

MINNESOTA STATE

**Revenue Fund Annual
Financial Report**

For the years ended June 30, 2017 and 2016

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Prepared by:

Minnesota State Colleges and Universities
30 7th Street E., Suite 350
St. Paul, Minnesota 55101-7804

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
REVENUE FUND

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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INTRODUCTION



MINNESOTA STATE

November 14, 2017

Board of Trustees
Devinder Malhotra, Chancellor
Minnesota State
30 Seventh Street East, Suite 350, St. Paul, MN 55101

Dear Board of Trustees and Chancellor Malhotra:

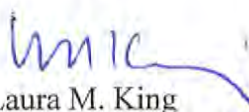
I am pleased to submit to you the audited financial statements for the Minnesota State Colleges and Universities (Minnesota State) Revenue Fund for the fiscal years ended June 30, 2017 and 2016. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The Finance Division and the finance staff at the colleges and universities participating in the Revenue Fund are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report.

The Revenue Fund is administered under the direction of the Board of Trustees of Minnesota State. The Fund was established as a self-supporting, independent enterprise fund by the Minnesota legislature for the management of the residence halls, dining services, student unions, wellness centers and parking ramps at colleges and universities and currently operates on fifteen campuses.

Within the financial statements, which were audited by CliftonLarsonAllen LLP, and received an unmodified opinion, you will find statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The Revenue Fund ended fiscal year 2017 with total net position of \$233.3 million. Reserve balances, including requirements mandated by bond covenants, are invested with the Minnesota State Board of Investment or a Trustee.

Revenue fund program directors are responsible for designing programs and services that meet the needs of students at their individual colleges or universities. All revenues and expenses are managed at each of the colleges and universities. The Revenue Fund provides about 10,270 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,


Laura M. King
Vice Chancellor - Chief Financial Officer

Board of Trustees of the Minnesota State Colleges and Universities

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The financial activity of the Revenue Fund is included in this report and the Minnesota State Colleges and Universities' 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



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 Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund which is a proprietary fund of the state of Minnesota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Revenue Fund'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 an opinion on these financial statements based on our audits. 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.

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 Revenue Fund'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 Revenue Fund'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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Revenue Fund as of June 30, 2017 and 2016, and the respective changes in financial position, and cash flows 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 the Revenue Fund and do not purport to, and do not present fairly the financial position of Minnesota State Colleges and Universities as of June 30, 2017 and 2016, 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.

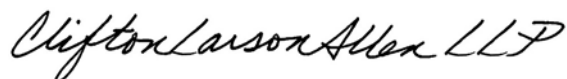
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of 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 14, 2017, on our consideration of the Revenue Fund'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 solely 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 the effectiveness of the 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 the Revenue Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities (Minnesota State), for the fiscal years ended June 30, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

Minnesota State, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 37 state universities, technical, and community colleges. The Revenue Fund was made available to all colleges and universities in July 2008. Prior to that the Revenue Fund operated only at the seven state universities. It was created for purposes of financing residence halls, dining halls, student union buildings, parking facilities, wellness facilities and other revenue-producing buildings as deemed necessary for the benefit of the students.

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position improved during fiscal year 2017 compared to fiscal year 2016. The Revenue Fund's financial position also improved at the end of fiscal year 2016 compared to fiscal year 2015. In fiscal year 2017 operating revenues increased by \$1.1 million, or 0.9 percent, along with a \$1.2 million inflow of capital contributions. Operating expenses increased by \$8.1 million, or 8.1 percent, in fiscal year 2017 compared to fiscal year 2016. Of the increase \$4.4 million is related to additional salaries and benefits due to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Cash and cash equivalents at year-end totaled \$161.9 million, a decrease of \$4.3 million from fiscal year 2016. Capital assets, net, excluding restricted construction in progress, increased \$29.9 million due to the completion of construction projects started in prior fiscal years, offset with an increase in the accumulated depreciation. In February 2017, the Revenue Fund refunded the Series 2007A, 2007C and 2008A revenue bonds saving approximately \$6.7 million in future interest costs over the remaining 10 years of the bonds. Also, in February 2017, the Revenue Fund issued new revenue bonds totaling \$10.6 million, with maturity dates of 10 and 20 years.

