOT), and joint governance over Fond du Lac Tribal & Community College.
Contingent liabilities from litigation	See Footnote 15 for disclosure of three cases with contingent litigation liabilities with potential, individual settlements in excess of \$300k.
Related party transactions	Foundation related-part transactions are disclosed in Footnote 19.
Commitments	See Footnote 18 for significant commitments to complete capital asset projects.
Subsequent events	See Footnote 21 for information on a July 2008 sale of state GO bonds.

Revenue Fund  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↓/\$9.5	↑/\$9.6	↑/\$8.1
Primary Reserve (in months of operating expense)	9.7	9.3	7.1

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	None
Segment information	None

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None.
Significant joint ventures, alliances, etc.	None.
Contingent liabilities from litigation	None
Related party transactions	See Footnote 10.
Commitments	See Footnote 11 for significant commitments.

Southwest Minnesota State University  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↑/\$(1.3)mil	↓/\$(1.9)mil	↑/\$(0.3)mil
Primary Reserve (in months of operating expense)	1.5	1.7	2.0

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 19. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 17 for Revenue Fund segment data. The Change in Net assets for this segment was \$(1,592k) and \$(919k) in fiscal years 2008 and 2007, respectively. The SMSU Revenue Fund has a new dormitory under construction that is not expected to be available until fall term 2009.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	None
Related party transactions	Foundation related-party transactions -- disclosed in Footnote 18.
Commitments	See Footnote 16 for significant commitments including a property management agreement with the SMSU Foundation and construction of both a Regional Event Center and new residence hall.

Rochester Community and Technical College  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↓/\$ (2.9) mil	↓/\$ (1.1) mil	↓/\$ (0.8) mil
Primary Reserve (in months of operating expense)	2.2	3.3	3.4
Note: RCTC incurred \$1 million of asbestos abatement expense in FY 2008, which was a significant factor contributing to the negative \$2.9 million operating margin.			

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	None.
Segment information	None.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None.
Significant joint ventures, alliances, etc.	See footnote 1 descriptions of joint use agreement with the City for the University Center Rochester Regional Sports Complex and facilities use and cost sharing with Winona State University and the University of Minnesota Regional Extension Office.
Contingent liabilities from litigation	None
Related party transactions	None
Commitments	See footnote 15 for significant commitments.

Winona State University  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↓\$1.3mil	↑/\$6.3mil	↑/\$4.1mil
Primary Reserve (in months of operating expense)	2.8	3.1	2.5

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1, 18 and 19. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 17 for Revenue Fund segment data. - The Change in Net assets for this segment was \$3,342k and \$3,410k in fiscal years 2008 and 2007, respectively. - Revenue bond debt increased \$39.9 million which includes funding for a new residence hall and nearly 40% of the funding for expansion of Memorial Hall. This debt increases non-current liabilities and restricted assets as of June 30, 2008.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	None
Related party transactions	Foundation related-party transactions -- disclosed in Footnote 18.
Commitments	See Footnote 16 for significant commitments.

MSU Moorhead  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↓/\$(0.6)mil	↑/\$1.1mil	↓/\$(0.3)mil
Primary Reserve (in months of operating expense)	2.4	2.5	1.8

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 19. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 17 for Revenue Fund segment data. The Change in Net assets for this segment was \$821k and \$1,107k in fiscal years 2008 and 2007, respectively.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None.
Contingent liabilities from litigation	None (One case was settled subsequent to June 30, 2008, but the amount was not material to the financial statements and no adjustment was required as of June 30, 2008).
Related party transactions	Foundation related-party transactions – disclosed in Footnote 18.
Commitments	See Footnote 16 for significant commitments.

MSU, Mankato  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↑/\$5.5mil	↓/\$4.5mil	↑/\$5.4mil
Primary Reserve (in months of operating expense)	2.6	2.2	1.8

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 20. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 18 for Revenue Fund segment data. The Change in Net assets for this segment was \$3,893k and \$2,307k in fiscal years 2008 and 2007, respectively.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None.
Contingent liabilities from litigation	See Footnote 17 for disclosure information related to contingent litigation liabilities with potential settlements in excess of \$100k.
Related party transactions	Foundation related-party transactions -- disclosed in Footnote 19.
Commitments	See Footnote 16 for significant capital project commitments.

Century College  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↓/\$1.7mil	↑/\$2.0mil	↓/\$(1.0)mil
Primary Reserve (in months of operating expense)	1.7	1.6	1.0

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 18. Discreet foundation financial statements are included in the financial statements section.
Segment information	None.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	One contingent litigation liability with a potential settlement in excess of \$100k is disclosed in Footnote 16.
Related party transactions	Foundation related-party transactions – disclosed in Footnote 17.
Commitments	See Footnote 15 for significant commitments.

St. Cloud State University  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↑\$4.6mil	↓/\$0.3mil	↓/\$1.7mil
Primary Reserve (in months of operating expense)	2.0	2.1	2.5

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 20. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 18 for Revenue Fund segment data. The Change in Net assets for this segment was \$3,437k and \$3,471k in fiscal years 2008 and 2007, respectively.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None.
Contingent liabilities from litigation	One contingent litigation liability with a potential settlement in excess of \$100k was disclosed in Footnote 12.
Related party transactions	Foundation related-party transactions -- disclosed in Footnote 19.
Commitments	See Footnote 17 for significant commitments.

