

A member of Minnesota State



MINNESOTA STATE



**BEMIDJI**  
STATE UNIVERSITY

# ANNUAL Financial Report

For the Years Ended June 30, 2016 and 2015



**Northwest  
Technical College**  
Bemidji, Minnesota



# **BEMIDJI STATE UNIVERSITY**

**A MEMBER OF MINNESOTA STATE**

## **ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

Prepared by:

Chief Financial Officer  
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BEMIDJI STATE UNIVERSITY  
 ANNUAL FINANCIAL REPORT  
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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# INTRODUCTION

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OFFICE OF THE PRESIDENT

218-755-2011 / FAX 218-755-2749 / [president@bemidjistate.edu](mailto:president@bemidjistate.edu)

November 8th, 2016

Board of Trustees  
Steven Rosenstone, Chancellor  
Minnesota State  
30 East Seventh Street, St. Paul, MN 55101

Dear Board of Trustees and Chancellor Rosenstone:

I am pleased to submit the audited financial statements for Bemidji State University and Northwest Technical College for the fiscal years ending June 30, 2016 and 2015. This report includes the financial statements and disclosures necessary to accurately present the financial condition results of operations for the year. I am pleased to report that the financial status of our institutions have improved during this period but continue to be challenged with rising expenditures and limited revenue growth. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report. The responsibility for accuracy, fairness, reliability and completeness of this report rests with the Finance and Administration staff from Bemidji State University and Northwest Technical College in partnership with the Finance Division from the Minnesota State system office.

Throughout fiscal year 2016, the university and college faculty, staff and administrators experienced a year of change, with the announcement of the President and other key administrators, faculty and staff. A new enrollment management plan was implemented that engages students earlier in their college selection process. Northwest Technical College successfully received accreditation renewal from the Higher Learning Commission in spring 2016.

One component of the Strategic Plan was to launch the Imagine Tomorrow capital campaign with a goal of \$35.0 million to end in June 2016. The campaign was more successful than expected and finished with results of over \$36.5 million. The efforts of this campaign have already provided more access and opportunity to the students by increasing scholarship funding from \$0.7 million in 2010 to \$1.4 million in 2016.

Strategic enrollment management continues to be critical in support and enhancing student success. The new enrollment management plan will engage students at the high school sophomore level when students are evaluating options for higher education. A mentoring program was implemented for those students that were "at risk" but did not qualify for any other



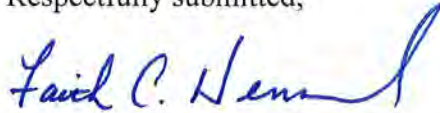
special programs. This mentoring program was successful as our freshman retention from fall 2015 to fall 2016 has increased.

Bemidji State University and Northwest Technical College continue to create and strengthen collaborations and partnerships within Bemidji and the greater Minnesota region. Relationships continue with Red Lake Tribal College, Leech Lake Tribal College and White Earth Tribal College, Minnesota Innovation Institute and the 360 Manufacturing and Applied Engineering Center of Excellence.

Financial sustainability is not only reliant on our continued success in retention and recruiting, but also by obtaining outside resources, new resources through the creation of a grant writing office and through new partnerships and collaborations.

Our new leadership will strive to fulfill our public mission, enrich our learning environment, and impact our students with a stronger relationship between our two institutions with a focus on “Building Bridges, Transforming Lives”.

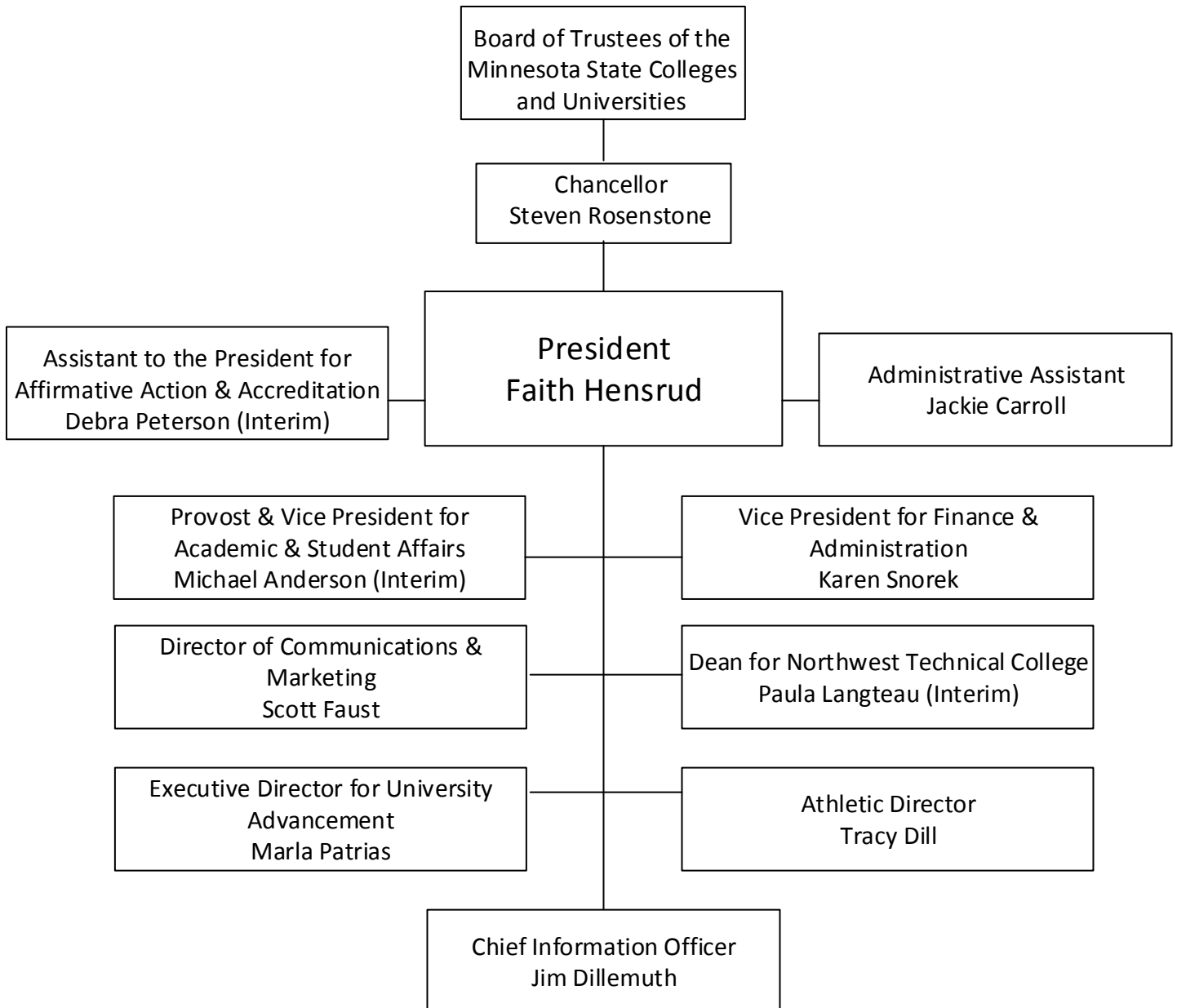
Respectfully submitted,

A handwritten signature in blue ink that reads "Faith C. Hensrud". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Faith C. Hensrud, Ed.D.  
President

# Bemidji State University/Northwest Technical College

## Organizational Chart



The combined financial position and activities of Bemidji State University and Northwest Technical College are included in this report and referred to within this document as the university unless specifically noted. The university is one of 37 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 the Minnesota State Colleges and Universities is included in the state of Minnesota Comprehensive Annual Financial Report.

# FINANCIAL SECTION



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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bemidji State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bemidji State University Foundation, which represents 100% of the total assets and total revenues of the discretely presented component unit of Bemidji State University. 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 Bemidji State University Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Bemidji State University Foundation were not audited in accordance with *Government Auditing Standards*.

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

***Auditors' Responsibility (Continued)***

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

***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Bemidji State University as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only Bemidji State University and do not purport to, and do not present fairly the financial position of Minnesota State Colleges and Universities as of June 30, 2016 and 2015, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress – net other postemployment benefits and the schedule of proportionate share of net pension liability, the schedule of contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bemidji State University's basic financial statements. The schedules of components of Bemidji State University are presented for purposes of additional analysis and are not a required part of the basic financial statements.

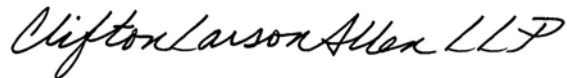
**Other Matters (Continued)**

*Supplementary Information (Continued)*

The schedules of components of Bemidji State University are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the schedules of components of Bemidji State University are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of Bemidji State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bemidji State University's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 8, 2016



***INTRODUCTION***

The following discussion and analysis provides an overview of the financial position and activities of Bemidji State University, a member of Minnesota State Colleges and Universities (Minnesota State) for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section.

Bemidji State University (the university) and Northwest Technical College (the college) are aligned under the leadership of one president. The institutions share administration, business services, information technology, select student services, and some academic areas. The university and college maintain separate institutional accreditation from the Higher Learning Commission and all student, personnel, and financial records are recorded in separate integrated student records systems. For financial statement purposes, BSU and NTC activity are combined and referred to within this document as the university and college unless specifically noted.

The university and college are one of 37 colleges and universities comprising Minnesota State. Minnesota State is governed by a fifteen member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees: one from a state university, one from a community college and one from a technical college, serve two-year terms. The board of trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

Bemidji State University is a comprehensive public institution of higher learning founded in 1919, with current student enrollment of approximately 5,000 undergraduate students and 300 graduate students from nearly all 50 states and approximately 35 foreign countries. The campus is comprised of 89 acres with 19 academic/student services buildings, six residence buildings, and a 240 acre private forest. The university offers more than 65 majors and pre-professional programs. A select number of graduate programs are offered. The online programs offered through professional education have the highest enrollment. BSU operates with approximately 450 faculty members and 200 staff.