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 \$10.4 million, with an offsetting reduction to fiscal year 2015 salaries and benefits expense of \$0.8 million, resulting in net position decrease of \$9.6 million in fiscal year 2015, related to the GASB Statement No. 68 implementation. An additional reduction to fiscal year 2016 salaries and benefits expense of \$1.0 million resulted in a net position decrease of \$8.6 million at the end of fiscal year 2016, related to the GASB Statement No. 68 implementation. Fiscal year 2017 brought an additional \$4.4 million of salaries and benefits expense bringing the total net position effect of GASB Statement No. 68 implementation to \$13.0 million. The reduction to net position related to GASB Statement No. 68 was offset on the statement of net position by a net pension liability, deferred outflows and deferred inflows of resources. It is worth noting, that the impact on fiscal years 2017, 2016 and 2015 salaries and benefits expense is a result of a more comprehensive approach to pension expense, which reflects estimates of the amounts employees earned during the year, rather than actual contributions to the pension plans. The actuarially derived net pension liability, deferred outflows, and deferred inflows of resources, can vary between years due to actuarial assumption changes, thus affecting financial statements comparability between years.

The following table shows the impact to unrestricted net position due to the implementation of GASB Statement No. 68:

(In Thousands)			
	2017	2016	2015
Balance at June 30	\$ 68,682	\$ 73,161	\$ 65,369
Prior year effect of GASB Statement No. 68	8,607	9,602	10,424
Current year effect of GASB Statement No. 68	<u>4,384</u>	<u>(995)</u>	<u>(822)</u>
Balance at June 30, without effect of GASB Statement No. 68	<u>\$ 81,673</u>	<u>\$ 81,768</u>	<u>\$ 74,971</u>

USING THE FINANCIAL STATEMENTS

This annual financial report includes three financial statements as follows: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These three financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). A summary of significant accounting policies followed by the Revenue Fund is included in Note 1 to the financial statements.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the Revenue Fund at the end of the fiscal year, including all assets, deferred outflows, liabilities, and deferred inflows. Net position, the result of total assets and deferred outflows, minus total liabilities and deferred inflows, is one indicator of the current financial condition of the Revenue Fund. Assets, deferred outflows, liabilities and deferred inflows are generally measured using current values. One notable exception is capital assets which are stated at historical cost, less an allowance for depreciation.

Condensed statements of net position for fiscal years ended June 30, 2017, 2016, and 2015 follows:

(In Thousands)			
	2017	2016	2015
Current assets	\$ 93,201	\$ 92,766	\$ 87,712
Noncurrent assets	73,862	96,875	137,052
Capital assets, net	421,003	386,323	359,765
Deferred outflows of resources	<u>25,364</u>	<u>2,085</u>	<u>1,012</u>
Total assets and deferred outflows of resources	<u>613,430</u>	<u>578,049</u>	<u>585,541</u>
Current liabilities	42,660	29,786	30,276
Noncurrent liabilities	335,286	315,963	332,916
Deferred inflows of resources	<u>2,153</u>	<u>4,473</u>	<u>4,771</u>
Total liabilities and deferred inflows of resources	<u>380,099</u>	<u>350,222</u>	<u>367,963</u>
Net position	<u>\$ 233,331</u>	<u>\$ 227,827</u>	<u>\$ 217,578</u>

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by \$0.4 million to total \$88.5 million at June 30, 2017. This is compared to the increase of \$5.0 million to total \$88.1 million at June 30, 2016.

Current restricted assets — consist of unspent bond proceeds and debt service monies at June 30, 2017, which decreased \$4.7 million from June 30, 2016. The decrease is primarily due to continued construction expenditures related to \$58.8 million of revenue bonds sold during fiscal year 2015. This is compared to the fiscal year 2016 decrease of \$28.6 million from June 30, 2015.

Noncurrent restricted assets — consist of construction in progress which decreased by \$18.3 million at June 30, 2017 as construction on bond funded projects were completed. This is compared to a decrease of \$11.6 million from June 30, 2015.

Capital assets, net — increased \$29.9 million to total \$408.7 million at June 30, 2017. This is compared to an increase of \$26.6 million to total \$378.9 million at June 30, 2016. This activity represents the portion of bonding projects completed and repairs and renovations of facilities within current operations. Also included is \$12.5 million of capital investments made by food service vendors at the state universities that provide dining services to all students.