Metropolitan State University  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	See Virchow Krause's report to the Board of Trustees contained at the back of the Annual Financial Report in the Supplemental Section. The significant deficiency reported was: The University should implement better journal entry controls such that either the reviewer of journal entries not have general ledger access or the University could implement a process where an independent party periodically reviews entries to verify that they are approved by someone other than the journal entry preparer.
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↑/\$1.0mil	↓/\$0.8mil	↑/\$1.7mil
Primary Reserve (in months of operating expense)	2.9	2.8	2.7

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 18. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 15 for Revenue Fund segment data. The Change in Net Assets for this segment was \$(139k) and \$10k in fiscal years 2008 and 2007, respectively.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None.
Contingent liabilities from litigation	None.
Related party transactions	Foundation related-party transactions -- disclosed in Footnote 17. This footnote also describes the co-location of Metropolitan State University's Minneapolis campus with Minneapolis Community and Technical College.
Commitments	See Footnote 16 for a brief description of the University's co-location agreement with Minneapolis Community and Technical College.

Bemidji State University  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	See Virchow Krause's report to the Board of Trustees contained at the back of the Annual Financial Report in the Supplemental Section. The significant deficiency reported was: Several audit adjustments were required with the primary adjustment decreasing salaries payable approximately \$500k with the offset reflected as reduction in salary expense.
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↑/\$1.1mil	↑/\$(2.5)mil	↓/\$(3.9)mil
Primary Reserve (in months of operating expense)	2.0	1.3	1.1

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 20. Discreet foundation financial statements are included in the financial statements section.
Segment information	See Footnote 16 for Revenue Fund segment data. The Change in Net Assets for this segment was \$ (817k) and \$(1,055k) in fiscal years 2008 and 2007, respectively.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None. However, see The Supplemental Section at the back of the Annual Financial Report contains a separate presentation of the financial statements of Northwest Technical College-Bemidji and University.
Contingent liabilities from litigation	One contingent litigation liability with a potential settlement in excess of \$100k is disclosed in Footnote 18.
Related party transactions	Foundation related-party transactions are disclosed in Footnote 19.
Commitments	See Footnote 17 for significant commitments.

Minneapolis Community and Technical College  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↑/\$3.2mil	↑/\$2.1mil	↓/\$(2.8)mil
Primary Reserve (in months of operating expense)	2.9	2.4	1.4

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	None.
Segment information	None.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None.
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	One contingent litigation liability with a potential settlement in excess of \$100k was disclosed in Footnote 13.
Related party transactions	See Footnote 17 for discussion of the co-location of Metropolitan State’s Minneapolis campus at MCTC.
Commitments	See Footnote 16 for significant commitments.

Minnesota State Community and Technical College  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	None
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin (“Income (Loss) Before Other Revenues, Expenses, Gains, or Losses”)	↑\$(0.6)*	↓/\$(1.8)	↑/\$(1.3)mil
Primary Reserve (in months of operating expense)	0.8*	0.6	0.6
* Includes \$1.1 of special appropriation allocation revenue for opportunity and access with only limited offsetting expenditures in fiscal year 2008; this will turn around in fiscal year 2009.			

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	Foundation included. See Footnotes 1 and 17. Discreet foundation financial statements are included in the financial statements section.
Segment information	None.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	None
Related party transactions	A joint lease agreement with MSU Moorhead for the Minnesota Higher Education Center is disclosed in Footnote 16.
Commitments	See Footnote 14 for significant commitments.

Hennepin Technical College  
Summary of Fiscal Year 2008 Audit and Financial Reports

I. External auditor communications.

<u>Category</u>	<u>Comments</u>
<b><u>Auditor Communications</u></b>	
Audit opinion	Unqualified
Material weaknesses	None
Significant deficiencies	See Virchow Krause's report to the Board of Trustees contained at the back of the Annual Financial Report in the Supplemental Section. The significant deficiency reported was: Several audit adjustments were required with one increasing accounts receivable by \$442k and two others reducing unearned revenue by \$207k.
Other communications	None

II. Basic financial statement measures and trends.

<b><u>Financial Statements Measures and Trends</u></b>			
	2008	2007	2006
Operating Margin ("Income (Loss) Before Other Revenues, Expenses, Gains, or Losses")	↓\$(0.4)mil	↑/\$(0.3)mil	↓/\$(1.2)mil
Primary Reserve (in months of operating expense)	1.7	1.6	1.7

III. Significant component units or segment information.

<u>Category</u>	<u>Comments</u>
<b><u>Component Units and Segments</u></b>	
Component units	None.
Segment information	None.

IV. Potential high risk transactions.

<u>Category</u>	<u>Comments</u>
<b><u>Potential High Risk Transactions</u></b>	
Prior period adjustments	None
Significant joint ventures, alliances, etc.	None
Contingent liabilities from litigation	None
Related party transactions	None
Commitments	None