Metropolitan State University

Annual Financial Report

For the Years Ended June 30, 2016 and 2015

MINNESOTA STATE

Metropolitan State University, a member of Minnesota State

METROPOLITAN STATE UNIVERSITY

A MEMBER OF MINNESOTA STATE

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Prepared by:

Metropolitan State University
700 E. 7th St.
St. Paul, MN 55106-5000

METROPOLITAN STATE UNIVERSITY

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

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INTRODUCTION

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Metropolitan
State University

Office of the President

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November 8, 2016

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

Dear Board of Trustees and Chancellor Rosenstone:

I am pleased to submit to you the Metropolitan State University (university) audited Annual Financial Report for the fiscal years ended June 30, 2016 and 2015. It includes the appropriate financial statements and disclosures necessary to accurately represent the financial condition of our university, as well as operational results for the year. These financial statements are presented in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board. The management of the university is responsible for ensuring the accuracy, reliability, and completeness of the information in this report.

The financial statements have been audited by the firm of CliftonLarsonAllen, LLP. You will find a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. Please consult the management's discussion and analysis section of this report for a summary review and explanation of the financial statements.

Metropolitan State University was established in 1971 by the Minnesota State Legislature to offer baccalaureate education to adult students in the Twin Cities metropolitan area. Since those early years of serving a few hundred students who were returning to complete their bachelor's degrees, we now serve nearly 11,500 students annually. They can complete their bachelor's degrees and go on to complete master's and doctoral programs. The university currently offers almost sixty undergraduate majors, seventeen master's degree programs and applied doctoral programs in nursing practice and business administration. Our regional accrediting agency, the North Central Association's Higher Learning Commission, in recognition of the high quality of our online program offerings, has authorized the university to offer any of our degree programs online.

Metropolitan State University, Minnesota's only public, urban, comprehensive university remains committed to its mission to engage the needs of underserved populations across the greater Twin

Cities metropolitan area. The university is responsive to and experienced serving a diverse array of "post-traditional" students, adults (average age is 32 years), transfer students (97.0 percent of the student body), and communities of color (43.0 percent of the student body). The university is focused on recruiting and educating adult students with some college but no degree and students from the communities of color, from which virtually the entire region's workforce growth will emerge for the foreseeable future. Two-thirds of our students study part-time and most are also employed. The university's forty-year legacy of intentional civic engagement and community-situated curricular design is stronger than ever, and it adds unique value to the extraordinary academic programs our students enjoy.

In addition to its main campus in Saint Paul, the university also has an extensive classroom and office facility in the Midway area. The School of Law Enforcement and Criminal Justice, which is part of the College of Community Studies and Public Affairs is located on the Hennepin Technical College Brooklyn Park campus, a College of Management and our Theatre program are co-located on the Minneapolis Community & Technical College (MCTC) campus. Degree completion programs are also offered at the campuses of several other Metro Alliance colleges, including Normandale Community College, Inver Hills Community College, Century College, North Hennepin Community College, Saint Paul College, and Anoka-Ramsey Community College. In addition, the university offers an extensive array of online degree programs, certificates, and coursework.

The mission of the university is to provide high-quality, affordable educational programs and services in a student-centered environment across the Twin Cities metropolitan region. In many ways, our faculty, staff, and students reflect the area's rich diversity and demonstrate an unwavering commitment to civic engagement. The university is focused on issues that matter to legislators and other public officials and opinion leaders, increasing the proportion of urban residents who hold baccalaureate degrees, addressing Minnesota's chronic achievement gaps by strengthening the faculties of urban schools, expanding the capacity of affordable programs that prepare highly-skilled healthcare workers, and preparing practitioners across a range of professional fields with the skills and cultural competencies required for a competitive global economy. In particular, we have made significant, sustained investments in strengthening and expanding our partnerships with Minnesota State colleges in order to provide seamless access to high-demand baccalaureate programs. We are working diligently to expand our capacity to offer the online programs for which student demand continues to exceed supply.

Highlighted below are a few of the many ways in which the university is deeply involved with the Twin Cities community:

- Our Library and Learning Center on the Saint Paul campus, a unique facility housing a branch of the Saint Paul Public Library, continues to enjoy high levels of usage, amounting to 330 thousand student and community patron visits annually. Our students, staff, and faculty have access to extensive print and electronic resources, as well as over 100 computer stations and wireless capability.

- Through the library partnership we are able to serve the Dayton's Bluff neighborhood, one of the poorest in the city of St. Paul, through story hours and reading-related activities in the

Children's Reading Room, a Young Adult Homework Center and Book Club and tutoring services provided by university students.

- Metropolitan State's University Institute for Community Engagement and Scholarship coordinates dozens of community-based programs throughout the year, including outreach efforts such as "Read! Read! Read!", "College for Kids", the Public Achievement program, career and community-based academic internships, Project SHINE (Students Helping in the Naturalization of Elders), Constitution Day, American Democracy Project programs, "Metro State Votes!" and many more.

- The university continues to lead an active collaboration between Minnesota State institutions and industry partners through Advance IT Minnesota. Legislative funds for this innovative initiative were awarded by the System Office through a competitive "Centers of Excellence" selection process.

Metropolitan State University has developed an array of dynamic, student-centered partnerships with metropolitan area and beyond colleges with Minnesota State. Partnership efforts include:

- "Reverse transfer" initiatives piloted with several of the colleges', enabling students to be awarded their associate degrees by their college, even if they had transferred to Metropolitan State before completing all of their associate degree requirements.

- Dual enrollment programs to increase the rate of seamless transfer for students. Through the Minnesota Alliance of Nursing Education (MANE) program (see below), dual enrollment is available at Anoka-Ramsey Community College, Century College, North Hennepin Community College, Ridgewater Community and Technical College, and Riverland Community and Technical College leading to a four-year baccalaureate in nursing. A similar dual enrollment program with all Minnesota State programs offering the A.S. in Dental Hygiene is currently being implemented. Blanket dual enrollment agreements for students at MCTC and Saint Paul College will be signed by the end of the calendar year.

- Development and sharing of academic program transfer guides for the most popular baccalaureate majors. Students beginning their studies at each of the community colleges can see from the outset which courses to take, in which sequence, to most efficiently complete their baccalaureate degrees at Metropolitan State University.

- Degree completion programs in an array of majors offered on the campuses of several community colleges within Minnesota State.

- Our continued agreement with Normandale Community College to use their Partnership Center for baccalaureate degree completion programs. The university is continuing work on joint academic planning with North Hennepin Community College, MCTC and Saint Paul College. It plans to conclude these planning efforts by the end of the 2017 fiscal year.

Future Planning:

Academic, enrollment and strategic planning is currently underway. Our future growth will be guided by the Charting the Future initiative and the Metro Baccalaureate plan. Enrollment modeling and active marketing campaigns are expected to sustain a moderate rate of enrollment growth. This involves strategies such as dual admission and program location to increase the number of community college students who matriculate. The Strategic Enrollment Management Council, convened in January 2016, is developing initiatives to improve recruitment, retention, and degree completion.

In 2017, we will begin planning work that will support and updated Facilities Master Plan to be submitted to the System Office.