Current liabilities — consist primarily of accounts payable, interest payable, current portion of long-term debt and unearned revenue. Current liabilities increased by \$12.9 million in fiscal year 2017 compared to fiscal year 2016. This is compared to a \$0.5 million decrease in fiscal year 2016. The increase in fiscal year 2017 is primarily from the addition of \$12.5 million of unearned revenue related to the food service vendor’s investments in capital assets.

Noncurrent liabilities — consist primarily of revenue bonds payable, capital leases payable and net pension liability. Noncurrent liabilities increased by \$19.3 million to total \$335.3 million at June 30, 2017. This was due to an increase in net pension liability of \$27.9 million along with the issuance of \$10.6 million of new revenue bonds offset by \$16.3 million in revenue bond principal repaid. This is compared to a decrease of \$17.0 million in fiscal year 2016 compared to fiscal year 2015. This decrease was primarily due to \$14.8 million of principal repaid towards outstanding bonds and capital leases during fiscal year 2016.

Net position — represent the residual interest in the Revenue Fund’s total assets and deferred outflows of resources after deducting total liabilities and deferred inflows of resources. The Revenue Fund’s net position at June 30, 2017, 2016, and 2015 are summarized as follows:

	(In Thousands)		
	2017	2016	2015
Net investment in capital assets	\$ 142,868	\$ 133,905	\$ 130,131
Restricted expendable	21,781	20,761	22,078
Unrestricted	68,682	73,161	65,369
Total net position	<u>\$ 233,331</u>	<u>\$ 227,827</u>	<u>\$ 217,578</u>

Net investment in capital assets — represents the Revenue Fund’s capital assets, net of both accumulated depreciation and the Revenue Fund’s outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted — represents assets that have constraints placed on their use by external creditors, grantors, contributors, laws, or regulations. Restricted net position consists primarily of assets restricted for capital projects, debt service on bonds, and restrictions imposed by bond covenants.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in improving the quality of services provided at the colleges and universities is the development and renewal of the physical assets used to provide housing, dining, parking, wellness centers and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress decreased in fiscal year 2017 by \$13.5 million as a result of completion of construction projects that were started in prior fiscal years. These construction projects included new construction along with major repair and replacement projects financed through fiscal year 2013 and 2015 bond proceeds and operating revenues. See comments in the section titled “Economic Factors That Will Affect the Future.”

Capital outlays totaled \$39.1 million in fiscal year 2017, compared to \$35.1 million in fiscal year 2016 and \$31.5 million in fiscal year 2015. Capital outlays were primarily for a new dining facility at Minnesota State University, Mankato, a new student housing facility at Vermilion Community College, a renovation to a residence hall at Minnesota State University Moorhead along with smaller renovations of residence halls, student unions, and parking facilities. Also contributing to the increase was the addition of \$12.5 million of food service vendor capital asset investments.

Construction in progress totaled \$10.5 million in fiscal year 2017, compared to \$24.1 million in fiscal year 2016 and \$35.6 in fiscal year 2015. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 6 to the financial statements. Note 4 to the financial statements shows that buildings and improvements increased by \$37.6 million due to the completion of projects that were in construction in progress at the end of fiscal year 2016.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statements of revenues, expenses, and changes in net position present the Revenue Fund's results of operations and the overall increase in net position in the fiscal year. It is the difference between the fiscal year's revenue and expense activities that results in an overall increase or decrease to net position; see the discussion of net position in the prior section titled statements of net position.

Summarized statements for the fiscal years ended June 30, 2017, 2016, and 2015 follows:

(In Thousands)			
Operating revenues:	2017	2016	2015
Room and board, fees and sales and services	\$ 116,201	\$ 116,297	\$ 109,273
Other	4,060	2,885	3,389
Total operating revenues	<u>120,261</u>	<u>119,182</u>	<u>112,662</u>
Nonoperating revenues:			
Interest	1,256	907	615
Other	1,194	1,466	4,823
Total nonoperating revenues	<u>2,450</u>	<u>2,373</u>	<u>5,438</u>
Total revenues	<u>122,711</u>	<u>121,555</u>	<u>118,100</u>
Operating expenses:			
Salaries and benefits	31,686	26,114	25,574
Depreciation	22,729	19,643	18,371
Other	53,364	53,917	53,282
Total operating expenses	<u>107,779</u>	<u>99,674</u>	<u>97,227</u>
Nonoperating expenses:			
Interest expense	9,395	11,164	10,427
Other	33	468	-
Total nonoperating expenses	<u>9,428</u>	<u>11,632</u>	<u>10,427</u>
Total expenses	<u>117,207</u>	<u>111,306</u>	<u>107,654</u>
Change in net position	<u>5,504</u>	<u>10,249</u>	<u>10,446</u>
Net position, beginning of year	227,827	217,578	217,556
Cumulative effect of change in accounting principle	-	-	(10,224)
Net position, beginning of year, as restated	<u>227,827</u>	<u>217,578</u>	<u>207,132</u>
Net position, end of year	<u>\$ 233,331</u>	<u>\$ 227,827</u>	<u>\$ 217,578</u>