Northwest Technical College was established in 1965 and has a current student enrollment of approximately 1,200 students. The campus is comprised of approximately 17 acres with one main building. The college offers 23 areas of study in six divisions – Business; Environmental Technology, Industrial Technology and General Technology; General Education; Health; Human and Protective Services and the Bemidji School of Nursing. The college operates with approximately 85 faculty members and 40 staff.

Northwest Technical College is also the fiscal agent for Distance Minnesota, an online inter-institutional consortium as well as state-wide collaborations such as Minnesota Department of Veterans Affairs and Minnesota Department of Education. Over half of its 1,200 students have courses through this consortium. The membership to Distance Minnesota includes founding members – Alexandria Technical and Community College, Northland Community and Technical College and Northwest Technical College, and a university partner – Bemidji State University.

## ***FINANCIAL HIGHLIGHTS***

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$22.7 million to retroactively report the net pension liability and the deferred inflows and deferred outflows of resources. Fiscal year 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year. Comparability between fiscal years will have variances due to this new accounting standard and is explained throughout the management discussion and analysis.

The university's and college's financial position improved during fiscal year 2016 with net position increasing by \$3.8 million, or 6.7 percent, on total revenues of \$88.5 million. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position increased by \$1.8 million, or 2.4 percent, and \$1.9 million or 2.6 percent, respectively. Of that increase, \$3.2 million for fiscal year 2016 and \$3.6 million for fiscal year 2015, were due to an increase in net investment in capital assets.

The university and college experienced an increase of \$2.2 million in state appropriation revenue and a \$1.8 million increase in its gross tuition and fees revenue during fiscal year 2016. The university and college were able to increase tuition rates by 3.0 percent in fiscal year 2016 and saw an overall increase in enrollment by 4.0 percent. The university and college also saw an increase in operating expenses of \$2.1 million in fiscal year 2016 which was mainly due to salaries and benefits. Along with the retirement of a President, the university and college experienced an abnormally high level of long term employee retirements.

For the fiscal year ended June 30, 2016, assets and deferred outflows totaled \$127.9 million while liabilities and deferred inflows totaled \$67.7 million. Net position, which represent the residual interest in the university's and college's assets and deferred outflows after liabilities and deferred inflows are deducted, is comprised of net investment in capital assets of \$54.3 million, restricted net position of \$7.6 million and unrestricted net position of \$(1.6) million.

## ***USING THE FINANCIAL STATEMENTS***

The university's and college's financial report includes three financial statements: the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net position categories. A summary of significant accounting policies followed by the university is included in Note 1 to the financial statements.

## ***STATEMENTS OF NET POSITION***

The statements of net position present the financial position of the university and college at the end of the fiscal year and include all assets and deferred outflows and liabilities and deferred inflows of the university as measured on the accrual basis of accounting. The difference between total assets and deferred outflows and total liabilities and deferred inflows is net position, one indicator of the current financial condition of the university and college. The change in net position is an indicator of whether the overall financial condition has improved or declined during the year. Capital assets are stated at historical cost less an allowance for depreciation with current year depreciation reflected as a period expense on the statements of revenues, expenses and changes in net position.

A summary of the university's and college's statements of net position as of June 30, 2016, 2015, and 2014 follows:

(In Thousands)			
	2016	2015	2014
Current assets	\$ 42,339	\$ 46,243	\$ 44,528
Noncurrent assets	4,002	4,011	4,209
Capital assets, net	77,290	73,795	69,189
Deferred outflows of resources	4,314	1,853	-
Total assets and deferred outflows of resources	<u>127,945</u>	<u>125,902</u>	<u>117,926</u>
Current liabilities	11,966	13,881	10,767
Noncurrent liabilities	46,482	45,468	31,527
Deferred inflows of resources	9,230	10,049	-
Total liabilities and deferred inflows of resources	<u>67,678</u>	<u>69,398</u>	<u>42,294</u>
Net position	<u>\$ 60,267</u>	<u>\$ 56,504</u>	<u>\$ 75,632</u>

Current assets consist primarily of cash, cash equivalents (unrestricted) and investments totaling \$34.4 million at June 30, 2016, \$34.7 million at June 30, 2015, and \$37.1 million at June 30, 2014. This represents approximately 4.4 months, 5.5 months, and 5.9 months of operating expenses (excluding depreciation) for fiscal years 2016, 2015 and 2014, respectively. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the university's revenues. In fiscal years 2016 and 2015 \$4.3 million and \$1.9 of million deferred outflows were reported respectively, which represent the consumption of net position in one period that is applicable to future periods, and is primarily due to the GASB Statement No. 68 implementation.

Included in current assets are accounts receivable. The accounts receivable balance ending June 30, 2016 was \$2.6 million comprised primarily of tuition and fees, room and board charges, Distance Minnesota contract billings and \$0.6 million of capital bonding from the Minnesota State system. The accounts receivable balances increased by \$0.5 million due to the timing of bond proceeds on the Memorial and Decker Hall renovations. This follows steady balances at June 30 of \$2.1 million for fiscal years 2015 and 2014.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2016 increased from the prior year by \$0.7 million, or 16.3 percent, to a total of \$5.0 million. The university and college experienced a larger than expected amount of long term employees retirement at the end of the academic year 2016 with payouts extending into fiscal year 2017 and 12 days of accrued salaries and benefits based on the calendar year compared to 10 days in fiscal year 2015. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year.

Accounts payable and other liabilities, including payables from restricted assets, decreased \$2.8 million or 50.5 percent, primarily due to less construction activity. Unearned revenue consists of summer session tuition and grant receipts received, but not yet earned. At June 30, 2016, \$1.3 million was held as unearned revenue. Summer session began in May and ended in August 2016, with tuition being allocated based on the number of session days in fiscal year 2016.

In fiscal years 2016 and 2015 \$9.2 million and \$10.0 million of deferred inflows were reported respectively, which represent the acquisition of net position in one period that is applicable to future periods, and is primarily due to the GASB Statement No. 68 implementation. Additionally, the GASB Statement No. 68 implementation resulted in a net pension liability for fiscal years 2016 and 2015 in the amounts of \$14.3 million and \$12.9 million, respectively.

Net position represents the residual interest in the university's assets and deferred outflows after liabilities and deferred inflows are deducted.

The university's and college's net position at June 30, 2016, 2015, and 2014 follows:

(In Thousands)			
	2016	2015	2014
Net investment in capital assets	\$ 54,265	\$ 51,041	\$ 47,469
Restricted expendable, bond covenants	3,555	3,282	4,191
Restricted expendable, other	4,026	3,948	3,837
Unrestricted	(1,579)	(1,767)	20,135
Total Net Position	<u>\$ 60,267</u>	<u>\$ 56,504</u>	<u>\$ 75,632</u>

Net investment in capital assets represent the university's capital assets net of accumulated depreciation and outstanding principal balances of debt. Restricted net position includes funding received for capital projects, revenue bond covenants and the university's capital contribution for Perkins loans.

Fiscal year 2014 unrestricted net position was not restated for the effects of GASB Statement No. 68, and thus is not comparable to subsequent years.

### ***CAPITAL AND DEBT ACTIVITIES***

One of the critical factors in continuing the quality of the university's and college's academic programs and residential life is the development and renewal of its capital assets. The university and college continue to implement a long-range plan to modernize its complement of older facilities, balanced with some new construction.

Capital assets, net of accumulated depreciation, totaled \$77.3 million as of June 30, 2016. This represents an increase of \$3.5 million compared to June 30, 2015 and an increase of \$8.1 million compared to June 30, 2014.

Capital outlays primarily consist of recently completed replacement and renovation of existing facilities, as well as significant investments in equipment and library materials. Capital outlays totaled \$9.4 million in fiscal year 2016, a decrease of \$0.6 million from fiscal year 2015. Significant capital outlays made in fiscal year 2016 include completion of Memorial and Decker Hall renovations, completion of a roofing project and the purchase of a house from the Bemidji State University Alumni and Foundation.

Long-term debt payable on June 30, 2016 consisted primarily of \$10.0 million of general obligation bonds and \$13.3 million of revenue bonds. The general obligation bonds are primarily issued to finance construction of buildings and repairs. Revenue bonds are issued for the construction and maintenance of revenue producing facilities such as residence halls and the student union. Additional information on capital and debt activities can be found in Notes 6 and 8 to the financial statements.

### ***STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION***

The statements of revenues, expenses and changes in net position present the university's and college's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations and federal and state grants as nonoperating revenue.

A summary of the university's and college's statements of revenues, expenses and changes in net position as of June 30, 2016, 2015 and 2014 follows:

	(In Thousands)		
	2016	2015	2014
<b>Operating revenues:</b>			
Tuition, fees and sales, net	\$ 29,279	\$ 27,120	\$ 27,672
Restricted student payments, net	10,399	10,460	10,286
Other income	567	444	598
Total operating revenues	<u>40,245</u>	<u>38,024</u>	<u>38,556</u>
<b>Nonoperating revenues and other revenues:</b>			
State appropriations	25,009	22,771	22,267
Capital appropriations	4,424	6,212	1,883
Grants	18,479	18,668	19,544
Other	315	498	260
Total nonoperating and other revenues	<u>48,227</u>	<u>48,149</u>	<u>43,954</u>
Total revenues	<u>88,472</u>	<u>86,173</u>	<u>82,510</u>
<b>Operating expenses:</b>			
Salaries and benefits	53,130	51,325	51,156
Depreciation	5,780	5,403	5,334
Financial aid, net	1,558	1,400	1,346
Other	23,231	23,469	22,684
Total operating expenses	<u>83,699</u>	<u>81,597</u>	<u>80,520</u>
<b>Nonoperating and other expenses:</b>			
Interest expense	992	958	988
Other	18	3	10
Total nonoperating and other expenses	<u>1,010</u>	<u>961</u>	<u>998</u>
Total expenses	<u>84,709</u>	<u>82,558</u>	<u>81,518</u>
Change in net position	<u>3,763</u>	<u>3,615</u>	<u>992</u>
Net position, beginning of year	56,504	75,632	74,640
Cumulative effect of change in accounting principle	-	(22,743)	-
Net position, beginning of year, as restated	<u>56,504</u>	<u>52,889</u>	<u>74,640</u>
Net position, end of year	<u>\$ 60,267</u>	<u>\$ 56,504</u>	<u>\$ 75,632</u>

Tuition and state appropriations are the primary sources of funding for the university's and college's academic and residential life programs. Gross tuition revenue increased \$0.9 million to \$37.3 million in fiscal year 2016 as a result of a 3 percent increase tuition increase at BSU coupled with a 0.5 percent increase in enrollment. Northwest Technical College experienced a 4.7 percent decline in enrollment with no increase in tuition rates. This follows a small combined decrease of \$0.1 million in fiscal year 2015 as a net result of a 0.5 percent decrease in enrollment at Bemidji State University coupled with frozen undergraduate tuition rates while the college experienced a 6.1 percent decline in enrollment with no increase in tuition rates. State appropriation totaled \$25.0 million in 2016, an increase of \$2.2 million and \$2.7 million over fiscal years 2015 and 2014, respectively.