The opening of the Science Education Center in January 2016 has led to an increase in students majoring in the sciences. New programs in Environmental Sciences and Chemistry Teaching are in development. An M.S. in Biology was recently approved and will be offered in the near future. Academic planning is focusing on how to maximize education in science, technology and mathematics. A major gift will support both recruitment and retention scholarships

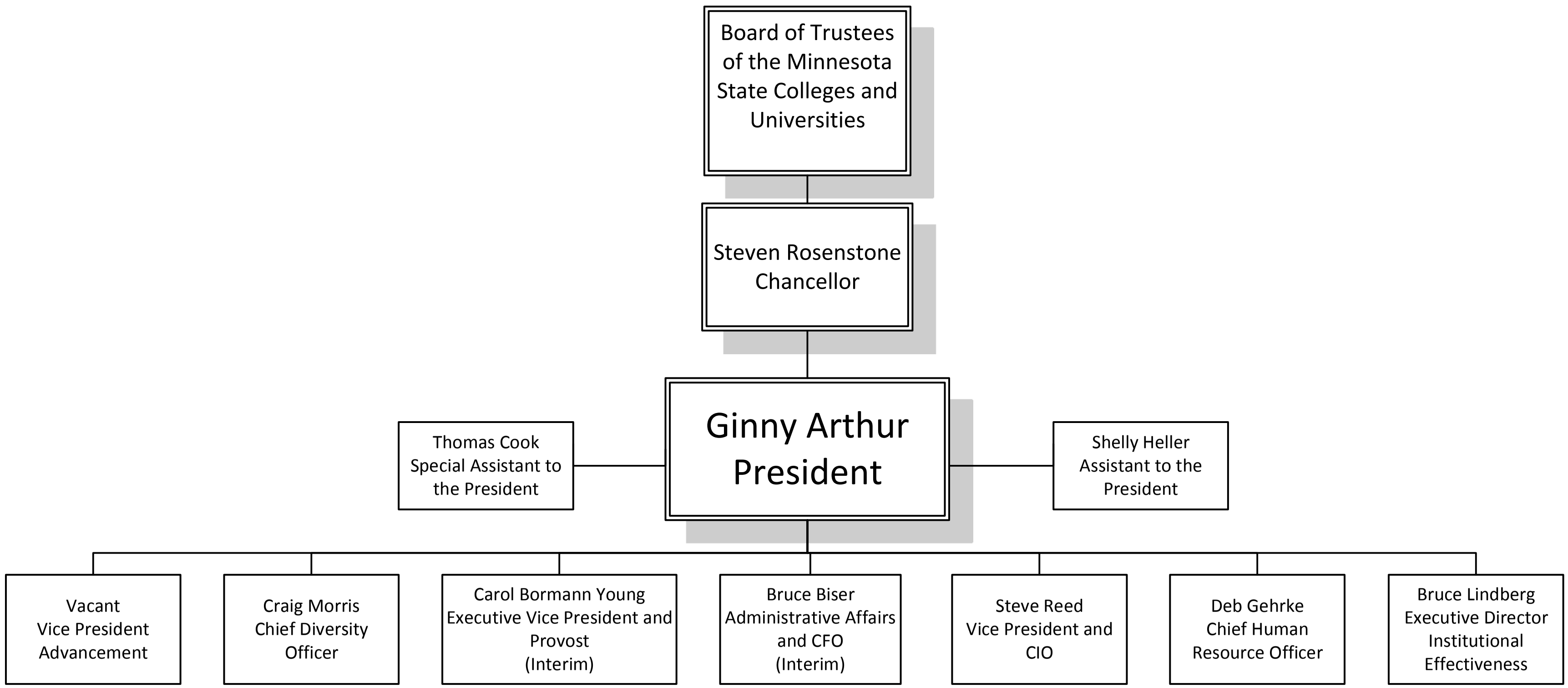
Our administrative team is pleased with what is being accomplished at Metropolitan State University and wants to express sincere thanks to our faculty, staff, and students for their important contributions to our success. Appreciation similarly goes to the Board of Trustees and the System Office. The university will continue to uphold the highest standards of financial and educational stewardship in the best interests of the diverse communities we serve.

Sincerely,

Virginia Arthur

Virginia “Ginny” Arthur, J.D.
President

Metropolitan State University



The financial activity of Metropolitan State University is included in this report. 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

CliftonLarsonAllen LLP
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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 Metropolitan State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the years 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 audits. We did not audit the financial statements of the Metropolitan State University Foundation, which represents 100% of the total assets and total revenues of the discretely presented component unit of Metropolitan 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 Metropolitan State University Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Metropolitan 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 audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan State University, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows, were applicable, thereof for the years 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 Metropolitan 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 benefit plan, the schedule of the proportionate share of net pension liability, and 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.

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 Metropolitan 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 Metropolitan State University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Metropolitan State University, a member of the Minnesota State Colleges and Universities (Minnesota State), for the fiscal 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 accompanying notes, which follow this section.

The university is 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.

The university is a comprehensive public, urban institution committed to meeting the higher education needs of over 11,000 students with an average age of 32 in the Twin Cities and greater metropolitan area. Metropolitan State University's focus has always been on adult and traditionally underserved students, which are projected to be a growth market in higher education. Over 97 percent of the undergraduate degree-seeking students that matriculated in the 2015-2016 academic year transferred credits from between one and twelve institutions prior to enrolling at Metropolitan State University. The university employs about 1,250 faculty and staff members, including approximately 680 part-time community faculty who are often practitioners in the fields in which they teach. The university is accredited by the Higher Learning Commission.

The university offers a variety of programs leading to degrees at the bachelor's, master's and doctoral level and graduate certificates. Academic programs are organized into eight colleges and schools including the: College of Community Studies and Public Affairs, College of Individualized Studies, College of Liberal Arts, College of Management, College of Nursing and Health Sciences, College of Sciences, School of Law Enforcement and Criminal Justice and School of Urban Education. The largest undergraduate majors are individualized studies, business, accounting, human services, psychology and criminal justice. As an urban university, Metropolitan State makes its programs accessible throughout the Twin Cities area with four primary locations in St Paul, the Midway Center, the Management Education Center co-located with Minneapolis Community and Technical College (MCTC) and the Law Enforcement and Criminal Justice Education Center (LECJEC) co-located with Hennepin Technical College in Brooklyn Park, MN. The university emphasizes its partnerships with the ten Minnesota State community colleges located in the Twin Cities and has degree completion programs and course offerings available on eight of the ten campuses.

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 $19.2 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 financial position improved during fiscal year 2016 with net position increasing by $9.9 million, or 22.6 percent, on total revenues of $93.7 million. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position increased by $8.3 million, or 13.5 percent, and $8.1 million or 15.1 percent, respectively. Of that increase, $8.7 million for fiscal year 2016 and $14.2 million for fiscal year 2015, were due to an increase in net investment in capital assets.

The university experienced an increase of $3.2 million in state appropriation revenue and a $2.3 million increase in its tuition and fees revenue during fiscal year 2016. The university also saw an increase in operating expenses of $2.8 million in fiscal year 2016.

