

Office of the State Auditor

Division of State Audit

Minot State University Minot, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 24100

Robert R. Peterson
State Auditor



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Transmittal Letter

February 4, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. David Fuller, President, Minot State University

We are pleased to submit this audit of Minot State University for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Fuller and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Since 1913 Minot State University has been helping students achieve their personal and professional goals. Minot State University offers the academic programs and career preparation you expect from a university as well as the personal attention and campus community associated with a small university.

Minot State University's 102 acres of tree-lined campus provides students a friendly and personal atmosphere. The University is home to 21 buildings, including four residence halls, two apartment buildings, seven classroom buildings, the student union, library, domed athletic facility, a concert hall, two theaters, and two art galleries.

More information may be obtained from Minot State University's home page at: <http://www.minotstateu.edu/>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. *What type of opinion was issued on the financial statements?*

Unqualified.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

Yes.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Minot State University include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for Minot State University were recorded. Other non-material audit adjustments were proposed and Minot State University was given the option to record. A complete listing of Posted Audit Adjustments and Passed Audit Adjustments were included in the 2007 and 2006 North Dakota University System audit reports.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to Minot State University.

Background Information

The University has evolved from a normal school to a Carnegie Master's I Institution. It is the third largest higher education institution in the state comprised of three colleges: Arts and Sciences, Business, and Education and Health Sciences. Twelve master's degrees are offered in such areas as communication disorders, management, education, and mathematics. There is a rich mix of liberal and professional programs offering 50 majors at the undergraduate level. Minot State University is a member of the North Dakota University System, which is comprised of 11 institutions representing doctoral, master, baccalaureate, and community colleges. The state Board of Higher Education consists of nine members and is the governing board of the System. Minot State University has a Board of Regents acting as an advisory board and champion for the institution.

The mission of Minot State University is to advance knowledge, critical and creative thinking, and the vitality of community and cultures. Minot State University is an active, dynamic teaching and learning environment that contributes immensely to the social and cultural fabric of the city of Minot.

The core values of Minot State University are:

- Teaching and learning with excellence, integrity, and engagement.
- Serving students and others respectfully and responsibly.
- Following high ethical and moral principles.
- Supporting the values of community and place, where all community members are valued and respected for their work, contributions, and freedom of expression.

To support the mission and core values and help guide campus decision-making, Minot State University developed specific beliefs in the areas of learning, teaching, campus life, research, and service. Visions in each of these areas were also formulated to provide inspiration, challenge, and direction.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of Minot State University for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of Minot State University's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Minot State University and are they in compliance with these laws?
3. Are there areas of Minot State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Minot State University for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures related to statement of net asset, revenue and expenses, and the statement of cash flows.
- Tested samples of expenses, journal entries and revenues.
- Reviewed prior year audit work papers.
- Interviewed appropriate agency personnel.
- Reviewed Minot State University written plans and applicable manuals.
- Observed Minot State University's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present Minot State University's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of Minot State University were primarily supported by appropriations from the state's general fund (33%), tuition and fee revenue (29%), and federal grants and contracts (18%). This is supplemented by sales and services of auxiliary enterprises, state and local grants and contracts, and other revenue credited to the institution's operating fund.

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as grants and contracts and sales and services of auxiliary enterprises and educational departments. Nonoperating revenues during the audit period included state appropriations, gifts, investment income, and other nonoperating revenue. These revenues remained fairly consistent between fiscal years 2007 and 2006, except for tuition and fees, federal grants and contracts, state and local grants, and contracts and gifts which increased by 11%, 17%, 71%, and \$1,142,409, respectively. Total revenues were \$45,015,726 for the year ended June 30, 2007 as compared to \$39,762,794 for the year ended June 30, 2006.

The tuition and fee revenue increase was mainly due to a 9.5% annual flat rate increase in tuition and fees. The federal grants and contracts increased because of several new federal grants received by the University. The state and local grants and contracts increase is due to revenue received for a new resident teacher program grant and an increase in the grant for infant development. The increase in gifts was because Minot State University did not record its gifts from the foundation for scholarships for fiscal year 2006 until fiscal year 2007.