Operating expenses as of June 30, 2016 increased by \$2.1 million over fiscal year 2015 and \$3.2 million of fiscal year 2014. The resources expended for employee compensation and benefits totaled \$53.1 million for the fiscal year ended June 30, 2016, which represents an increase of \$1.8 million or an increase of 3.5 percent over 2015 and an increase of \$2.0 million or an increase of 3.9 percent over 2014, primarily due to bargaining unit contracts settlements.

## ***FOUNDATION***

The Bemidji State University Alumni and Foundation is a component unit of the 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. The foundation contributed \$1,295,431, \$1,192,821, and \$1,076,785 to university scholarships for the fiscal years ended June 30, 2016, 2015 and 2014, respectively. Additional information regarding the foundation can be found in Note 18 to the financial statements.

## ***ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE***

As the university and college review the results of fiscal year 2016 and budgets for the future, enrollment is a major focus. The university and college will focus on enrollment management to ensure growth for the future. The university and college have engaged in a recruiting plan for both on-campus freshman and transfer students. Bemidji State University is focused on increasing retention by creating a new mentor program; preliminary reports indicate an increase in retention from fall 2015 to fall 2016. Enrollment will be critical for the financial sustainability at Northwest Technical College. The university and college will work together to build an admission bridge program for students needing preparatory courses.

The university and college have a new President as of July 1, 2016. The new President will focus on financial sustainability for both the university and college. The recent inauguration theme of Building Bridges, Transforming Lives will be incorporated in the individual missions and common goals of the university and college.

New interactive programming between the three local tribal colleges; Red Lake Tribal College, Leech Lake Tribal College and White Earth Tribal College and the university and college will allow Native American students to take transferrable classes without leaving their Tribal College campus. A bridge program will be introduced for students between the university and college allowing students to live on Bemidji State University campus and take preparatory classes through Northwest Technical College.

The state legislature allowed the university's undergraduate tuition rates to increase by 3 percent in fiscal year 2016 and then froze the tuition rate for fiscal year 2017. The college had frozen tuition rate in fiscal year 2016 and will see a 1.0 percent reduction in fiscal year 2017. Since tuition revenue is a major source of revenue, the university and college will need to focus on enrollment growth and operating expenditures.

The capital campaign for Bemidji State University, which was publically launched on September 27, 2013, has created significant asset growth in the foundation's portfolio. The first campaign in the university's history has ended in September 2016 with pledges of \$36.5 million exceeding original expectations of \$35.0 million. The campaign will increase the amount of scholarships from \$0.7 million in 2010 to \$1.4 million in 2017 which will be awarded to new and returning students. Private funding will become more important to the success of the university.

Bemidji State University has made significant investments in its physical plant with the completion of Memorial and Decker Hall renovation. A current request to reduce the footprint of Hagg Sauer and renovate four other academic buildings was postponed in fiscal year 2016 due to the lack of a capital bonding bill in the state legislation. This request is still the number 1 priority for the university. This bonding request of approximately \$23.6 million will reduce over \$9.0 million in deferred maintenance.

***REQUESTS FOR INFORMATION***

This financial report is designed to provide a general overview of the university's financial position. Those interested in the university's finances should direct questions concerning any of the information provided in this report or requests for additional financial information to:

Chief Financial Officer  
Deputy Hall  
Bemidji State University  
1500 Birchmont Drive NE  
Bemidji, MN 56601-2699

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**BEMIDJI STATE UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

Assets	2016	2015
Current Assets		
Cash and cash equivalents	\$ 33,969	\$ 34,316
Investments	388	405
Grants receivable	573	424
Accounts receivable, net	2,608	2,105
Prepaid expense	1,225	1,057
Inventory and other assets	40	254
Student loans, net	686	750
Total current assets	<u>39,489</u>	<u>39,311</u>
Current Restricted Assets		
Cash and cash equivalents	<u>2,850</u>	<u>6,932</u>
Total current restricted assets	<u>2,850</u>	<u>6,932</u>
Noncurrent Assets		
Student loans, net	4,002	4,011
Capital assets, net	77,290	73,795
Total noncurrent assets	<u>81,292</u>	<u>77,806</u>
Total Assets	<u>123,631</u>	<u>124,049</u>
Deferred Outflows of Resources	<u>4,314</u>	<u>1,853</u>
Total Assets and Deferred Outflows of Resources	<u>127,945</u>	<u>125,902</u>
Liabilities		
Current Liabilities		
Salaries and benefits payable	5,033	4,326
Accounts payable	2,198	1,535
Unearned revenue	1,324	1,003
Payable from restricted assets	590	4,096
Interest payable	141	148
Funds held for others	117	216
Current portion of long-term debt	1,774	1,671
Other compensation benefits	789	886
Total current liabilities	<u>11,966</u>	<u>13,881</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	22,510	22,503
Other compensation benefits	5,400	5,670
Net pension liability	14,268	12,880
Capital contributions payable	4,304	4,415
Total noncurrent liabilities	<u>46,482</u>	<u>45,468</u>
Total Liabilities	<u>58,448</u>	<u>59,349</u>
Deferred Inflows of Resources	<u>9,230</u>	<u>10,049</u>
Total Liabilities and Deferred Inflows of Resources	<u>67,678</u>	<u>69,398</u>
Net Position		
Net investment in capital assets	54,265	51,041
Restricted expendable, bond covenants	3,555	3,282
Restricted expendable, other	4,026	3,948
Unrestricted	(1,579)	(1,767)
Total Net Position	<u>\$ 60,267</u>	<u>\$ 56,504</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY ALUMNI AND FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 80	\$ 49
Investments	23,802	24,291
Pledges and contributions receivable, net	1,207	2,429
Other receivables and other assets	17	4
Total current assets	<u>25,106</u>	<u>26,773</u>
Noncurrent Assets		
Long-term pledges receivable	2,197	2,308
Annuities/Remainder interests/Trusts	93	91
Property and equipment, net	359	325
Other assets	56	11
Total noncurrent assets	<u>2,705</u>	<u>2,735</u>
Total Assets	<u>\$ 27,811</u>	<u>\$ 29,508</u>
Liabilities and Net Assets		
Current Liabilities		
Salaries and benefits payable	\$ 40	\$ 57
Accounts payable	40	19
Annuities payable	22	23
Total current liabilities	<u>102</u>	<u>99</u>
Noncurrent Liabilities		
Annuities payable	158	167
Total noncurrent liabilities	<u>158</u>	<u>167</u>
Total Liabilities	<u>260</u>	<u>266</u>
Net Assets		
Unrestricted	4,821	4,642
Temporarily restricted	2,327	4,352
Permanently restricted	20,403	20,248
Total Net Assets	<u>27,551</u>	<u>29,242</u>
Total Liabilities and Net Assets	<u>\$ 27,811</u>	<u>\$ 29,508</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