For the fiscal year ended June 30, 2016, assets and deferred outflows totaled $146.3 million while liabilities and deferred inflows totaled $92.7 million. Net position, which represent the residual interest in the university's assets and deferred outflows after liabilities and deferred inflows are deducted, is comprised of net investment in capital assets of $55.5 million, restricted net position of $5.1 million and unrestricted net position of $(7.0) million. Excluding the GASB Statement No. 68 effect, the unrestricted net position would have been $9.2 million, a decrease of $3.5 million over fiscal year 2015.

USING THE FINANCIAL STATEMENTS

The university'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 applicable generally accepted accounting principles (GAAP) as established 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 Metropolitan State University at the end of the fiscal year and include all assets and deferred outflows and liabilities and deferred inflows of the university as measured using 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. 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 statement of revenues, expenses and changes in net position.

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

(In Thousands)

	2016	2015	2014
Current assets	$ 39,072	$ 51,329	$ 71,477
Capital assets, net	102,670	84,407	43,278
Deferred outflows of resources	4,606	2,072	-
Total assets and deferred outflows of resources	146,348	137,808	114,755
Current liabilities	15,637	20,580	15,715
Noncurrent liabilities	68,934	64,716	45,573
Deferred inflows of resources	8,146	8,775	-
Total liabilities and deferred inflows of resources	92,717	94,071	61,288
Net position	$ 53,631	$ 43,737	$ 53,467

Current assets consist primarily of cash and cash equivalents (unrestricted) totaling $26.1 million at June 30, 2016. This is a decrease of $3.9 million from fiscal year 2015 and represents 4.0 months of operating expenses (excluding depreciation). This is compared to 4.7 months and 5.8 months for the fiscal years ended June 30, 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 $4.6 million and $2.1 million deferred outflows were reported respectively, which represent the consumption of net position in one period that is applicable to future periods, and is due to the GASB Statement No. 68 implementation.

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 $879 thousand, or 20.4 percent, to a total of $5.2 million, primarily due to employee separation settlements and two extra days being accrued after June 30, 2016 compared to 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 by $7.6 million or 66 percent, as construction projects were completed or neared completion during the year.

The current portion of long term debt increased by $1.5 million to $2.6 million at year-end 2016. Total debt went up from fiscal year 2014 through end of fiscal year 2016, which contributed in an increase in the current portion of the long term debt. Unearned revenue consists of summer and fall session tuition and grant receipts received, but not yet earned. At June 30, 2016, $2.8 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 $8.1 million and $8.8 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 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 $12.6 million and $11.1 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 net position as of June 30, 2016, 2015 and 2014 follows:

(In Thousands)	2016	2015	2014
Net investment in capital assets	$ 55,483	$ 46,815	$ 32,643
Restricted expendable, bond covenants	1,291	-	-
Restricted expendable, other	3,831	1,963	1,674
Unrestricted	(6,974)	(5,041)	19,150
Total Net Position	$ 53,631	$ 43,737	$ 53,467

Net investment in capital assets represents the university's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net position primarily includes donations received for specific purposes, capital projects, bond covenants, and debt service.

Unrestricted net position for fiscal years 2016 and 2015 excluding GASB Statement No. 68 would have been $9.2 million and $12.7 million respectively. Fiscal year 2014 unrestricted net position was not restated for the effects of GASB Statement No. 68, and thus is not comparable in the above table to subsequent years.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the university's academic programs and student life is the development and renewal of its capital assets. The university continues to implement its long-term plan to modernize its older facilities, balanced with new construction.

Capital assets as of June 30, 2016 totaled $102.7 million, net of accumulated depreciation of $30.6 million.
Capital outlays totaled $51.9 million in fiscal year 2016, an increase of $8.5 million from fiscal year 2015, which represents the completion of the science education center, parking facility, student center, and equipment. Significant capital outlays made in fiscal year 2016 include construction outlays for the science education center, parking facility, and student center.

Long-term debt payable on June 30, 2016 consisted primarily of $14.9 million of general obligation bonds and $33.1 million of revenue bonds. The general obligation bonds are primarily used to finance construction of buildings and repairs. Revenue bonds are issued for the construction and maintenance of revenue producing facilities such as parking ramps and the student unions. Additional information on capital debt and debt activities can be found in notes 5 and 7 in 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 results of operations for the year. When reviewing the full statements, users should note that GASB requires classification of state appropriations and federal and state grants as non-operating revenues.

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

(In Thousands)

	2016	2015	2014
Operating revenues:			
Tuition, fees and sales, net	$ 31,628	$ 29,909	$ 30,682
Restricted student payments, net	3,523	347	326
Other income	440	417	132
Total operating revenues	35,591	30,673	31,140
Nonoperating revenues and other revenues:			
State appropriations	27,978	24,811	22,914
Capital appropriations	9,807	13,831	61
Grants	19,788	20,402	19,564
Other	531	358	232
Total nonoperating and other revenues	58,104	59,402	42,771
Total revenues	93,695	90,075	73,911
Operating expenses:			
Salaries and benefits	58,574	57,217	53,907
Depreciation	3,152	2,293	2,258
Financial aid, net	1,461	1,921	1,648
Other	19,050	18,047	20,674
Total operating expenses	82,237	79,478	78,487
Nonoperating and other expenses:			
Interest expense	1,531	1,002	1,324
Other	33	124	380
Total nonoperating and other expenses	1,564	1,126	1,704
Total expenses	83,801	80,604	80,191
Change in net position	9,894	9,471	(6,280)
Net position, beginning of year	43,737	53,467	59,747
Cumulative effect of change in accounting principle	-	(19,201)	-
Net position, beginning of year, as restated	43,737	34,266	59,747
Net position, end of year	$ 53,631	$ 43,737	$ 53,467

Tuition and state appropriations are the primary sources of funding for the university's operations. Gross tuition revenue increased $1.8 million to $45.1 million in fiscal year 2016. Tuition revenue increased in part due to a 0.2 percent increase in enrollment but the largest factor was a 3.7 percent increase in tuition rates. The fiscal year 2016 increase follows a decrease of $0.3 million in fiscal year 2015 as a net result of 2.3 percent decrease in enrollment coupled with frozen undergraduate tuition rates and a 3.0 percent increase in graduate tuition rates. State appropriation totaled $28.0 million in fiscal year 2016, an increase of $3.2 million and $5.1 million over fiscal years 2015 and 2014, respectively. The restricted student payment revenue has increased by 3.2 million during fiscal year 2016, due to increased university student assessments of $12 and $4 per credit in revenue funds for the parking ramp and student center, respectively, to pay for operating costs and debt service.

Operating expenses as of June 30, 2016 increased by $2.8 million or 3.5 percent over fiscal year 2015. The resources expended for employee compensation and benefits totaled $58.6 million for the fiscal year ended June 30, 2016, which represents an increase of $1.4 million over fiscal year 2015 primarily due to contractually-required increases in wages and benefits for faculty and staff.

FOUNDATION

The Metropolitan State University Foundation is a component unit of Metropolitan State University. As such, the separately audited financial statements for the foundation are included, but shown separately from those of the university in compliance with the requirements of GASB Statement No. 39. Additional information regarding the foundation can be found in Note 17 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking into the future, management believes that the university is positioned to improve upon its financial condition with new degrees added during fiscal year 2016 including a master of science in biology and a minor in cyber security, the addition of a new Science Education Center in January 2016 (increasing the number of science labs from two to eight), and recruitment and retention strategies implemented with our community college partners.