The fiscal year 2017 total revenues increased by 1.0 percent. This was primarily due to a 3.0 percent average increase to room and board rates charged offset by a 2.3 percent decrease in the overall occupancy in the residence hall program.

Compensation is the Revenue Fund's single largest expense component. Salaries and benefits increased \$5.6 million, or 21.3 percent, to total \$31.7 million in fiscal year 2017 compared to fiscal year 2016. Excluding the GASB Statement No. 68 effect to compensation expense for both fiscal year 2017 and fiscal year 2016 results in a \$0.2 million, or 0.7 percent increase, from fiscal year 2016.

Change in accounting principle — reflects a \$10.3 million decrease to beginning net position due to GASB Statement No. 68 being implemented in fiscal year 2015. Note 7 to the financial statements discusses this further.

CASH AND CASH EQUIVALENTS

The Series 2015 and Series 2017 bond proceeds, along with all debt service reserve balances are deposited with a Trustee (US Bank) which is managing the cash. The debt service accounts for all revenue bond series, along with all operating funds, are on interest bearing deposit in the State Treasury.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, the Revenue Fund ended the fiscal year in a strong financial position. The Revenue Fund expects to continue its commitment to provide students with comfortable living accommodations, dining options at a reasonable cost, ample parking, and wellness facilities all within close proximity to academic settings.

In order to plan for building maintenance and renewal costs more accurately, the Revenue Fund participates in the facilities program administered for academic and other campus facilities. This program analyzes building component age and project replacement needs into the future. Since all the colleges and universities use the same planning tool, the expectation is that the program will result in a more efficient facilities reinvestment program across the campuses.

Minnesota State obtained an increase in bonding authority from \$300,000,000 to \$405,000,000 from the state legislature during the 2012 session. The current revenue bond debt outstanding is \$298,995,000 after a \$55,095,000 bond sale in February 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2017 financial position and results for all those with an interest in the Revenue Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Financial Reporting System Director
Minnesota State
30 7th Street E., Suite 350
St. Paul, Minnesota 55101-7804

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 88,492	\$ 88,069
Accounts receivable, net	4,709	4,697
Total current assets	<u>93,201</u>	<u>92,766</u>
Current Restricted Assets		
Cash and cash equivalents	73,414	78,088
Total current restricted assets	<u>73,414</u>	<u>78,088</u>
Noncurrent Restricted Assets		
Construction in progress	448	18,787
Total noncurrent restricted assets	<u>448</u>	<u>18,787</u>
Total restricted assets	<u>73,862</u>	<u>96,875</u>
Noncurrent Assets		
Land and construction in progress	12,261	7,469
Capital assets, net	408,742	378,854
Total noncurrent assets	<u>421,003</u>	<u>386,323</u>
Total Assets	<u>588,066</u>	<u>575,964</u>
Deferred Outflows of Resources	25,364	2,085
Total Assets and Deferred Outflows of Resources	<u>613,430</u>	<u>578,049</u>
Liabilities		
Current Liabilities		
Salaries and benefits payable	1,034	959
Accounts payable	4,100	3,131
Unearned revenue	14,793	2,648
Payable from restricted assets	1,219	3,010
Interest payable	3,016	3,000
Current portion of long-term debt	18,185	16,727
Other compensation benefits	313	311
Total current liabilities	<u>42,660</u>	<u>29,786</u>
Noncurrent Liabilities		
Other liabilities	107	124
Noncurrent portion of long-term debt	298,984	307,667
Other compensation benefits	2,317	2,198
Net pension liability	33,878	5,974
Total noncurrent liabilities	<u>335,286</u>	<u>315,963</u>
Total Liabilities	<u>377,946</u>	<u>345,749</u>
Deferred Inflows of Resources	2,153	4,473
Total Liabilities and Deferred Inflows of Resources	<u>380,099</u>	<u>350,222</u>
Net Position		
Net investment in capital assets	142,868	133,905
Restricted expendable	21,781	20,761
Unrestricted	68,682	73,161
Total Net Position	<u>\$ 233,331</u>	<u>\$ 227,827</u>