	2016	2015
Operating Revenues		
Tuition, net	\$ 23,750	\$ 22,060
Fees, net	2,634	2,554
Sales and room and board, net	2,895	2,506
Restricted student payments, net	10,399	10,460
Other income	567	444
Total operating revenues	<u>40,245</u>	<u>38,024</u>
Operating Expenses		
Salaries and benefits	53,130	51,325
Purchased services	12,683	12,450
Supplies	4,241	5,183
Repairs and maintenance	1,812	1,737
Depreciation	5,780	5,403
Financial aid, net	1,558	1,400
Other expense	4,495	4,099
Total operating expenses	<u>83,699</u>	<u>81,597</u>
Operating loss	<u>(43,454)</u>	<u>(43,573)</u>
Nonoperating Revenues (Expenses)		
Appropriations	25,009	22,771
Federal grants	11,493	11,509
State grants	4,191	4,895
Private grants	2,677	2,264
Interest income	287	265
Interest expense	(992)	(958)
Total nonoperating revenues (expenses)	<u>42,665</u>	<u>40,746</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(789)	(2,827)
Capital appropriations	4,424	6,212
Capital grants	118	-
Donated assets and supplies	28	233
Loss on disposal of capital assets	(18)	(3)
Change in net position	<u>3,763</u>	<u>3,615</u>
Total Net Position, Beginning of Year	56,504	75,632
Cumulative Effect of Change in Accounting Principle	-	(22,743)
Total Net Position, Beginning of Year, as Restated	<u>56,504</u>	<u>52,889</u>
Total Net Position, End of Year	<u>\$ 60,267</u>	<u>\$ 56,504</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY ALUMNI AND FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<b>Support and Revenue</b>					
Contributions	\$ 1,754	\$ 823	\$ -	\$ 2,577	\$ 1,715
Endowment gifts	-	-	184	184	1,291
Unrealized gain (loss)	31	-	-	31	(10)
Investment income (loss)	(195)	(530)	-	(725)	659
Program income	-	61	-	61	77
Other income	2	-	-	2	5
Net assets released from restrictions	2,408	(2,379)	(29)	-	-
Total support and revenue	<u>4,000</u>	<u>(2,025)</u>	<u>155</u>	<u>2,130</u>	<u>3,737</u>
<b>Expenses</b>					
Program services					
Scholarships	1,295	-	-	1,295	1,193
Special projects	1,599	-	-	1,599	1,483
Total program services	<u>2,894</u>	<u>-</u>	<u>-</u>	<u>2,894</u>	<u>2,676</u>
Supporting services					
Management and general	276	-	-	276	189
Fundraising	710	-	-	710	689
Total supporting services	<u>986</u>	<u>-</u>	<u>-</u>	<u>986</u>	<u>878</u>
Total expenses	<u>3,880</u>	<u>-</u>	<u>-</u>	<u>3,880</u>	<u>3,554</u>
Change in Net Assets	120	(2,025)	155	(1,750)	183
Net Assets, Beginning of Year	4,642	4,352	20,248	29,242	29,059
Transfer in of Alumni Net Fixed Assets	59	-	-	59	-
Net Assets, End of Year	<u>\$ 4,821</u>	<u>\$ 2,327</u>	<u>\$ 20,403</u>	<u>\$ 27,551</u>	<u>\$ 29,242</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY ALUMNI AND FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015  
(IN THOUSANDS)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
<b>Support and Revenue</b>				
Contributions	\$ 608	\$ 1,107	\$ -	\$ 1,715
Endowment gifts	-	-	1,291	1,291
Unrealized loss	(10)	-	-	(10)
Investment income	98	561	-	659
Program income	16	61	-	77
Other income	5	-	-	5
Net assets released from restrictions	1,501	(2,529)	1,028	-
Total support and revenue	<u>2,218</u>	<u>(800)</u>	<u>2,319</u>	<u>3,737</u>
<b>Expenses</b>				
Program services				
Scholarships	1,193	-	-	1,193
Special projects	1,483	-	-	1,483
Total program services	<u>2,676</u>	<u>-</u>	<u>-</u>	<u>2,676</u>
Supporting services				
Management and general	189	-	-	189
Fundraising	689	-	-	689
Total supporting services	<u>878</u>	<u>-</u>	<u>-</u>	<u>878</u>
Total expenses	<u>3,554</u>	<u>-</u>	<u>-</u>	<u>3,554</u>
Change in Net Assets	(1,336)	(800)	2,319	183
Net Assets, Beginning of Year	<u>5,978</u>	<u>5,152</u>	<u>17,929</u>	<u>29,059</u>
Net Assets, End of Year	<u>\$ 4,642</u>	<u>\$ 4,352</u>	<u>\$ 20,248</u>	<u>\$ 29,242</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	\$ 40,682	\$ 37,872
Cash repayment of program loans	762	845
Cash paid to suppliers for goods or services	(22,518)	(23,448)
Cash payments for employees	(54,624)	(53,329)
Financial aid disbursements	(1,631)	(1,430)
Cash payments for program loans	(757)	(816)
Net cash flows used in operating activities	<u>(38,086)</u>	<u>(40,306)</u>
Cash Flows from Noncapital Financing Activities		
Appropriations	25,009	22,771
Federal grants	11,187	11,585
State grants	4,191	4,895
Private grants	2,677	2,264
Agency activity	(99)	(52)
Net cash flows provided by noncapital financing activities	<u>42,965</u>	<u>41,463</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(12,656)	(6,051)
Capital appropriation	3,839	6,212
Capital grants	118	-
Proceeds from sale of capital assets	18	31
Proceeds from borrowing	1,652	2,249
Proceeds from bond premium	256	424
Interest paid	(1,028)	(1,002)
Repayment of note principal	(45)	(42)
Repayment of bond principal	(1,646)	(1,549)
Net cash flows provided by (used in) capital and related financing activities	<u>(9,492)</u>	<u>272</u>
Cash Flows from Investing Activities		
Investment earnings	184	137
Net cash flows provided by investing activities	<u>184</u>	<u>137</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(4,429)	1,566
Cash and Cash Equivalents, Beginning of Year	41,248	39,682
Cash and Cash Equivalents, End of Year	<u>\$ 36,819</u>	<u>\$ 41,248</u>

The notes are an integral part of the financial statements.

**BEMIDJI STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**(IN THOUSANDS)**

	2016	2015
Operating Loss	\$ <u>(43,454)</u>	\$ <u>(43,573)</u>
Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities		
Depreciation	5,780	5,403
Provision for loan defaults	(3)	(14)
Loan principal repayments	762	845
Loans issued	(757)	(816)
Loans forgiven	71	58
Donated property not capitalized	28	233
Change in assets and liabilities		
Inventory and other assets	156	42
Accounts receivable	204	(26)
Accounts payable	507	(200)
Salaries and benefits payable	707	(601)
Other compensation benefits	(367)	163
Deferred inflows / outflows of resources / Net pension liability	(1,937)	(1,667)
Capital contributions payable	(111)	(26)
Unearned revenue	232	(127)
Other	96	-
Net reconciling items to be added to operating loss	<u>5,368</u>	<u>3,267</u>
Net cash flow used in operating activities	<u>\$ (38,086)</u>	<u>\$ (40,306)</u>
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	\$ 956	\$ 4,096
Equipment on account	94	88
Amortization of bond premium	110	102

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**BEMIDJI STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

*Basis of Presentation* — The reporting policies of Bemidji State University, a member of the Minnesota State Colleges and Universities (Minnesota State), conforms to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows include financial activities of Bemidji State University.

*Financial Reporting Entity* — Minnesota State 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. The university receives a portion of the Minnesota State 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. Bemidji State University and Northwest Technical College are aligned under the leadership of one president and share administration, business services, information technology, select student services and some academic areas. For financial statement purposes, Bemidji State University and Northwest Technical College are combined and referred to as the university.

Minnesota State 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, 30 7<sup>th</sup> St. E., Suite 350, St. Paul, Minnesota 55101-7804.

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 Bemidji State University Alumni and Foundation 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 Bemidji State University Alumni and Foundation, 1501 Birchmont Drive Northeast, Bemidji, MN 56601-2699.

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

*Budgetary Accounting* — 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 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's biennial budget request and allocation as part of the Minnesota State 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 of Minnesota State.

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 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 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, high liquid deposits having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits with the Minnesota State Board of Investment, 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 is for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses and net position of revenue producing facilities, which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. The university also has accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

*Investments* — Investments are reported at fair value.

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

*Inventories* — Inventories consist primarily of carpentry houses which are valued at cost.

*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:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	35-40 years
Building Improvements	15-20 years
Equipment	3-20 years
Library Collections	7 years

Equipment includes all items purchased with an original cost of \$10,000 and over. Buildings and building improvements 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 primarily assets held in a custodial capacity such as student organizations, student loans and other clearing accounts that serve as a flow-through conduit.

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

*Long Term Liabilities* — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State 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 university projects. The university may sell revenue bonds and also enter into capital lease agreements for certain capital assets. Other long term liabilities include notes payable, compensated absences, net pension liability, net other postemployment benefits, early termination benefits, and capital contributions associated with Perkins loan agreements with the U.S. Department of Education.

*Deferred Outflows and Deferred Inflows of Resources* — Deferred outflows of resources represent the consumption of net position by the university in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows and inflows are related to defined benefit pension plans, and to economic gains/losses related to revenue fund and general obligation bond refunding, which is the difference in the carrying value of the refunded debt and its reacquisition price.

The following tables summarize the university's deferred outflows and inflows:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<b><u>Related to Pensions:</u></b>		
Differences between projected and actual investment earnings	\$ 1,974	\$ 3,798
Changes in actuarial assumptions	689	3,106
Contributions paid to pension plans subsequent to the measurement date	1,080	-
Differences between expected and actual experience	441	1,489
Changes in proportion	130	793
Total related to pensions	<u>4,314</u>	<u>9,186</u>
<b><u>Related to Refunding:</u></b>		
Economic gain on refunding of general obligation bonds	-	44
Total	<u>\$ 4,314</u>	<u>\$ 9,230</u>

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<b><u>Related to Pensions:</u></b>		
Differences between projected and actual investment earnings	\$ -	\$ 5,227
Changes in actuarial assumptions	36	4,255
Contributions paid to pension plans subsequent to the measurement date	1,069	-
Differences between expected and actual experience	576	127
Changes in proportion	172	440
Total	<u>\$ 1,853</u>	<u>\$ 10,049</u>

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

*Tuition, Fees, and Sales, Net* — Tuition, fees, and sales are reported net of scholarship allowances. Note 12 to the financial statements provides 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. Note 12 to the financial statements provides additional information.

*Federal Grants* — The university participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, TRIO, and National Science Foundation Advanced Technological Education. Federal grant revenue is recognized as non-operating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange 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* — Capital grants consist of federal grants which are restricted for the acquisition or construction of capital assets.

*Defined Benefit Pensions* — For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, plan contributions are recognized as of the employer payroll paid dates and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The actuarially derived net pension liability, deferred outflows, and deferred inflows of resources can vary between years due to actuarial assumption changes, which can result in significant variability between years.

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

*Net Position* — The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is net position. Net position is further classified for accounting and reporting purposes into the following three net position categories:

- *Net Investment in Capital Assets*: 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 position subject to externally imposed stipulations. Net position restrictions for the university are as follows:
- *Restricted for bond covenants* — revenue bond restrictions

- *Restricted for other* — includes restrictions for the following:
  - Debt service* — legally restricted for bond debt repayments
  - Donations* — restricted per donor requests
  - Faculty contract obligations* — faculty development and travel required by contracts
  - Loans* — University capital contributed for Perkins loans

Net Position Restricted for Other		
(In Thousands)		
	2016	2015
Debt service	\$ 2,539	\$ 2,429
Donations	289	339
Faculty contract obligations	720	690
Loans	478	490
Total	\$ 4,026	\$ 3,948

- *Unrestricted*: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management, the System Office, or the board of trustees.