The university continued to strengthen its relationships with the metropolitan area two-year community and technical colleges during fiscal year 2016. A primary goal of the partnerships is to enable a student to start their educational journey at a two-year Minnesota State institution, and complete their baccalaureate degrees through Metropolitan State, and in many cases on that same two-year campus. With slightly over 100,000 students in attendance at metropolitan-area community and technical colleges, the university is positioned to be the preferred provider for baccalaureate degrees for those students. As the most diverse public university in the state and the only four-year Minnesota State University located in the Twin Cities, Metropolitan State University is well positioned to take advantage of the projected demographic increases in communities of color and recent immigrants.

Higher education costs continue to rise and management believes that the value proposition associated with our degree programs will be attractive to students and their families. Management sees the university as uniquely positioned to meet the future demands of the state's labor market, which will increasingly require a postsecondary credential. We will accomplish this by working with our faculty, employers, and community partners to ensure the university continues to provide the highest value, most affordable higher education option.

For the fiscal year ending 2016, 66 percent of students were eligible for some type of financial aid funding; this percentage has not changed since fiscal year 2014. The average amount of financial aid awarded increased 4.0 percent from prior year with an average award of $8,933 in fiscal year 2016, compared to $8,618 and $8,662 in fiscal years 2015 and 2014, respectively. The Federal Pell Grant is given to students deemed to be the lowest income by the federal financial aid formula and is an indication of socioeconomic status of the undergraduate student body.

As the university remains heavily reliant on financial aid as a payment method for students, changes in federal and state legislation regarding financial aid program funding could have material effect on students' ability to pay for higher education and impact enrollment as well as completion.

An ongoing challenge for the university will be staying financially accessible, given the shifts in funding sources for public higher education in Minnesota. In 2000, the State of Minnesota contributed about 65 percent of the cost of education for Metropolitan State University students, with tuition covering the other 35 percent. After several years of reduction in state support, state reversed course and approximately 54 percent of the cost of education was paid by the students and approximately 46 percent through the State of Minnesota support.

The university anticipates tuition rate growth uncertainty in the future. Undergraduate tuition was frozen in fiscal year 2015; however, the university did receive a special state appropriation to offset the loss of tuition rate increase. The university was allowed to increase its tuition during fiscal year 2016, but tuition was frozen again for fiscal year 2017. The university continues to offer innovative academic programs while seeking operational efficiencies so leadership, faculty and staff can support student success.

REQUESTS FOR INFORMATION

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

Chief Financial Officer/Vice President for Administrative Affairs
Metropolitan State University
700 East 7th Street
St. Paul, MN 55106-5000

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

Assets	2016	2015
Current Assets		
Cash and cash equivalents	$ 26,113	$ 30,059
Grants receivable	1,129	719
Accounts receivable, net	3,009	1,464
Prepaid expense	1,784	1,205
Other assets	71	9
Total current assets	32,106	33,456
Current Restricted Assets		
Cash and cash equivalents	6,966	17,873
Total current restricted assets	6,966	17,873
Noncurrent Restricted Assets		
Construction in progress	-	24,712
Total noncurrent restricted assets	-	24,712
Total restricted assets	6,966	42,585
Noncurrent Assets		
Capital assets, net	102,670	59,695
Total noncurrent assets	102,670	59,695
Total Assets	141,742	135,736
Deferred Outflows of Resources	4,606	2,072
Total Assets and Deferred Outflows of Resources	146,348	137,808
Liabilities		
Current Liabilities		
Salaries and benefits payable	5,188	4,309
Accounts payable and other liabilities	2,111	3,339
Unearned revenue	2,793	2,742
Payable from restricted assets	1,801	8,160
Interest payable	292	285
Funds held for others	204	5
Current portion of long-term debt	2,618	1,119
Other compensation benefits	630	621
Total current liabilities	15,637	20,580
Noncurrent Liabilities		
Noncurrent portion of long-term debt	49,549	47,356
Other compensation benefits	6,746	6,276
Net pension liability	12,639	11,084
Total noncurrent liabilities	68,934	64,716
Total Liabilities	84,571	85,296
Deferred Inflows of Resources	8,146	8,775
Total Liabilities and Deferred Inflows of Resources	92,717	94,071
Net Position		
Net investment in capital assets	55,483	46,815
Restricted expendable, bond covenants	1,291	-
Restricted expendable, other	3,831	1,963
Unrestricted	(6,974)	(5,041)
Total Net Position	$ 53,631	$ 43,737

The notes are an integral part of the financial statements.

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

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 126	$ 646
Investments	1,241	738
Pledges and contributions receivable, net	81	49
Other receivables	10	7
Total current assets	1,458	1,440
Noncurrent Assets		
Investments held for endowment	3,180	3,177
Other assets held for endowment	40	35
Total noncurrent assets	3,220	3,212
Total Assets	$ 4,678	$ 4,652
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 217	$ 61
Scholarships payable	11	5
Total current liabilities	228	66
Net Assets		
Unrestricted	260	285
Temporarily restricted	1,487	1,755
Permanently restricted	2,703	2,546
Total Net Assets	4,450	4,586
Total Liabilities and Net Assets	$ 4,678	$ 4,652

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 29,389	$ 27,622
Fees, net	1,501	1,483
Sales, net	738	804
Restricted student payments, net	3,523	347
Other income	440	417
Total operating revenues	35,591	30,673
Operating Expenses		
Salaries and benefits	58,574	57,217
Purchased services	11,168	11,833
Supplies	2,408	1,985
Repairs and maintenance	2,018	1,027
Depreciation	3,152	2,293
Financial aid, net	1,461	1,921
Other expense	3,456	3,202
Total operating expenses	82,237	79,478
Operating loss	(46,646)	(48,805)
Nonoperating Revenues (Expenses)		
Appropriations	27,978	24,811
Federal grants	14,030	14,263
State grants	4,442	5,079
Private grants	1,316	1,060
Interest income	428	330
Interest expense	(1,531)	(1,002)
Grants to other organizations	(33)	(124)
Total nonoperating revenues (expenses)	46,630	44,417
Loss Before Other Revenues, Expenses, Gains, or Losses	(16)	(4,388)
Capital appropriations	9,807	13,831
Gain on disposal of capital assets	103	28
Change in net position	9,894	9,471
Total Net Position, Beginning of Year	43,737	53,467
Cumulative Effect of Change in Accounting Principle	-	(19,201)
Total Net Position, Beginning of Year, as Restated	43,737	34,266
Total Net Position, End of Year	$ 53,631	$ 43,737

The notes are an integral part of the financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and Revenue					
Contributions	$ 552	$ 578	$ 154	$ 1,284	$ 1,108
Unrealized gain	-	-	-	-	22
Investment income (loss)	-	(75)	-	(75)	86
Other income	57	-	3	60	-
Net assets released from restrictions	768	(768)	-	-	-
Total support and revenue	1,377	(265)	157	1,269	1,216
Expenses					
Program services					
Program Services	1,017	-	-	1,017	848
Total program services	1,017	-	-	1,017	848
Supporting services					
Management and general	146	-	-	146	134
Fundraising	242	-	-	242	209
Total supporting services	388	-	-	388	343
Total expenses	1,405	-	-	1,405	1,191
Change in Net Assets	(28)	(265)	157	(136)	25
Net Assets, Beginning of Year	285	1,755	2,546	4,586	4,561
Net Asset Transfer Related to Application of UPMIFA	3	(3)	-	-	-
Net Assets, End of Year	$ 260	$ 1,487	$ 2,703	$ 4,450	$ 4,586

The notes are an integral part of the financial statements.