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	2017	2016
Operating Revenues		
Room and board	\$ 84,642	\$ 84,305
Fees	24,603	25,237
Sales and services	6,956	6,755
Other income	4,060	2,885
Total operating revenues	<u>120,261</u>	<u>119,182</u>
Operating Expenses		
Salaries and benefits	31,686	26,114
Food service	26,675	27,163
Other purchased services	13,522	13,005
Supplies	4,186	5,180
Repairs and maintenance	4,162	3,734
Depreciation	22,729	19,643
Other expense	4,819	4,835
Total operating expenses	<u>107,779</u>	<u>99,674</u>
Operating income	<u>12,482</u>	<u>19,508</u>
Nonoperating Revenues (Expenses)		
Private grants	-	11
Interest income	1,256	907
Interest expense	(9,395)	(11,164)
Total nonoperating revenues (expenses)	<u>(8,139)</u>	<u>(10,246)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	4,343	9,262
Capital contributions	1,194	1,455
Loss on disposal of capital assets	(33)	(468)
Change in net position	<u>5,504</u>	<u>10,249</u>
Total Net Position, Beginning of Year	<u>227,827</u>	<u>217,578</u>
Total Net Position, End of Year	<u>\$ 233,331</u>	<u>\$ 227,827</u>

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	\$ 117,011	\$ 119,148
Cash payments to suppliers for goods or services	(52,225)	(53,207)
Cash payments to employees	<u>(27,107)</u>	<u>(27,303)</u>
Net cash flows provided by operating activities	<u>37,679</u>	<u>38,638</u>
Cash Flows from Noncapital and Related Financing Activities		
Private grants	-	11
Loans to (from) other schools	<u>(50)</u>	<u>100</u>
Net cash flows provided by (used in) noncapital financing activities	<u>(50)</u>	<u>111</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(25,494)	(37,761)
Capital contributions	1,194	1,455
Proceeds from borrowing	55,095	-
Proceeds from bond premium	6,540	-
Interest paid	(12,791)	(12,014)
Repayment of lease principal	(412)	(398)
Repayment of bond principal	<u>(67,605)</u>	<u>(14,385)</u>
Net cash flows used in capital and related financing activities	<u>(43,473)</u>	<u>(63,103)</u>
Cash Flows from Investing Activities		
Investment earnings	<u>1,593</u>	<u>785</u>
Net cash flows provided by investing activities	<u>1,593</u>	<u>785</u>
Net Decrease in Cash and Cash Equivalents	(4,251)	(23,569)
Cash and Cash Equivalents, Beginning of Year	<u>166,157</u>	<u>189,726</u>
Cash and Cash Equivalents, End of Year	<u>\$ 161,906</u>	<u>\$ 166,157</u>

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

Operating Income	\$ <u>12,482</u>	\$ <u>19,508</u>
Adjustment to Reconcile Operating Income to Net Cash Flows provided by Operating Activities		
Depreciation	22,729	19,643
Donated and lease equipment not capitalized	492	-
Change in assets and liabilities		
Accounts receivable	(529)	(110)
Accounts payable	665	328
Salaries payable	76	(266)
Other compensation benefits	120	72
Deferred inflows of resources	(2,320)	(298)
Deferred outflows of resources	(21,201)	(1,089)
Net pension liability	27,904	391
Unearned revenues	(2,721)	77
Other	(18)	382
Net reconciling items to adjust operating income	<u>25,197</u>	<u>19,130</u>
Net cash flows provided by operating activities	<u>\$ 37,679</u>	<u>\$ 38,638</u>
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	\$ 2,923	\$ 4,180
Loss on retirement of capital assets	(33)	(530)
Investment earnings on account	11	348
Food service vendor investment	14,866	-
Deferred loss on bond refunding	2,269	-
Amortization of bond premium	1,215	650
Amortization of bond discount	(10)	(10)
Amortization of deferred loss on refunding	(191)	(16)