*New Accounting Standards* — In February, 2015 the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for years beginning after June 15, 2015, which provides guidance in applying fair value to certain investments and disclosures related to all fair value measurements. In accordance with the implementation of this Statement, the university has classified its investments as Level 1, 2, or 3 to indicate the valuation inputs used to measure the fair value.

In June, 2015 the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense. For defined benefit other postemployment benefits (OPEB), the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to the actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Statement No. 75 is effective for the fiscal year beginning July 1, 2017. The effect GASB Statement No. 75 will have on the fiscal year 2018 financial statements has not yet 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 checking and three savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state’s name by an agent of the state. 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	2016	2015
Cash, in bank	\$ 3,268	\$ 3,165
Restricted cash	1,428	5,512
Cash, trustee account (US Bank)	1,422	1,420
Total local cash and cash equivalents	6,118	10,097
Total treasury cash accounts	30,701	31,151
Grand Total	\$ 36,819	\$ 41,248

At June 30, 2016 and 2015, the university's local bank balances were \$3,425,902 and \$3,308,173, 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 treasury 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 cash accounts are invested in short term, liquid, high quality debt securities.

*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, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

Within statutory parameters, 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.

*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 a debt investment. The university complies with board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term investments.

The inputs used to measure fair value are categorized into the following three categories:

- *Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds.
- *Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- *Level 3* – Inputs that are unobservable and significant to the fair value measurement.

The university had the following investments:

Year Ended June 30, 2016				
(In Thousands)				
Investment Type	Fair Value	Level 1	Level 2	Level 3
Stock	\$ 178	x		
Certificate of deposit	210		x	
Total	<u>\$ 388</u>			

Year Ended June 30, 2015				
(In Thousands)				
Investment Type	Fair Value	Level 1	Level 2	Level 3
Stock	\$ 195	x		
Certificate of deposit	210		x	
Total	<u>\$ 405</u>			

### 3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2016 and 2015, the total accounts receivable balances for the university were \$3,513,475 and \$2,893,620, respectively, less an allowance for uncollectible receivables of \$905,858 and \$789,483, respectively.

Summary of Accounts Receivable at June 30		
(In Thousands)		
	2016	2015
Tuition	\$ 1,321	\$ 1,258
Room and board	258	239
Sales and service	256	277
Fees	212	193
Other	1,467	927
Total accounts receivable	3,514	2,894
Allowance for doubtful accounts	(906)	(789)
Net accounts receivable	<u>\$ 2,608</u>	<u>\$ 2,105</u>

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

Age	Allowance Percentage
Less than 1 year	15
1 to 3 years	45
3 to 5 years	70
Over 5 years	95

#### 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 \$1,114,513 and \$1,012,622 for fiscal years 2016 and 2015, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand as of 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 fiscal year. Also, included in prepaid expense for fiscal years 2016 and 2015, is \$110,198 and \$44,753 respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

#### 5. LOANS RECEIVABLE

Loans receivable balances consist 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. Minnesota State loan collections unit is responsible for loan collections for the university. At June 30, 2016 and 2015, the total loans receivable for this program were \$5,039,362 and \$5,115,179, respectively, less an allowance for uncollectible loans of \$351,617 and \$354,599, respectively.

#### 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2016 and 2015 follow:

	Year Ended June 30, 2016				
	(In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 1,147	\$ 30	\$ -	\$ -	\$ 1,177
Construction in progress	10,204	7,822	-	(15,914)	2,112
Total capital assets, not depreciated	11,351	7,852	-	(15,914)	3,289
Capital assets, depreciated:					
Buildings and improvements	142,471	360	30	15,914	158,715
Equipment	8,239	727	2,376	-	6,590
Library collections	3,501	490	466	-	3,525
Total capital assets, depreciated	154,211	1,577	2,872	15,914	168,830
Less accumulated depreciation:					
Buildings and improvements	83,699	4,838	22	-	88,515
Equipment	6,064	438	2,230	-	4,272
Library collections	2,004	504	466	-	2,042
Total accumulated depreciation	91,767	5,780	2,718	-	94,829
Total capital assets depreciated, net	62,444	(4,203)	154	15,914	74,001
Total capital assets, net	\$ 73,795	\$ 3,649	\$ 154	\$ -	\$ 77,290



Year Ended June 30, 2015  
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 1,147	\$ -	\$ -	\$ -	\$ 1,147
Construction in progress	2,698	9,022	-	(1,516)	10,204
Total capital assets, not depreciated	<u>3,845</u>	<u>9,022</u>	<u>-</u>	<u>(1,516)</u>	<u>11,351</u>
Capital assets, depreciated:					
Buildings and improvements	141,634	-	679	1,516	142,471
Equipment	8,246	533	540	-	8,239
Library collections	3,495	489	483	-	3,501
Total capital assets, depreciated	<u>153,375</u>	<u>1,022</u>	<u>1,702</u>	<u>1,516</u>	<u>154,211</u>
Less accumulated depreciation:					
Buildings and improvements	79,908	4,470	679	-	83,699
Equipment	6,136	433	505	-	6,064
Library collections	1,987	500	483	-	2,004
Total accumulated depreciation	<u>88,031</u>	<u>5,403</u>	<u>1,667</u>	<u>-</u>	<u>91,767</u>
Total capital assets, depreciated, net	<u>65,344</u>	<u>(4,381)</u>	<u>35</u>	<u>1,516</u>	<u>62,444</u>
Total capital assets, net	<u>\$ 69,189</u>	<u>\$ 4,641</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>\$ 73,795</u>

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30  
(In Thousands)

	2016	2015
Purchased services	\$ 683	\$ 604
Supplies	595	461
Capital projects/equipment	461	88
Repairs and maintenance	60	166
Other	399	216
Total accounts payable	<u>\$ 2,198</u>	<u>\$ 1,535</u>

In addition, as of June 30, 2016 and 2015, the university had payable from restricted assets in the amounts of \$589,692 and \$4,095,511, which were related to capital projects financed by general obligation bonds and revenue bonds.

## 8. LONG TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2016 and 2015 follow:

	Year Ended June 30, 2016 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 840	\$ 256	\$ 271	\$ 825	\$ -
General obligation bonds	9,025	1,652	650	10,027	854
Notes payable	199	-	45	154	50
Revenue bonds	14,110	-	832	13,278	870
Total long-term debt	\$ <u>24,174</u>	\$ <u>1,908</u>	\$ <u>1,798</u>	\$ <u>24,284</u>	\$ <u>1,774</u>

	Year Ended June 30, 2015 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 518	\$ 424	\$ 102	\$ 840	\$ -
General obligation bonds	7,464	2,249	688	9,025	793
Notes payable	241	-	42	199	46
Revenue bonds	14,917	-	807	14,110	832
Total long-term debt	\$ <u>23,140</u>	\$ <u>2,673</u>	\$ <u>1,639</u>	\$ <u>24,174</u>	\$ <u>1,671</u>

The changes in other compensation benefits for fiscal years 2016 and 2015 follow:

	Year Ended June 30, 2016 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 5,760	\$ 436	\$ 909	\$ 5,287	\$ 659
Early termination benefits	94	130	94	130	130
Net other postemployment benefits	702	421	351	772	-
Total other compensation benefits	\$ <u>6,556</u>	\$ <u>987</u>	\$ <u>1,354</u>	\$ <u>6,189</u>	\$ <u>789</u>

	Year Ended June 30, 2015 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 5,677	\$ 1,037	\$ 954	\$ 5,760	\$ 792
Early termination benefits	97	94	97	94	94
Net other postemployment benefits	619	406	323	702	-
Total other compensation benefits	\$ <u>6,393</u>	\$ <u>1,537</u>	\$ <u>1,374</u>	\$ <u>6,556</u>	\$ <u>886</u>

*Bond Premium* — In fiscal year 2016 and 2015, bonds were issued resulting in premiums of \$255,583 and \$424,429, respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

*General Obligation Bonds*— The state of Minnesota sells general obligation bonds to finance most of the Minnesota State capital projects. The interest rate on these bonds ranges from 2.0 percent to 5.5 percent. Minnesota State 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 upon the specific projects funded. The general obligation bond liability included in these financial statements represents the university's share.

*Notes Payable* — Notes payable consists of State Energy Efficiency Program loans granted by energy companies in order to improve energy efficiency in college and university buildings. Projects completed under Minnesota Statutes, Section 16C.144, have an interest component. The interest rate is tied to the prime interest rate at the time of the project.

*Revenue Bonds*— The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence halls, food service, student union, and other revenue producing and related facilities at Minnesota State. Revenue bonds currently outstanding have interest rates of 3.0 percent to 5.0 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 13.03 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,499,392. Principal and interest paid for the current year and total customer net revenues were \$1,411,492 and \$10,875,467, 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 will be converted to a health care savings plan account or severance pay under specific conditions as defined in bargaining unit contracts. This leave is liquidated only at the time of termination from state employment.

*Early Termination Benefits* — Early termination benefits are benefits received for discontinuing services earlier than planned. Note 9 to the financial statements provides additional information.

*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. Note 10 to the financial statements provides additional information.

*Net Pension Liability* — The net pension liability of \$14,267,528 and \$12,879,827 at June 30, 2016 and 2015, respectively, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 14 to the financial statements provides additional information.

*Capital Contributions* — The liabilities of \$4,304,081 and \$4,414,745 at June 30, 2016 and 2015, respectively, represent the amounts the university would owe the federal government if it were to discontinue the Perkins loan program. The net change is \$110,664 and \$26,709 for the fiscal years 2016 and 2015, respectively.

Principal and interest payment schedules are provided in the following table for general obligation bonds, notes payable and revenue bonds. There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, capital contributions, and net pension liability.