METROPOLITAN STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Support and Revenue				
Contributions	$ 528	$ 550	$ 30	$ 1,108
Unrealized gain	15	-	7	22
Investment income	24	62	-	86
Net assets released from restrictions	650	(650)	-	-
Total support and revenue	1,217	(38)	37	1,216
Expenses				
Program services				
Program Services	848	-	-	848
Total program services	848	-	-	848
Supporting services				
Management and general	134			134
Fundraising	209	-	-	209
Total supporting services	343	-	-	343
Total expenses	1,191	-	-	1,191
Change in Net Assets	26	(38)	37	25
Net Assets, Beginning of Year	257	1,795	2,509	4,561
Net Asset Transfer Related to Application of UPMIFA	2	(2)	-	-
Net Assets, End of Year	$ 285	$ 1,755	$ 2,546	$ 4,586

The notes are an integral part of the financial statements.

METROPOLITAN 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	$ 35,271	$ 31,119
Cash paid to suppliers for goods or services	(19,638)	(17,926)
Cash payments for employees	(58,831)	(57,998)
Financial aid disbursements	(1,426)	(1,936)
Net cash flows used in operating activities	(44,624)	(46,741)
Cash Flows from Noncapital Financing Activities		
Appropriations	27,978	24,811
Federal grants	13,663	14,720
State grants	4,442	5,079
Private grants	1,316	1,060
Agency activity	199	(53)
Loans to other schools	-	(24)
Grants to other organizations	(33)	(124)
Net cash flows provided by noncapital financing activities	47,565	45,469
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(28,568)	(38,834)
Capital appropriation	8,591	13,831
Proceeds from sale of capital assets	103	28
Proceeds from borrowing	4,261	7,717
Proceeds from bond premium	802	969
Interest paid	(1,731)	(1,145)
Repayment of bond principal	(1,298)	(944)
Net cash flows used in capital and related financing activities	(17,840)	(18,378)
Cash Flows from Investing Activities		
Investment earnings	46	22
Net cash flows provided by investing activities	46	22
Net Decrease in Cash and Cash Equivalents	(14,853)	(19,628)
Cash and Cash Equivalents, Beginning of Year	47,932	67,560
Cash and Cash Equivalents, End of Year	$ 33,079	$ 47,932

The notes are an integral part of the financial statements.

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

	2016	2015
Operating Loss	$ (46,646)	$ (48,805)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	3,152	2,293
Change in assets and liabilities		
Accounts receivable	(329)	510
Accounts payable and other liabilities	(561)	107
Salaries and benefits payable	879	(208)
Other compensation benefits	479	841
Deferred inflows/outflows of resources/Net pension liability	(1,608)	(1,414)
Unearned revenue	10	(65)
Net reconciling items to be added to operating loss	2,022	2,064
Net cash flow used in operating activities	$ (44,624)	$ (46,741)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 1,955	$ 9,116
Amortization of bond premium	378	309

METROPOLITAN 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 Metropolitan State University, a member of the Minnesota State Colleges and Universities (Minnesota State), conform to generally accepted accounting principles (GAAP) in the United States 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 Metropolitan 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. Metropolitan State 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.

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*. Metropolitan State University Foundation is considered significant to the university and is included as a discretely presented component unit and separately identified in Note 17. Complete financial statements may be obtained from Metropolitan State University Foundation, 700 East Seventh Street, St. Paul, MN 55106-5000.

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

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. The Revenue Fund holds restricted cash for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net position of revenue producing facilities. 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 has one checking account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary operations, and student activities.

Investments — Investments are reported at fair value.

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

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:

Asset Type	Useful Life
Buildings	30-40 years
Building improvement	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 session. It also includes 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 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 may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, net pension liability, early termination benefits, and net other postemployment benefits.

Minnesota State may finance the construction, renovation, and acquisition of facilities for student residences, student unions, and parking facilities 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 financial report. Copies are available from the Financial Reporting System Director, Minnesota State, 30 7th St. E., Suite 350, St. Paul, Minnesota 55101-7804.

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
Related to Pensions:		
Differences between projected and actual investment earnings	$ 1,821	$ 3,511
Changes in actuarial assumptions	560	3,134
Contributions paid to pension plans subsequent to the measurement date	1,010	-
Differences between expected and actual experience	365	1,491
Changes in proportion	850	6
Total related to pensions	4,606	8,142
Related to Refunding:		
Economic gain on refunding of general obligation bonds	-	4
Total	$ 4,606	$ 8,146

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ -	$ 4,614
Changes in actuarial assumptions	9	4,041
Contributions paid to pension plans subsequent to the measurement date	967	-
Differences between expected and actual experience	466	120
Changes in proportion	630	-
Total	$ 2,072	$ 8,775

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 nonoperating 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. The university does not conduct retail sales. Note 10 to the financial statements provides additional information.

Restricted Student Payments — Restricted student payments consist of fee revenue restricted for payment of revenue bonds, and are net of scholarship allowance. Note 10 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, and Federal Work Study. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the university will record such disallowance at the time the determination is made.

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 and liabilities and deferred inflows 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 repayments.
        Donations — restricted per donor requests.
        Faculty contract obligations — faculty development and travel required by contracts.

Net Position Restricted for Other (In Thousands)	2016	2015
Debt service	$ 3,156	$ 1,154
Donations	245	337
Faculty contract obligations	430	472
Total	$ 3,831	$ 1,963

- *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 a checking account in a local bank. The activities handled through the local bank 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.

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State's name. Category 3 includes uncollateralized cash and cash equivalents. All the university's cash and cash equivalents are classified as Category 1.

At June 30, 2016 and 2015, the university's bank balance was $1,955,527 and $2,024,144, respectively. These bank 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 following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands)				
Carrying Amount		2016		2015
Cash, in bank	$	1,456	$	1,752
Cash, trustee account (US Bank)		2,599		7,513
Total local cash and cash equivalents		4,055		9,265
Total treasury cash accounts		29,024		38,667
Grand Total	$	33,079	$	47,932

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 the 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, the 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.

At June 30, 2016 and 2015, the university held no investments.

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. 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 an investment. The university complies with Board procedure 7.5.1 that recommends considering fluctuation interest rates and cash flow needs when purchasing short term and long term investments.

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals. At June 30, 2016 and 2015, the total accounts receivable balances for the university were $4,301,171 and $2,520,731, respectively, less an allowance for uncollectible receivables of $1,291,688 and $1,056,943, respectively. In fiscal year 2016 capital projects of $1.2 million is related to the science education center.