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

1. LEGISLATIVE AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Authorizing Legislation — The 1955 Minnesota State Legislature established the Revenue Fund for the purpose of operating self-supporting residence halls, food services, and student union programs. In the enabling legislation, the board of trustees was authorized to acquire, construct, remodel, equip, operate, control, and manage residence halls, dining halls, student union buildings, and any other similar revenue-producing buildings as deemed necessary for the good and benefit of the students. The board is authorized to issue bonds and other obligations, upon approval by the state legislature, to fulfill its corporate purposes. During the 2012 legislative session, the state legislature increased the board’s authority to issue revenue bonds up to \$405,000,000 effective August 1, 2012.

Basis of Presentation — The reporting policies of the Revenue Fund, a fund of the Minnesota State Colleges and Universities (Minnesota State), conform to generally accepted accounting principles (GAAP) in the United States of America 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 the Revenue Fund.

The financial statements of the Revenue Fund are combined into a single enterprise fund and are intended to present only the financial activity of the Revenue Fund. The statements do not include other various activities of Minnesota State.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized in the accounts 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.

Cash and Cash Equivalents — The cash balance represents cash and cash equivalents in the state treasury and at US Bank, N.A. (trustee). Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds. Amounts held for capital projects and debt service are recorded as restricted cash.

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

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

Estimated useful lives are as follows:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	30-40 years
Building Improvements	20 years
Equipment	3-20 years

Equipment includes all items 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 purchases are capitalized regardless of amount spent.

Long-Term Liabilities — Include bonds payable which are due in varying amounts through fiscal year 2038.

Bonds Payable (In Thousands)					
Bond Series	Average Interest Rate Percentage	Fiscal Year 2017	Fiscal Year 2016	Maturity Date	
Series 2007A	4.1566	\$ —	\$ 23,320	October 1, 2026	
Series 2007C	5.6409	—	2,300	October 1, 2026	
Series 2008A	4.5338	—	29,280	October 1, 2028	
Series 2008B	5.1057	275	400	October 1, 2018	
Series 2009A	4.2106	23,530	24,915	October 1, 2029	
Series 2009B	4.3682	1,625	2,110	October 1, 2019	
Series 2011A	4.2659	66,660	70,020	October 1, 2031	
Series 2011B	3.4801	1,845	2,170	October 1, 2021	
Series 2011C	3.4492	10,160	10,635	October 1, 2032	
Series 2012A	1.8379	7,680	8,855	October 1, 2022	
Series 2012B	2.0279	5,140	5,925	October 1, 2022	
Series 2013A	2.7835	51,250	53,315	October 1, 2033	
Series 2013B	1.9142	2,760	3,130	October 1, 2023	
Series 2015A	3.0770	32,140	33,850	October 1, 2035	
Series 2015B	3.4444	40,835	41,280	October 1, 2035	
Series 2017A	2.4466	51,905	—	October 1, 2037	
Series 2017B	2.5859	3,190	—	October 1, 2026	
	Total	\$ 298,995	\$ 311,505		

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2038. Annual principal and interest payments on the bonds are expected to require less than 24.3 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$394,260,477. Revenue bond principal and interest paid for the current fiscal year was \$26,818,145 and total customer net revenues were \$120,261,677. Note 6 to the financial statements provides additional information.

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 Revenue Fund's revenues and expenses are from exchange transactions. Interest income, which is relied upon for operations, is recorded as nonoperating revenue.

Unearned Revenue — Unearned revenue consists of room deposits on account for fall semester in addition to room and board fees received but not earned for summer session. In fiscal year 2017 \$12,517,641 was recorded for food service vendor capital investments that will benefit the Revenue Fund over the next several years. The amount of revenue recognized in fiscal year 2017 was \$2,348,697.

Room and Board, Fees, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of \$2,672,044 and \$2,332,655 for fiscal years ended June 30, 2017 and 2016, respectively, are reported in Minnesota State system financial statements, but are not reflected in these statements.

Deferred Outflows and Deferred Inflows of Resources — Deferred outflows of resources represent the consumption of net position by Minnesota State 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 an economic loss on refunding of the Series 2005A, Series 2007A, Series 2007C and Series 2008A revenue bonds that resulted from the difference in the carrying value of the refunded debt and its reacquisition price.