Long-Term Debt Repayment Schedule  
(In Thousands)

Fiscal Year	General Obligation Bonds		Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 854	\$ 447	\$ 50	\$ 7	\$ 870	\$ 548
2018	848	369	55	4	898	515
2019	801	331	49	1	925	479
2020	757	296	-	-	970	441
2021	743	262	-	-	935	402
2022-2026	3,224	850	-	-	5,225	1,401
2027-2031	1,737	332	-	-	2,955	424
2032-2036	1,063	82	-	-	500	12
Total	\$ 10,027	\$ 2,969	\$ 154	\$ 12	\$ 13,278	\$ 4,222

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2016 and 2015.

*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 that faculty, as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	5	\$ 120
2015	3	84

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	1	\$ 10
2015	1	10

## 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, 2014, there were approximately 45 retirees receiving health benefits from the health plan.

*Annual OPEB Cost and Net OPEB Obligation* — The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the annual OPEB cost for 2016 and 2015, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost (In Thousands)		
	2016	2015
Annual required contribution (ARC)	\$ 418	\$ 404
Interest on net OPEB obligation	29	25
Adjustment to ARC	(26)	(23)
Annual OPEB cost	421	406
Contributions during the year	(351)	(323)
Increase in net OPEB obligation	70	83
Net OPEB obligation, beginning of year	702	619
Net OPEB obligation, end of year	\$ 772	\$ 702

The university's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016 and 2015 were as follows:

Year Ended June 30 (In Thousands)		
	2016	2015
Beginning of year net OPEB obligation	\$ 702	\$ 619
Annual OPEB cost	421	406
Employer contribution	(351)	(323)
End of year net OPEB obligation	\$ 772	\$ 702
Percentage contributed	83.37%	79.56%

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

Schedule of Funding Progress  
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2014	\$ -	\$ 4,013	\$ 4,013	0.00	\$ 38,977	10.29

*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, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.1 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 6.8 percent initially, reduced incrementally to an ultimate rate of 4 percent after seventeen 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 expenses for the years ended June 30, 2016 and 2015, totaled \$440,589 and \$416,038, respectively. Future obligations consist primarily of an operating lease for the City of Bemidji's Regional Event Center which began in October 2010.

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2017	\$ 400
2018	276
2019	264
2020	267
2021	268
2022-2026	1,396
2027-2031	1,361
Total	\$ 4,232

## 12. TUITION, FEES, AND SALES, NET

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

	Year Ended June 30					
	(In Thousands)					
	2016			2015		
	Gross	Scholarship	Net	Gross	Scholarship	Net
Tuition	\$ 37,305	\$ (13,555)	\$ 23,750	\$ 36,445	\$ (14,385)	\$ 22,060
Fees	3,347	(713)	2,634	3,285	(731)	2,554
Sales and room and board	2,895	-	2,895	2,682	(176)	2,506
Restricted student payments	10,841	(442)	10,399	10,937	(477)	10,460
Total	<u>\$ 54,388</u>	<u>\$ (14,710)</u>	<u>\$ 39,678</u>	<u>\$ 53,349</u>	<u>\$ (15,769)</u>	<u>\$ 37,580</u>

## 13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Description	Year Ended June 30, 2016				
	(In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 4,510	\$ 1,231	\$ 3,210	\$ 46	\$ 8,997
Institutional support	5,318	1,801	4,811	57	11,987
Instruction	20,848	5,331	6,719	244	33,142
Public service	93	21	151	-	265
Research	186	62	140	2	390
Student services	7,536	2,071	6,246	77	15,930
Auxiliary enterprises	3,190	932	7,734	566	12,422
Scholarships & fellowships	-	-	1,558	-	1,558
Less interest expense	-	-	-	(992)	(992)
Total operating expenses	<u>\$ 41,681</u>	<u>\$ 11,449</u>	<u>\$ 30,569</u>	<u>\$ -</u>	<u>\$ 83,699</u>

Description	Year Ended June 30, 2015				
	(In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 4,530	\$ 1,271	\$ 3,527	\$ 41	\$ 9,369
Institutional support	5,601	1,682	4,630	52	11,965
Instruction	19,002	5,126	6,271	200	30,599
Public service	25	7	122	-	154
Research	199	54	71	2	326
Student services	7,683	2,084	5,871	69	15,707
Auxiliary enterprises	3,099	962	8,380	594	13,035
Scholarships & fellowships	-	-	1,400	-	1,400
Less interest expense	-	-	-	(958)	(958)
Total operating expenses	<u>\$ 40,139</u>	<u>\$ 11,186</u>	<u>\$ 30,272</u>	<u>\$ -</u>	<u>\$ 81,597</u>

#### 14. EMPLOYEE PENSION PLANS

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

##### *State Employees Retirement Fund*

Plan Description -The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS), and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans. All state of Minnesota employees who are not members of another plan are covered by the General Plan.

Benefits Provided - MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions - Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5 percent of their annual covered salary in fiscal years 2016 and 2015. The university's contribution to the General Plan for the fiscal years ending June 30, 2016 and 2015 were \$539,152 and \$521,686, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions - The university's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	2.75 percent per year	2.75 percent per year
Active member payroll growth	3.50 percent per year	3.50 percent per year
Investment rate of return	8.00 percent	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees were assumed to be 2.0 percent every January 1 through 2015 and 2.5 percent thereafter.



Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9 percent. The rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class.

These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Asset Class	Target Percentage	SBI's Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic stocks	45	5.50
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
	100	

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2015, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 3.80 percent.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of \$5,395,384 and \$5,838,252, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The university's proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement periods July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.35 percent and 0.36 percent, respectively.

A change was made in plan provisions that affected the measurement of the total pension liability since the prior measurement date. Effective July 1, 2015, a provision was added so that if the 2.5 percent post-retirement benefit increase is triggered and the funding ratio subsequently drops below 80 percent or less for the most recent valuation or 85 percent or less for two consecutive years, the post-retirement benefit will change to 2 percent until the plan again reaches a 90 percent funding ration for two consecutive years.

A change was made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The assumed post-retirement benefit increase rate was changed from 2 percent through 2015, and 2.5 percent thereafter, to 2 percent per year through 2043, and 2.5 percent per year thereafter.

Pension Liability Sensitivity - The following table presents the university's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

Proportionate Share of Net Pension Liability (In Thousands)			
	One Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	One Percent Increase in Discount Rate (8.9%)
June 30, 2016	\$ 11,044	\$ 5,395	\$ 694
June 30, 2015	11,783	5,838	899

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website [www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university recognized a reduction in pension expense of \$1,337,992 and \$898,802, respectively, related to pensions. At June 30, 2016 and 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 1,102	\$ 2,211
Changes in actuarial assumptions	-	3,106
Contributions paid to MSRS subsequent to the measurement date	539	-
Differences between expected and actual economic experience	-	1,475
Changes in proportion	89	281
Total	\$ 1,730	\$ 7,073

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 3,029
Changes in actuarial assumptions	-	4,255
Contributions paid to MSRS subsequent to the measurement date	521	-
Differences between expected and actual economic experience	-	127
Changes in proportion	120	-
Total	\$ 641	\$ 7,411

Amounts reported as deferred outflows of resources related to pensions resulting from the university's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(In Thousands)	
Fiscal Year	Amount
2017	\$ (1,914)
2018	(1,914)
2019	(1,914)
2020	(140)
Total	\$ <u>(5,882)</u>

#### *Teachers Retirement Fund*

Plan Description - The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund (TRF). TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a board of trustees. The board consists of four active members, one retired member and three statutory officials.

State university, community college, and technical college teachers first employed by the Minnesota State may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State.

Benefits Provided - TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

#### Tier I Benefits

Tier I	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3 percent per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

## Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 for basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

Contributions - Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. TRA Basic Plan members and Coordinated Plan members were required to contribute 11.0 percent and 7.50 percent, respectively, of their annual covered salary in fiscal years 2016 and 2015. In fiscal years 2016 and 2015, the employer was required to contribute 11.50 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. The university's contributions to the TRA for the fiscal years ended June 30, 2016 and 2015 were \$509,067 and \$524,713, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions - The university's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	3.00 percent per year	3.00 percent per year
Active member payroll growth	3.50 to 12.00 percent per year	3.50 to 12.00 percent per year
Investment rate of return	8.00 percent	8.25 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees were assumed to be 2.0 percent every January 1 through 2015 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015 and 2014, valuations were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with the exception of the long-term rate of return. Since the June 30, 2014 report was issued, a comprehensive study was performed and a number of assumption changes were proposed, with an implementation date of July 1, 2016. These proposed changes are not reflected in the June 30, 2015 report. However, at the direction of TRA management, an 8.00 percent discount rate was used to determine the total pension liability as of June 30, 2015.

The long-term expected rate of return on pension plan investments is 8.00 percent. The rate assumption was selected as the result of a 2015 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of TRF, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Asset Class	Target Percentage	SBI's Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic stocks	45	5.50
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
	100	

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 8.00 percent and 8.25 percent, respectively. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of \$8,536,665 and \$6,690,711, respectively, for its proportionate share of TRF net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on the employer contributions received by TRF during the measurement periods July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of TRF's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.14 percent and 0.15 percent, respectively.

There were no changes in the benefit terms since the prior measurement date.

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. The discount rate was lowered from 8.25 percent to 8.00 percent.