Total expenses for Minot State University were \$42,563,128 for the year ended June 30, 2007 as compared to \$39,905,120 for the prior year. The increase in total expenses for the audit period reflects primarily salaries and wages (which also accounts for 62% of the total expenses in both years) and operating expenses. All other expenses remained fairly constant.

The increase in expenses for salaries and wages was due to annual salary increases for employees of Minot State University. The increase in operating expenses reflects an overall general increase in expenses based on the corresponding increase in revenues.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

Minot State University had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Cash & cash equivalents	\$ 9,490,569	\$ 10,503,989
Investments	10,355,082	7,142,613
Accounts receivable, net	561,624	787,017
Receivable from component units	50,410	
Due from state general fund	1,142	32,348
Grants and contracts receivables, net	1,532,450	1,199,576
Inventories		735,210
Notes receivable, net	2,835,617	3,019,001
Other assets	286,653	803,878
Capital assets, net	45,172,707	45,325,709
Total assets	\$ 70,286,254	\$ 69,549,341
LIABILITIES		
Accounts payable	\$ 801,763	\$ 1,999,104
Accrued payroll	1,264,607	1,247,937
Deferred revenue	782,277	874,896
Deposits	444,675	382,659
Other noncurrent liabilities	39,635	38,520
Due to others	8,882,088	9,387,614
Total liabilities	\$ 12,215,045	\$ 13,930,730
NET ASSETS		
Invested in capital assets, net of related debt	\$ 37,084,778	\$ 38,555,945
Restricted for:		
Expendable:		
Scholarships and fellowships	2,283,663	1,773,723
Research		(40,202)
Institutional	337,822	(337,796)
Loans	3,533,832	3,443,656
Debt service	611,112	358,710
Unrestricted	14,220,002	11,864,575
Total net assets	\$ 58,071,209	\$ 55,618,611

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
OPERATING REVENUES		
Student tuition and fees	\$ 12,822,623	\$ 11,552,372
Federal grants and contracts	8,542,804	7,275,993
State and local grants and contracts	1,243,051	726,121
Nongovernmental grants and contracts	93,231	29,767
Sales and services of educational departments	1,052,816	867,379
Auxiliary enterprises	4,091,866	3,797,750
Other	44,619	49,779
Total operating revenues	\$ 27,891,010	\$ 24,299,161
OPERATING EXPENSES		
Salaries and wages	\$ 26,204,331	\$ 25,228,972
Operating expenses	9,591,131	8,593,985
Data processing	283,579	380,011
Depreciation	2,408,295	2,415,543
Scholarships and fellowships	1,871,258	1,721,612
Cost of sales and services	1,721,739	1,474,247
Total operating expenses	\$ 42,080,333	\$ 39,814,370
Operating loss	\$ (14,189,323)	\$ (15,515,209)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 13,980,389	\$ 13,585,649
Gifts	2,056,538	914,129
Investments income	767,716	514,222
Interest on capital asset-related debt	(450,271)	(90,750)
Loss on capital assets	(32,524)	
Other nonoperating revenues	56,877	35,959
Net nonoperating revenues	\$ 16,378,725	\$ 14,959,209
Income (loss) before capital grants, gifts, and transfers	\$ 2,189,402	\$ (556,000)
State appropriations-capital assets	\$ 263,196	\$ 413,674
Capital grants and gifts		
Total other revenue	\$ 263,196	\$ 413,674
Increase (decrease) in net assets	\$ 2,452,598	\$ (142,326)
NET ASSETS		
Net assets-beginning of the year	\$ 55,618,611	\$ 55,760,937
Net assets-end of the year	\$ 58,071,209	\$ 55,618,611