The following tables summarize the Minnesota State deferred outflows and inflows:

	Year Ended June 30, 2017 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Related to Pensions:</u>		
Differences between projected and actual investment earnings	\$ 1,485	\$ -
Changes in actuarial assumptions	20,878	1,081
Contributions paid to pension plans subsequent to the measurement date	480	-
Differences between expected and actual experience	141	577
Changes in proportion	57	495
Total related to pensions	<u>23,041</u>	<u>2,153</u>
<u>Related to Refunding:</u>		
Economic loss on refunding of revenue bonds	2,323	-
Total	<u>\$ 25,364</u>	<u>\$ 2,153</u>

	Year Ended June 30, 2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Related to Pensions:</u>		
Differences between projected and actual investment earnings	\$ 1,176	\$ 1,404
Changes in actuarial assumptions	-	1,972
Contributions paid to pension plans subsequent to the measurement date	567	-
Differences between expected and actual experience	-	937
Changes in proportion	97	160
Total related to pensions	<u>1,840</u>	<u>4,473</u>
<u>Related to Refunding:</u>		
Economic loss on refunding of revenue bonds	245	-
Total	<u>\$ 2,085</u>	<u>\$ 4,473</u>

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, 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 and allowances for uncollectible accounts.

Net Position — The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is net position. Net position is further classified for accounting and reporting purposes into the following three 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 Revenue Fund are as follows:

Restricted for debt service — restricted for repayment of bond debt.

Restricted for capital projects — restricted for completion of capital projects.

Restricted Expendable (In Thousands)		
	2017	2016
Debt service	\$ 21,278	\$ 20,678
Capital projects	503	83
Total restricted expendable	<u>\$ 21,781</u>	<u>\$ 20,761</u>

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

New Accounting Standards — 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.

In November, 2016 the GASB issued Statement No. 83, *Certain Assets Retirement Obligations*, which establishes accounting and financial reporting for certain asset retirement obligations. Statement No. 83 is effective for the fiscal year beginning July 1, 2018. The effect GASB Statement No. 83 will have on the fiscal year 2019 financial statements has not yet been determined.

In January, 2017 the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes standards of accounting and financial reporting for fiduciary activities. Statement No. 84 is effective for the fiscal year beginning July 1, 2019. The effect GASB Statement No. 84 will have on the fiscal year 2020 financial statements has not yet been determined.

In March, 2017 the GASB issued Statement No. 85, *Omnibus 2017*, which establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Statement No. 85 is effective for the fiscal year beginning July 1, 2017. The effect GASB Statement No. 85 will have on the fiscal year 2018 financial statements has not yet been determined.

In May, 2017 the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. This statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Statement No. 86 is effective for the fiscal year beginning July 1, 2017. The effect GASB Statement No. 86 will have on the fiscal year 2018 financial statements has not yet been determined.

In June, 2017 the GASB issued Statement No. 87, *Leases*, which establishes accounting and financial reporting for leases by lessees and lessors. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use the lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Statement No. 87 is effective for the fiscal year beginning July 1, 2020. The effect GASB Statement No. 87 will have on the fiscal year 2021 financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to room and board and most fees are held in the state treasury. 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. The statutes further require that such insurance and collateral shall be at least ten percent greater than the amount on deposit, except where the collateral is irrevocable standby letter of credit, in which case the collateral should at least equal the deposits.

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. All cash and cash equivalents were insured or collateralized with securities held by the state or its agent in Minnesota State’s name.

	As of June 30 (In Thousands)	
Carrying Amount	2017	2016
Cash, treasury account	\$ 122,974	\$ 123,394
Cash, trustee account (US Bank)	38,932	42,763
Total	<u>\$ 161,906</u>	<u>\$ 166,157</u>

Restricted cash of \$73,414,435 and \$78,088,346 as of June 30, 2017 and 2016, respectively, represents unexpended bond proceeds, debt service monies and debt service reserve balances. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

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

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

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Revenue Fund’s policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Chapter 118A.03. This statute limits investments to the top quality rating categories of a nationally recognized rating agency.

At June 30, 2017 and June 30, 2016 the Revenue Fund had no debt securities.

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 Revenue Fund’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 Revenue Fund’s policy for reducing this risk is to comply with Board Procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments.

At June 30, 2017 and June 30, 2016 the Revenue Fund had no investments.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance is made up primarily of receivables from individual students and room deposits held by other funds.