Pension Liability Sensitivity - The following presents the university's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

Proportionate Share of Net Pension Liability (In Thousands)			
	1 Percent Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1 Percent Increase in Discount Rate (9.00%)
June 30, 2016	\$ 12,994	\$ 8,537	\$ 4,817

Proportionate Share of Net Pension Liability (In Thousands)			
	1 Percent Decrease in Discount Rate (7.25%)	Discount Rate (8.25%)	1 Percent Increase in Discount Rate (9.25%)
June 30, 2015	\$ 11,057	\$ 6,691	\$ 3,050

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the Minnesota Teachers Retirement Association Comprehensive Annual Financial Report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university's recognized pension expense of \$456,209 and \$276,442 related to pensions. At June 30, 2016 and 2015, the university's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 846	\$ 1,516
Changes in actuarial assumptions	665	-
Contributions paid to TRA subsequent to the measurement date	509	-
Differences between expected and actual economic experience	437	-
Changes in proportion	41	481
Total	\$ 2,498	\$ 1,997

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 2,103
Contributions paid to TRA subsequent to the measurement date	525	-
Differences between expected and actual economic experience	571	-
Changes in proportion	52	440
Total	\$ 1,148	\$ 2,543

Amounts reported as deferred outflows of resources related to pensions resulting from the university's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(In Thousands)	
Fiscal Year	Amount
2017	\$ (147)
2018	(147)
2019	(147)
2020	351
2021	82
Total	\$ <u>(8)</u>

*General Employees Retirement Fund*

Plan Description - The university participates in the General Employees Retirement Plan (GERF), a defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided - PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases. The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Contributions - Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. GERF Contributions Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in calendar years 2016 and 2015. In calendar years 2016 and 2015, the employer was required to contribute 11.78 percent of pay for Basic Plan members and 7.5 percent for Coordinated Plan members. The university contributions to the GERF for the plan's fiscal years ended June 30, 2016 and 2015, were \$31,582 and \$22,880, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions - The total pension liability in the June 30, 2015 and 2014, actuarial valuations were determined using the following actuarial assumptions:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	2.75 percent per year	2.75 percent per year
Active member payroll growth	3.50 percent per year	3.50 percent per year
Investment rate of return	8.00 percent	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Legislation passed in 2014 changed the GERF assumed post-retirement benefit increase rate from 1.0 percent per year for all future years to 1.0 percent effective every January 1 through 2026 and 2.5 percent per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Percentage</u>	<u>SBI's Long-Term Expected Real Rate of Return (Geometric Mean) Percentage</u>
Domestic stocks	45	5.50
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
	<u>100</u>	

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2015 and 2014 was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of \$335,479 and \$350,864, respectively, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on the university's contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.0065 and 0.0075 percent, respectively.



Pension Liability Sensitivity - The following presents the university's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Proportionate Share of Net Pension Liability		
	(In Thousands)		
	One Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1 Percent Increase in Discount Rate (8.9%)
June 30, 2016	\$ 492	\$ 336	\$ 206
June 30, 2015	566	351	174

Pension Plan Fiduciary Net Position - Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university recognized pension expense of \$16,364 and \$26,046, respectively, related to pensions.

At June 30, 2016 and 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 26	\$ 71
Changes in actuarial assumptions	24	-
Contributions paid to PERA subsequent to the measurement date	32	-
Differences between expected and actual economic experience	4	14
Changes in proportion	-	31
Total	\$ 86	\$ 116

	2015	
	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 95
Changes in actuarial assumptions	36	-
Contributions paid to PERA subsequent to the measurement date	23	-
Differences between expected and actual economic experience	5	-
Total	\$ 64	\$ 95

Amounts reported as deferred outflows of resources related to pensions resulting from the university's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(In Thousands)	
Fiscal Year	Amount
2017	\$ (18)
2018	(18)
2019	(32)
2020	6
Total	\$ (62)

*Individual Retirement Account Plan (IRAP)*

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

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

Required contributions for Bemidji State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2016	\$ 1,188	\$ 891
2015	1,161	871
2014	1,164	872

*Supplemental Retirement Plan (SRP)*

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

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	\$ 6,000 to 60,000	\$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
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 the university were:

(In Thousands)	
Fiscal Year	Amount
2016	\$ 582
2015	563
2014	528

#### *Voluntary Retirement Savings Plans*

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

Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2016, the plan had 163 participants.

In addition, to the state's deferred compensation program, Minnesota State also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2016, the plan had 136 participants.

## 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, deferred outflows, liabilities and deferred inflows that are required by an external party to be accounted for separately.

Minnesota State issues revenue bonds to finance the university residence halls and student unions.

Bemidji State University Portion of the Revenue Fund (In Thousands)		
	2016	2015
<b>CONDENSED STATEMENTS OF NET POSITION</b>		
<b>Assets</b>		
Current assets	\$ 5,599	\$ 5,349
Restricted assets	2,846	2,836
Noncurrent assets	15,255	16,058
Total assets	<u>23,700</u>	<u>24,243</u>
Deferred Outflows of Resources	254	103
Total assets and deferred outflows of resources	<u>23,954</u>	<u>24,346</u>
<b>Liabilities</b>		
Current liabilities	1,690	1,429
Noncurrent liabilities	13,551	14,345
Total liabilities	<u>15,241</u>	<u>15,774</u>
Deferred Inflows of Resources	564	625
Total liabilities and deferred inflows of resources	<u>15,805</u>	<u>16,399</u>
<b>Net Position</b>		
Net investment in capital assets	3,169	3,249
Restricted	4,980	4,698
Total net position	<u>\$ 8,149</u>	<u>\$ 7,947</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Operating revenues	\$ 10,876	\$ 10,958
Other operating expenses	(10,159)	(10,516)
Net operating income	717	442
Nonoperating revenues (expenses)	(515)	(559)
Change in net position	202	(117)
Total net position, beginning of year	7,947	9,442
Cumulative effect of change in accounting principle	-	(1,378)
Total net position, beginning of year, as restated	7,947	8,064
Total net position, end of year	<u>\$ 8,149</u>	<u>\$ 7,947</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
<b>Net cash provided by (used in)</b>		
Operating activities	\$ 1,754	\$ 1,653
Capital and related financing activities	(1,778)	(1,384)
Investing activities	40	23
Net increase in cash and cash equivalents	16	292
Cash and cash equivalents, beginning of year	7,798	7,506
Cash and cash equivalents, end of year	<u>\$ 7,814</u>	<u>\$ 7,798</u>

## 16. COMMITMENTS AND CONTINGENCIES

With the renovation of Memorial and Decker Halls complete the university has no significant active construction projects. The university received capital appropriation funding during fiscal year 2014 and has spent \$0.97 million to date for the design of a new Hagg-Sauer Academic Learning Center. General obligation funding has been requested to complete the approximately \$18.0 million project which, if awarded, could begin in fiscal year 2017.

## 17. RISK MANAGEMENT

Minnesota State 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 manages 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. The university purchases optional physical damage coverage for their newest or most expensive vehicles. While property and casualty coverage is required by Minnesota State policy, campuses may select optional coverage. The university purchased optional coverage for professional liability for employed physicians and student health services professional liability. Property coverage offered by the Minnesota Risk Management Fund is as follows:

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

The university retains the risk of loss. The university did not have any settlements in excess of coverage in the last three years. The Minnesota Risk Management Fund purchased student intern professional liability, dental clinics professional liability, and a variety of bonds on the open market for the university and college.

Minnesota State participates in the State Employee Group Insurance Plan, which provides life insurance, 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 pays the cost of claims through the state Workers' Compensation Fund. A Minnesota State 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. Annual premiums for the university for fiscal years 2016 and 2015 were \$280,753 and \$218,179, respectively.

## 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 Bemidji State University is a legally separate, tax exempt entity and reported as a component unit.

The Bemidji State University Alumni and Foundation 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 foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. 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 not subject to donor imposed stipulations.
- *Temporarily restricted net assets*: Net assets subject to donor imposed restrictions as to how the assets may be used.
- *Permanently restricted net assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by the foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

In fiscal years 2016 and 2015, Bemidji State University received \$1,295,431 and \$1,192,821, respectively, from its foundation. These proceeds were used for student scholarships. During fiscal year 2016 the university also purchased real estate from the foundation at its appraised value.

*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.

The inputs used to measure fair value are categorized into the following three categories:

- *Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds.
- *Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- *Level 3* – Inputs that are unobservable and significant to the fair value measurement.

Schedule of Investments  
As of June 30  
(In Thousands)

	2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market	\$ 433	\$ 433	\$ -	\$ -
Fixed income	4,893	4,893	-	-
Mutual funds	14,422	-	14,422	-
Other	4,054	-	7	4,047
Total	\$ 23,802	\$ 5,326	\$ 14,429	\$ 4,047

Schedule of Investments  
As of June 30  
(In Thousands)

	2015	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market	\$ 301	\$ 301	\$ -	\$ -
Fixed income	4,738	4,738	-	-
Mutual funds	14,219	-	14,219	-
Real estate	553	-	-	553
Other	4,480	-	18	4,462
Total	\$ 24,291	\$ 5,039	\$ 14,237	\$ 5,015

*Capital Assets* — Summaries of the foundation’s capital assets for fiscal years 2016 and 2015 are:

Schedule of Capital Assets  
As of June 30  
(In Thousands)

	2016	2015
Capital assets, depreciated:		
Buildings and improvements	\$ 712	\$ 652
Equipment	56	56
Total capital assets, depreciated	768	708
Total accumulated depreciation	(409)	(383)
Total capital assets, net	\$ 359	\$ 325

*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, 2016 are as follows:

Schedule of Endowment Net Assets  
As of June 30, 2016  
(In Thousands)

	Temporarily			Total Endowment Net Assets
	Unrestricted	Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 2,833	\$ 1,483	\$ 18,538	\$ 22,854
Contributions	825	2	1,233	2,060
Investment income (loss)	(112)	(916)	(50)	(1,078)
Amounts appropriated for expenditures	(802)	(584)	-	(1,386)
Other transfers	-	17	14	31
Net assets, end of year	<u>\$ 2,744</u>	<u>\$ 2</u>	<u>\$ 19,735</u>	<u>\$ 22,481</u>

Changes in endowment net assets as of June 30, 2015 are as follows:

Schedule of Endowment Net Assets  
As of June 30, 2015  
(In Thousands)

	Temporarily			Total Endowment Net Assets
	Unrestricted	Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 2,127	\$ 1,716	\$ 16,478	\$ 20,321
Contributions	825	4	2,195	3,024
Investment income (loss)	217	265	(170)	312
Amounts appropriated for expenditures	(320)	(488)	-	(808)
Other transfers	(16)	(14)	35	5
Net assets, end of year	<u>\$ 2,833</u>	<u>\$ 1,483</u>	<u>\$ 18,538</u>	<u>\$ 22,854</u>

*Merger* — On February 1, 2016 the foundation entered into a merger with the Bemidji State University Alumni Association, Inc. The foundation is to be the surviving organization and has changed its name from Bemidji State University Foundation to Bemidji State University Alumni and Foundation. As a result of the merger, the foundation has assumed the remaining assets of the Alumni Association. These assets were one half of the original cost of the Park House and the improvements made to the Honors House. The book value of these assets is \$58,925, and has been reflected as a transfer in on the financial statements. There were no liabilities assumed in the transaction.