Summary of Accounts Receivable at June 30
(In Thousands)

	2016	2015
Tuition	$ 1,488	$ 1,404
Financial aid	164	280
Fees	223	126
Sales and service	201	188
Third party obligations	491	375
Capital projects	1,216	-
Other	518	148
Total accounts receivable	4,301	2,521
Allowance for doubtful accounts	(1,292)	(1,057)
Net accounts receivable	$ 3,009	$ 1,464

The allowance for uncollectible accounts has been computed based on the following aging schedule for fiscal years 2016 and 2015:

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 $1,647,788 and $1,150,726 for fiscal years 2016 and 2015, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on 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 was $136,261 and $54,679, respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. 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	$ 4,383	$ 127	$ -	$ -	$ 4,510
Construction in progress	48,878	20,451	-	(32,301)	37,028
Total capital assets, not depreciated	53,261	20,578	-	(32,301)	41,538
Capital assets, depreciated:					
Buildings and improvements	55,541	-	-	32,301	87,842
Equipment	2,390	774	263	-	2,901
Library collections	1,106	70	205	-	971
Total capital assets, depreciated	59,037	844	468	32,301	91,714
Less accumulated depreciation:					
Buildings and improvements	25,692	2,788	-	-	28,480
Equipment	1,511	225	256	-	1,480
Library collections	688	139	205	-	622
Total accumulated depreciation	27,891	3,152	461	-	30,582
Total capital assets depreciated, net	31,146	(2,308)	7	32,301	61,132
Total capital assets, net	$ 84,407	$ 18,270	$ 7	$ -	$ 102,670

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 4,383	$ -	$ -	$ -	$ 4,383
Construction in progress	6,012	42,866	-	-	48,878
Total capital assets, not depreciated	10,395	42,866	-	-	53,261
Capital assets, depreciated:					
Buildings and improvements	55,541	-	-	-	55,541
Equipment	2,149	366	125	-	2,390
Library collections	1,240	110	244	-	1,106
Total capital assets, depreciated	58,930	476	369	-	59,037
Less accumulated depreciation:					
Buildings and improvements	23,748	1,944	-	-	25,692
Equipment	1,525	191	205	-	1,511
Library collections	774	158	244	-	688
Total accumulated depreciation	26,047	2,293	449	-	27,891
Total capital assets, depreciated, net	32,883	(1,817)	(80)	-	31,146
Total capital assets, net	$ 43,278	$ 41,049	$ (80)	$ -	$ 84,407

6. ACCOUNTS PAYABLE

Accounts payable represent amounts due at June 30, 2016 and 2015, for goods and services received prior to the end of the fiscal year.

Summary of Accounts Payable and Other Liabilities at June 30
(In Thousands)

	2016	2015
Purchased services	$ 1,112	$ 1,052
Supplies	282	50
Repairs and maintenance	30	105
Financial aid	148	112
Other payables	385	604
Capital projects	154	956
Total accounts payable	2,111	2,879
Other liabilities	-	460
Total accounts payable and other liabilities	$ 2,111	$ 3,339

In addition, as of June 30, 2016 and 2015, the university had payable from restricted assets in the amounts of $1,800,723 and $8,159,714, respectively, which were related to capital projects financed by general obligation bonds. In fiscal year 2015 the $0.4 million of other liabilities is the remaining balance of soil remediation.

7. LONG TERM OBLIGATIONS

Summaries of amounts that are 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 are as follow:

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 3,812	$ 802	$ 378	$ 4,236	$ -
General obligation bonds	11,408	4,261	818	14,851	1,123
Revenue bonds	33,255	-	175	33,080	1,495
Total long-term debt	$ 48,475	$ 5,063	$ 1,371	$ 52,167	$ 2,618

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 3,152	$ 969	$ 309	$ 3,812	$ -
General obligation bonds	6,086	5,997	675	11,408	944
Revenue bonds	31,535	1,720	-	33,255	175
Total long-term debt	$ 40,773	$ 8,686	$ 984	$ 48,475	$ 1,119

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	$ 5,042	$ 836	$ 642	$ 5,236	$ 630
Net other postemployment benefits	1,855	417	132	2,140	-
Total other compensation benefits	$ 6,897	$ 1,253	$ 774	$ 7,376	$ 630

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 4,499	$ 1,157	$ 614	$ 5,042	$ 621
Net other postemployment benefits	1,558	394	97	1,855	-
Total other compensation benefits	$ 6,057	$ 1,551	$ 711	$ 6,897	$ 621

Bond Premium— Bonds were issued in fiscal years 2016 and 2015 resulting in premiums of $802,195 and $969,435 respectively. Amortization is calculated using the straight-line method and amortized over the remaining average life of the bonds.

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

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statues, 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 food service, student union, and other revenue producing and related facilities at the state colleges and universities. Revenue bonds currently outstanding have interest rates of 1.0 percent to 4.0 percent.

The revenue bonds payable are solely from, and collateralized by, and irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. The revenue bonds are payable through fiscal year 2034. Annual principal and interest payments on the bonds are expected to require less than 49.87 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $44,115,059. The total principal and interest paid for the current year was $1,344,288 and total customer revenues were $4,253,272.

Compensated Absences — University employees accrue vacation, sick, 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.

Net Other Postemployment Benefits — Net 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 8 to the financial statements provides additional information.

Net Pension Liability — The net pension liability of $12,638,530 and $11,084,267 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 12 to the financial statements provides additional information.

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

Long-Term Debt Repayment Schedule
(In Thousands)

	General Obligation Bonds		Revenue Bonds	
Fiscal Years	Principal	Interest	Principal	Interest
2017	$ 1,123	$ 819	$ 1,495	$ 1,144
2018	1,102	633	1,535	1,094
2019	1,039	580	1,580	1,043
2020	974	531	1,640	988
2021	959	484	1,690	930
2022-2026	4,028	1,772	8,940	3,668
2027-2031	3,223	947	9,750	1,875
2032-2036	2,403	259	6,450	293
Total	$ 14,851	$ 6,025	$ 33,080	$ 11,035

8. 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, 2015, there were approximately 7 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 fiscal years 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)	$ 409	$ 387
Interest on net OPEB obligation	76	64
Adjustment to ARC	(68)	(57)
Annual OPEB cost	417	394
Contributions during the year	(132)	(97)
Increase in net OPEB obligation	285	297
Net OPEB obligation, beginning of year	1,855	1,558
Net OPEB obligation, end of year	$ 2,140	$ 1,855

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	$ 1,855	$ 1,558
Annual OPEB cost	417	394
Employer contribution	(132)	(97)
End of year net OPEB obligation	$ 2,140	$ 1,855
Percentage contributed	31.65%	24.62%

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	$ -	$ 3,085	$ 3,085	0.00	$ 41,690	7.40

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 twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

9. 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 totaled $1,531,281 and $1,287,242 for fiscal years 2016 and 2015, respectively.

The university's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC). The university has an agreement with MCTC to reimburse MCTC for a share of facilities expenses.

The university has an operating agreement with Hennepin Technical College (HTC) to lease space at the Law Enforcement and Criminal Justice Education Center, located on the campus of HTC. The agreement allocates operating expenses between the university and HTC based on square footage allocated to each institution. The operating agreement is effective until July 1, 2016.