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 12,966,482	\$ 11,853,754
Grants and contracts	9,546,212	8,872,418
Payments to suppliers	(11,343,301)	(9,886,592)
Payments to employees	(26,097,934)	(24,734,605)
Payments for scholarships and fellowships	(1,871,258)	(1,721,612)
Loans issued to students	(467,375)	(536,686)
Collection of loans to students	559,506	587,165
Auxiliary enterprise charges	4,102,814	3,743,397
Sales and service of educational departments	1,064,870	607,802
Cash received on deposits	19,065	9,675
Other receipts (payments)	555,544	(498,412)
Net cash used by operating activities	\$ (10,965,375)	\$ (11,703,696)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 13,981,137	\$ 13,584,901
Grants and gifts received for other than capital purposes	2,056,538	914,129
Agency fund cash increase	42,766	78,901
Other nonoperating revenues (expenses)	57,992	(40,924)
Net cash flows provided by noncapital financing activities	\$ 16,138,433	\$ 14,537,007
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt		\$ 5,000,000
Capital appropriations	\$ 293,654	382,074
Capital grants and gifts received	(10)	40,000
Purchases of capital assets	(2,927,918)	(4,428,104)
Principal paid on capital debt and lease	(677,865)	(793,454)
Deposits with capital debt payment trustees		(272,275)
Interest paid on capital debt and lease	(372,440)	(190,746)
Net cash used by capital and related financing activities	\$ (3,684,579)	\$ (262,505)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 4,043,515	\$ 453,000
Interest on investments	542,986	481,768
Purchase of investments	(7,088,400)	(1,825,489)
Net cash provided by investing activities	\$ (2,501,899)	\$ (890,721)
Net increase (decrease) in cash	\$ (1,013,420)	\$ 1,680,085
CASH - BEGINNING OF YEAR	10,503,989	8,823,904
CASH - END OF YEAR	\$ 9,490,569	\$ 10,503,989

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	June 30, 2007	June 30, 2006
Operating loss	\$ (14,189,323)	\$ (15,515,209)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	2,408,295	2,415,543
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	228,752	(230,983)
Grant and contract receivables	(332,874)	840,537
Inventories	735,210	(57,827)
Notes receivable	183,384	289,318
Other assets	542,179	(579,444)
Accounts payable and accrued liabilities adjusted for interest payable	(573,605)	325,836
Accrued payroll	16,665	437,578
Compensated absences	89,732	56,789
Deferred revenue	(92,855)	304,491
Deposits	19,065	9,675
Net cash used by operating activities	\$ (10,965,375)	\$ (11,703,696)

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital leases	\$ 82,607	\$ 188,209
Total non-cash transactions	\$ 82,607	\$ 188,209

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 27,215,849	\$ 350,189	\$ 27,566,038	\$ 27,566,038	
Capital assets	4,211,870		4,211,870	675,728	\$ 3,536,142
Capital improvements - off system					
Crane Hall renovation	5,000,000		5,000,000	4,445,711	554,289
Totals	\$ 36,427,719	\$ 350,189	\$ 36,777,908	\$ 32,687,477	\$ 4,090,431

Expenses by source					
General fund	\$ 27,892,719	\$ 350,189	\$ 28,242,908	\$ 28,241,766	\$ 1,142
Special fund	8,535,000		8,535,000	4,445,711	4,089,289
Totals	\$ 36,427,719	\$ 350,189	\$ 36,777,908	\$ 32,687,477	\$ 4,090,431

Appropriation Adjustments:

Operating Expenses:

The \$350,189 adjustment includes:

- \$326,380 was transferred from the North Dakota University System technology fund pursuant 2005 Senate Bill 2006, section 6.
- \$23,809 was transferred from the North Dakota University System contingency fund for disabled student services pursuant to 2005 Senate Bill 2003, section 8.

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of Minot State University's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Minot State University's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Indebtedness issued during the period was used for the purpose of financing Crane Hall in the amount of \$5,000,000 (05 Senate Bill 2003, chapter 31, section 14).
- An agreement with a private vendor for renovation and operation of Crane Hall as a residence hall (05 Senate Bill 2003, chapter 31, section 16).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1/Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, section 1 of the North Dakota Constitution, Attorney General's opinion dated September 13, 1963, NDCC 1-08-02, 08-04, 15-10-12, 15-67-01, 67-04, 67-05, 67-07).
- Fixed asset requirements including record keeping, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 44-04-07, 54-44.1-06, 54-27-21, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding (NDCC 44-08-01, 48-01.1-03, 54-44.4-01, 05, 06, 54-44.7-02).
- Conflict of Interest (NDCC 12.1-13-03, 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1, 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.