# REQUIRED SUPPLEMENTARY INFORMATION SECTION

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**BEMIDJI 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 Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	\$ —	\$ 4,167	\$ 4,167	0.00	\$ 37,825	11.02
July 1, 2008	—	4,733	4,733	0.00	35,617	13.29
July 1, 2010	—	5,063	5,063	0.00	39,511	12.81
July 1, 2012	—	3,670	3,670	0.00	35,965	10.20
July 1, 2014	—	4,013	4,013	0.00	38,977	10.29

**BEMIDJI STATE UNIVERSITY**  
**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS**  
**STATE EMPLOYEES RETIREMENT FUND**

Schedule of Proportionate Share of MSRS Net Pension Liability  
(In Thousands)

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.36	\$ 5,838	\$9,220	63.32	87.64
June 30, 2015	0.35	5,395	9,485	56.88	88.32

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By MSRS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	\$ 522	\$ 522	\$ —	\$ 9,485	5.50
June 30, 2016	539	539	—	9,803	5.50

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

There have been no changes in benefit terms since the prior actuarial valuation. There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. The assumed post-retirement benefit increase rate was changed from 2.0 percent through 2015, and 2.5 percent thereafter, to 2.0 percent per year through 2043, and 2.5 percent per year thereafter.

**BEMIDJI STATE UNIVERSITY**  
**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS**  
**TEACHERS RETIREMENT FUND**

Schedule of Proportionate Share of TRA Net Pension Liability  
(In Thousands)

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.15	\$ 6,691	\$6,624	101.01	81.50
June 30, 2015	0.14	8,537	6,996	122.02	76.77

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By TRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	\$ 525	\$ 525	\$ —	\$ 6,996	7.50
June 30, 2016	509	509	—	6,788	7.50

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

There have been no changes in benefit terms since the prior actuarial valuation. There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. The discount rate was lowered from 8.25 percent to 8.00 percent.

**BEMIDJI STATE UNIVERSITY**  
**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS**  
**GENERAL EMPLOYEES RETIREMENT FUND**

Schedule of Proportionate Share of PERA Net Pension Liability  
(In Thousands)

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.0075	\$ 351	\$ 392	89.48	78.75
June 30, 2015	0.0065	336	305	109.97	78.19

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By PERA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	\$ 23	\$ 23	\$ —	\$ 305	7.50
June 30, 2016	32	32	—	421	7.50

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

There were no significant changes in benefit terms or actuarial assumptions since the prior actuarial valuation.

## SUPPLEMENTARY SECTION

As of July 1, 2004, the Bemidji campus of the former Northwest Technical College was aligned with Bemidji State University under the name Northwest Technical College – Bemidji. The activities of the college were consolidated with the university effective July 1, 2005 and were first included in the university's fiscal year 2006 annual financial report. Included in the supplementary section are the audited financial statements of both individual institutions.

**COMPONENTS OF BEMIDJI STATE UNIVERSITY  
STATEMENTS OF NET POSITION  
AS OF JUNE 30, 2016 AND 2015  
(IN THOUSANDS)**

	Bemidji State University	Northwest Technical College	Total 2016	Total 2015
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 30,544	\$ 3,425	\$ 33,969	\$ 34,316
Investments	388	-	388	405
Grants receivable	476	97	573	424
Accounts receivable, net	1,789	819	2,608	2,105
Prepaid expense	1,104	121	1,225	1,057
Inventory and other assets	40	-	40	254
Student loans, net	686	-	686	750
Total current assets	<u>35,027</u>	<u>4,462</u>	<u>39,489</u>	<u>39,311</u>
<b>Current Restricted Assets</b>				
Cash and cash equivalents	2,850	-	2,850	6,932
Total current restricted assets	<u>2,850</u>	<u>-</u>	<u>2,850</u>	<u>6,932</u>
<b>Noncurrent Assets</b>				
Student loans, net	4,002	-	4,002	4,011
Capital assets, net	73,256	4,034	77,290	73,795
Total noncurrent assets	<u>77,258</u>	<u>4,034</u>	<u>81,292</u>	<u>77,806</u>
Total Assets	<u>115,135</u>	<u>8,496</u>	<u>123,631</u>	<u>124,049</u>
<b>Deferred Outflows of Resources</b>	<u>3,629</u>	<u>685</u>	<u>4,314</u>	<u>1,853</u>
Total Assets and Deferred Outflows of Resources	<u>118,764</u>	<u>9,181</u>	<u>127,945</u>	<u>125,902</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Salaries and benefits payable	4,494	539	5,033	4,326
Accounts payable	1,892	306	2,198	1,535
Unearned revenue	1,191	133	1,324	1,003
Payable from restricted assets	590	-	590	4,096
Interest payable	141	-	141	148
Funds held for others	111	6	117	216
Current portion of long-term debt	1,642	132	1,774	1,671
Other compensation benefits	706	83	789	886
Total current liabilities	<u>10,767</u>	<u>1,199</u>	<u>11,966</u>	<u>13,881</u>
<b>Noncurrent Liabilities</b>				
Noncurrent portion of long-term debt	21,633	877	22,510	22,503
Other compensation benefits	4,676	724	5,400	5,670
Net pension liability	11,924	2,344	14,268	12,880
Capital contributions payable	4,304	-	4,304	4,415
Total noncurrent liabilities	<u>42,537</u>	<u>3,945</u>	<u>46,482</u>	<u>45,468</u>
Total Liabilities	<u>53,304</u>	<u>5,144</u>	<u>58,448</u>	<u>59,349</u>
<b>Deferred Inflows of Resources</b>	<u>8,084</u>	<u>1,146</u>	<u>9,230</u>	<u>10,049</u>
Total Liabilities and Deferred Inflows of Resources	<u>61,388</u>	<u>6,290</u>	<u>67,678</u>	<u>69,398</u>
<b>Net Position</b>				
Net investment in capital assets	51,252	3,013	54,265	51,041
Restricted expendable, bond covenants	3,555	-	3,555	3,282
Restricted expendable, other	3,916	110	4,026	3,948
Unrestricted	(1,347)	(232)	(1,579)	(1,767)
Total Net Position	<u>\$ 57,376</u>	<u>\$ 2,891</u>	<u>\$ 60,267</u>	<u>\$ 56,504</u>



**COMPONENTS OF BEMIDJI STATE UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015  
(IN THOUSANDS)**

	Bemidji State University	Northwest Technical College	Total 2016	Total 2015
<b>Operating Revenues</b>				
Tuition, net	\$ 21,707	\$ 2,043	\$ 23,750	\$ 22,060
Fees, net	2,333	301	2,634	2,554
Sales and room and board, net	2,224	671	2,895	2,506
Restricted student payments, net	10,399	-	10,399	10,460
Other income	358	209	567	444
Total operating revenues	<u>37,021</u>	<u>3,224</u>	<u>40,245</u>	<u>38,024</u>
<b>Operating Expenses</b>				
Salaries and benefits	47,156	5,974	53,130	51,325
Purchased services	11,585	1,098	12,683	12,450
Supplies	3,362	879	4,241	5,183
Repairs and maintenance	1,581	231	1,812	1,737
Depreciation	5,303	477	5,780	5,403
Financial aid, net	1,080	478	1,558	1,400
Other expense	4,085	410	4,495	4,099
Total operating expenses	<u>74,152</u>	<u>9,547</u>	<u>83,699</u>	<u>81,597</u>
Operating loss	<u>(37,131)</u>	<u>(6,323)</u>	<u>(43,454)</u>	<u>(43,573)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Appropriations	21,400	3,609	25,009	22,771
Federal grants	9,687	1,806	11,493	11,509
State grants	3,698	493	4,191	4,895
Private grants	2,481	196	2,677	2,264
Interest income	252	35	287	265
Interest expense	(941)	(51)	(992)	(958)
Total nonoperating revenues (expenses)	<u>36,577</u>	<u>6,088</u>	<u>42,665</u>	<u>40,746</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(554)	(235)	(789)	(2,827)
Capital appropriations	4,424	-	4,424	6,212
Capital grants	90	28	118	-
Donated assets and supplies	28	-	28	233
Loss on disposal of capital assets	(10)	(8)	(18)	(3)
Change in net position	<u>3,978</u>	<u>(215)</u>	<u>3,763</u>	<u>3,615</u>
Total Net Position, Beginning of Year	53,398	3,106	56,504	75,632
Cumulative Effect of Change in Accounting Principle	-	-	-	(22,743)
Total Net Position, Beginning of Year, as Restated	<u>53,398</u>	<u>3,106</u>	<u>56,504</u>	<u>52,889</u>
Total Net Position, End of Year	<u>\$ 57,376</u>	<u>\$ 2,891</u>	<u>\$ 60,267</u>	<u>\$ 56,504</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bemidji State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Bemidji State University's basic financial statements, and have issued our report thereon dated November 8, 2016. Our report includes a reference to other auditors who audited the financial statements of the Bemidji State University Foundation. The financial statements of the Bemidji State University Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

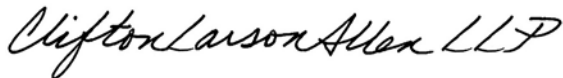
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 8, 2016

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