The university has extended the lease for current space at the Midway Campus through July 31, 2018. In addition, the university entered into a new lease agreement effective August 1, 2013 through December 31, 2019 for increased leased space at the Midway Campus. Due to excess capacity in the Twin Cities' current office space market, the effect on total lease costs per annum is minimal.

Future minimum lease payments are as follows:

Year Ended June 30
(In Thousands)

Fiscal Year		Amount
2017	$	1,701
2018		1,718
2019		578
2020		121
Total	$	4,118

Income Leases —A new lease agreement with the Saint Paul Public Library Dayton's Bluff Branch is from July 1, 2014 and continues through June 30, 2019.

The university has an income lease with Verizon for a lease for cell phone tower located on campus. The current lease commenced February 6, 2004 and concluded on February 5, 2014. A new lease agreement with Verizon is in negotiations and not yet finalized for the new lease term.

10. 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 Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 45,079	$ (15,690)	$ 29,389	$ 43,245	$ (15,623)	$ 27,622
Fees	2,291	(790)	1,501	1,817	(334)	1,483
Sales and room and board	738	-	738	804	-	804
Restricted student payments	3,523	-	3,523	347	-	347
Total	$ 51,631	$ (16,480)	$ 35,151	$ 46,213	$ (15,957)	$ 30,256

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2016 (In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 12,789	$ 4,013	$ 5,122	$ 173	$ 22,097
Institutional support	6,376	1,887	6,566	86	14,915
Instruction	21,838	4,816	6,364	279	33,297
Public service	30	9	27	-	66
Research	246	53	117	3	419
Student services	4,752	1,377	2,028	63	8,220
Auxiliary enterprises	59	329	1,978	927	3,293
Scholarships & fellowships	-	-	1,461	-	1,461
Less interest expense	-	-	-	(1,531)	(1,531)
Total operating expenses	$ 46,090	$ 12,484	$ 23,663	$ -	$ 82,237

Year Ended June 30, 2015 (In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 12,889	$ 4,190	$ 6,381	$ 101	$ 23,561
Institutional support	6,332	1,865	2,388	49	10,634
Instruction	20,631	4,329	8,121	151	33,232
Public service	38	10	21	-	69
Research	146	47	54	1	248
Student services	4,935	1,314	2,467	37	8,753
Auxiliary enterprises	26	465	908	663	2,062
Scholarships & fellowships	-	-	1,921	-	1,921
Less interest expense	-	-	-	(1,002)	(1,002)
Total operating expenses	$ 44,997	$ 12,220	$ 22,261	$ -	$ 79,478

12. 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, the university 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 contributions to the General Plan for the fiscal years ending June 30, 2016 and 2015 was $542,647 and $526,274, 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 per annum through 2043 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 7.90 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 $5,442,835 and $5,543,785, 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 period July 1 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 0.34 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 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 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	$ 11,141	$ 5,443	$ 701
June 30, 2015	11,188	5,543	853

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 at www.msrs.state.mn.us/financial-information .

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2016 and 2015, the university recognized a reduction in pension expense of $1,194,571 and $853,469, 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	$ 1,111	$ 2,231
Changes in actuarial assumptions	-	3,134
Contributions paid to MSRS subsequent to the measurement date	543	-
Differences between expected and actual economic experience	-	1,488
Changes in proportion	429	-
Total	$ 2,083	$ 6,853

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 2,876
Changes in actuarial assumptions	-	4,041
Contributions paid to MSRS subsequent to the measurement date	527	-
Differences between expected and actual economic experience	-	120
Changes in proportion	113	-
Total	$ 640	$ 7,037

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	$	(1,776)
2018		(1,776)
2019		(1,776)
2020		15
Total	$	(5,313)

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 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.

The Duluth Teacher Retirement Fund was merged into TRA, effective June 30, 2015.

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 1	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 11.5 percent of pay for Basic Plan members and 7.5 percent for Coordinated Plan members. The university's contributions to the TRA for the fiscal years ended June 30, 2016 and 2015, were $462,953 and $436,200, 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, valuation 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 8.0 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 8.0 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, 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.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of $7,113,887 and $5,455,787, 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 those dates. The university's proportion of the net pension liability was based on the employer contributions received by TRF during the measurement period 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 0.12 percent.

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 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 (7.0%)	Discount Rate (8.0%)	1 Percent Increase in Discount Rate (9.0%)
June 30, 2016	$ 10,828	$ 7,114	$ 4,014

	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	$ 9,017	$ 5,456	$ 2,487

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.

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 $581,570 and $399,662, respectively, 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	$ 705	$ 1,263
Changes in actuarial assumptions	554	-
Contributions paid to TRA subsequent to the measurement date	463	-
Differences between expected and actual economic experience	364	-
Changes in proportion	421	-
Total	$ 2,507	$ 1,263

	2015 (In Thousands)			
		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between projected and actual investment earnings	$	-	$	1,715
Contributions paid to TRA subsequent to the measurement date		436		-
Differences between expected and actual economic experience		466		-
Changes in proportion		517		-
Total	$	1,419	$	1,715

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	$	79
2018		79
2019		79
2020		459
2021		85
Total	$	781

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's contributions to the GERF for the plan's fiscal years ended June 30, 2016 and 2015, were $4,216 and $4,294, 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 valuation was 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 1st 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:

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, 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 $81,808 and $84,695, 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 period 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 0.0016 percent and 0.0018 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 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 (6.9%)	Discount Rate (7.9%)	1 Percent Increase in Discount Rate (8.9%)
June 30, 2016	$ 111	$ 82	$ 58
June 30, 2015	137	85	42

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.

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 $2,541 and $6,287, 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	$ 5	$ 17
Changes in actuarial assumptions	6	-
Contributions paid to PERA subsequent to the measurement date	4	-
Differences between expected and actual economic experience	1	3
Changes in proportion	-	6
Total	$ 16	$ 26

	2015 (In Thousands) Deferred Outflows of Resources	2015 (In Thousands) Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 23
Changes in actuarial assumptions	9	-
Contributions paid to PERA subsequent to the measurement date	4	-
Total	$ 13	$ 23

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:

Fiscal Year	Amount (In Thousands)
2017	$ (4)
2018	(4)
2019	(7)
2020	1
Total	$ (14)

Minnesota State Defined Contribution Retirement Fund

General Information — The Minnesota State Defined Contribution Retirement Fund include two plans: an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer, defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State unclassified employees. An unclassified employee is one who belongs to Minnesota State specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately.

The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

Participation — 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 Metropolitan State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2016	$ 1,582	$ 1,187
2015	1,573	1,180
2014	1,401	1,044

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 Metropolitan State University were:

(In Thousands)	
Fiscal Year	Amount
2016	$ 618
2015	617
2014	564

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 148 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 162 participants.

13. 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, losses, assets, deferred outflows, liabilities and deferred inflows that are required by an external party to be accounted for separately. Minnesota State issued revenue bonds to finance the university parking ramp.

Metropolitan State University Portion of the Revenue Fund
(In Thousands)

	2016	2015
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 1,842	$ 663
Restricted assets	6,966	38,330
Noncurrent assets	29,611	471
Total assets	38,419	39,464
Liabilities		
Current liabilities	2,519	4,386
Noncurrent liabilities	33,788	35,421
Total liabilities	36,307	39,807
Net Position		
Restricted	2,112	(343)
Total net position	$ 2,112	$ (343)
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 4,254	$ 1,331
Other operating expenses	(1,955)	(40)
Net operating income	2,299	1,291
Nonoperating revenues (expenses)	(883)	(619)
Capital contributions	1,039	2,363
Total nonoperating revenues (expenses)	156	1,744
Change in net position	2,455	3,035
Total net position, beginning of year	(343)	(3,378)
Total net position, end of year	$ 2,112	$ (343)
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 3,286	$ (1,713)
Capital and related financing activities	40	(93)
Investing activities	(8,850)	(15,618)
Net decrease in cash and cash equivalents	(5,524)	(17,424)
Cash and cash equivalents, beginning of year	14,274	31,698
Cash and cash equivalents, end of year	$ 8,750	$ 14,274

14. RELATED PARTY TRANSACTIONS

The university's Minneapolis campus is co-located with Minneapolis Community and Technical College (MCTC) and shares physical plant and institutional and academic support. The university and MCTC have an agreement to share costs using relevant cost bases. This agreement articulates a cost allocation methodology which ensures that equitable and complete costs are absorbed by both institutions. In fiscal years 2016 and 2015, the university's shared cost expense was $226,087 and $483,394, respectively. The university had no shared costs payable to MCTC at June 30, 2016 and 2015, respectively.

The university leases space from Hennepin Technical College (HTC) in the Law Enforcement and Criminal Justice Education Center, a partnership between the university, Minneapolis Community and Technical College (MCTC), and HTC. As of July 1, 2010, ownership of the building was transferred to HTC, and the university and HTC executed an operating agreement to share costs based on each institution's share of the usable square footage of the building. Shared costs were $181,963 and $208,193 for fiscal years 2016 and 2015, respectively. The university recorded shared costs receivable from HTC of $80,935 and $85,000 at June 30, 2016 and 2015 respectively, for reimbursable information technology services.

During fiscal year 2015, the university executed a co-location agreement with Normandale Community College (NCC) to lease space in NCC's University Partnership Suite for baccalaureate completion programs. The university and NCC have an agreement to share costs using relevant cost bases. This agreement articulates a cost allocation methodology which ensures that equitable and complete costs are absorbed by both institutions. In fiscal years 2016 and 2015, the university's shared cost expense was $125,000 and $125,081, respectively. The university had no shared costs payable to NCC at June 30, 2016 and 2015, respectively.

15. COMMITMENTS AND CONTINGENCIES

In fiscal year 2014, the university received bond funds for the Science Education Center on the St. Paul campus. Total cost of the project is $34.7 million, of which $33.3 million had been spent as of June 30, 2016. Residual commitments of the university total $1.4 million.

Metropolitan State University initiated a condemnation action to acquire a property adjacent to its campus in St. Paul. The court appointed condemnation commissioners determined just compensation to be $210,000. The landowners sought $599,353. The landowners have not agreed to the commissioner-determined just compensation amount, and have a right of appeal until early December 2016. The commissioner-determined just compensation amount appears reasonable. If the landowners elect to appeal the commissioners' award, the case will be vigorously contested. If the landowners were successful in a district court action in receiving an award amount higher than what the commissioners' determined, Minnesota State would also have to pay landowners' attorneys' fees, appraisal fees and litigation costs.

16. 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, a self-insurance 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 also purchases optional physical damage coverage for their newest or most expensive vehicles. Property coverage offered by the Minnesota Risk Management Fund is as follows:

Coverage Type	Amount
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 and did not have any settlements in excess of coverage in the last three years.

The Minnesota Risk Management Fund purchased student intern professional liability insurance on the open market for the university.

Student intern professional liability per occurrence	$1,000,000
Student intern professional liability annual aggregate	$5,000,000

Minnesota State participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self-insurance for which Minnesota State 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 $131,588 and $139,043, respectively.

17. COMPONENT UNITS

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with Metropolitan State University is a legally separate, tax exempt entity and reported as a component unit.

The Metropolitan State University 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 its 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 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 that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets*: Net assets subject to donor imposed restrictions as to how the assets will be used.
- *Permanently Restricted Net Assets*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The university received $214,000 and $195,000 in fiscal years 2016 and 2015, respectively, from the foundation for scholarships. In addition, the university received $583,000 and $456,000 for program support for the fiscal years ended June 30, 2016 and 2015, respectively. The university pays the salaries and benefits of certain individuals providing services to the foundation. The estimated value of these salaries and benefits was $366,000 and $331,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

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 statements 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)

		Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Mutual funds	$ 4,222	$ 4,190	$ -	$ 32
Real estate	137	-	-	137
Other	62	-	-	62
Total	$ 4,421	$ 4,190	$ -	$ 231

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2015	Level 1	Level 2	Level 3
Money market	$ 143	$ 143	$ -	$ -
Mutual funds	3,554	-	-	61
Real estate	127	-	-	127
Other	91	-	-	91
Total	$ 3,915	$ 143	$ -	$ 279

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)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ (2)	$ 648	$ 2,546	$ 3,192
Change in value of trusts	-	-	-	-
Contributions	-	-	157	157
Investment income (loss)	-	(75)	-	(75)
Amounts appropriated for expenditures	-	(81)	-	(81)
Other transfers	(3)	3	-	-
Net assets, end of year	$ (5)	$ 495	$ 2,703	$ 3,193

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)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ (4)	$ 679	$ 2,509	$ 3,184
Change in value of trusts	-	-	37	37
Contributions	-	62	-	62
Amounts appropriated for expenditures	-	(91)	-	(91)
Other transfers	2	(2)	-	-
Net assets, end of year	$ (2)	$ 648	$ 2,546	$ 3,192

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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METROPOLITAN 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	$ —	$ 3,245	$ 3,245	0.00	$ 29,010	11.19
July 1, 2008	—	2,323	2,323	0.00	29,905	7.77
July 1, 2010	—	2,709	2,709	0.00	35,364	7.66
July 1, 2012	—	2,194	2,194	0.00	36,430	6.02
July 1, 2014	—	3,085	3,085	0.00	41,690	7.40

METROPOLITAN 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	0.34	$ 5,543	$8,755	63.32	87.64
June 30, 2015	0.35	5,443	9,569	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	$ 526	$ 526	$ —	$ 9,569	5.50
June 30, 2016	543	543	—	9,866	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.

METROPOLITAN 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	0.12	$ 5,456	$ 5,407	100.90	81.50
June 30, 2015	0.12	7,114	5,816	122.32	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	$ 436	$ 436	$ —	$ 5,816	7.50
June 30, 2016	463	463	—	6,173	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.

METROPOLITAN 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	0.0018	$ 85	$ 95	89.48	78.75
June 30, 2015	0.0016	82	57	142.89	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	$ 4	$ 4	$ —	$ 57	7.50
June 30, 2016	4	4	—	47	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

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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 Metropolitan 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 Metropolitan 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 Metropolitan State University Foundation. The financial statements of the Metropolitan 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 Metropolitan 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

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