Summary of Accounts Receivable at June 30
(In Thousands)

	2017	2016
Room and board	\$ 4,943	\$ 5,144
Fees	1,638	1,970
Sales and service	290	279
Other income	313	98
Total accounts receivable	7,184	7,491
Allowance for uncollectible	(2,475)	(2,794)
Net accounts receivable	<u>\$ 4,709</u>	<u>\$ 4,697</u>

The allowance for uncollectible accounts for fiscal year 2017 and 2016 are computed based on the following aging schedule:

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

4. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2017 and 2016 follow:

	Year Ended June 30, 2017 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	\$ 2,203	\$ —	\$ —	\$ —	\$ 2,203
Construction in progress	24,053	24,098	—	(37,645)	10,506
Total capital assets, not depreciated	<u>26,256</u>	<u>24,098</u>	<u>—</u>	<u>(37,645)</u>	<u>12,709</u>
Capital assets, depreciated:					
Buildings	352,145	—	—	35,542	387,687
Building improvements	284,495	14,867	—	2,103	301,465
Equipment	2,073	138	272	—	1,939
Total capital assets, depreciated	<u>638,713</u>	<u>15,005</u>	<u>272</u>	<u>37,645</u>	<u>691,091</u>
Less accumulated depreciation:					
Buildings	123,966	8,123	—	—	132,089
Building improvements	134,715	14,430	—	—	149,145
Equipment	1,178	176	239	—	1,115
Total accumulated depreciation	<u>259,859</u>	<u>22,729</u>	<u>239</u>	<u>—</u>	<u>282,349</u>
Total capital assets depreciated, net	<u>378,854</u>	<u>(7,724)</u>	<u>33</u>	<u>37,645</u>	<u>408,742</u>
Total capital assets, net	<u>\$ 405,110</u>	<u>\$ 16,374</u>	<u>\$ 33</u>	<u>\$ —</u>	<u>\$ 421,451</u>
	Year Ended June 30, 2016 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	\$ 2,203	\$ —	\$ —	\$ —	\$ 2,203
Construction in progress	35,622	35,053	—	(46,622)	24,053
Total capital assets, not depreciated	<u>37,825</u>	<u>35,053</u>	<u>—</u>	<u>(46,622)</u>	<u>26,256</u>
Capital assets, depreciated:					
Buildings	324,522	—	1,264	28,887	352,145
Building improvements	267,398	—	638	17,735	284,495
Equipment	2,835	65	827	—	2,073
Total capital assets, depreciated	<u>594,755</u>	<u>65</u>	<u>2,729</u>	<u>46,622</u>	<u>638,713</u>
Less accumulated depreciation:					
Buildings	118,102	7,128	1,264	—	123,966
Building improvements	122,552	12,358	195	—	134,715
Equipment	1,810	157	789	—	1,178
Total accumulated depreciation	<u>242,464</u>	<u>19,643</u>	<u>2,248</u>	<u>—</u>	<u>259,859</u>
Total capital assets depreciated, net	<u>352,291</u>	<u>(19,578)</u>	<u>481</u>	<u>46,622</u>	<u>378,854</u>
Total capital assets, net	<u>\$ 390,116</u>	<u>\$ 15,475</u>	<u>\$ 481</u>	<u>\$ —</u>	<u>\$ 405,110</u>

5. ACCOUNTS PAYABLE AND PAYABLE FROM RESTRICTED ASSETS

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

Summary of Accounts Payable and Payable From Restricted Assets at June 30 (In Thousands)

	2017	2016
Capital projects	\$ 1,944	\$ 1,091
Purchased services and other payables	927	832
Repairs and maintenance	585	420
Supplies	644	788
Total accounts payable	<u>4,100</u>	<u>3,131</u>
Payable from restricted assets	1,219	3,010
Total accounts payable and payable from restricted assets	<u>\$ 5,319</u>	<u>\$ 6,141</u>

6. LONG-TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2017 and 2016 follow:

Year Ended June 30, 2017 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 311,505	\$ 55,095	\$ 67,605	\$ 298,995	\$ 17,755
Revenue bond premium/discount	8,241	6,540	1,335	13,446	—
Capital leases	4,648	492	412	4,728	430
Totals	<u>\$ 324,394</u>	<u>\$ 62,127</u>	<u>\$ 69,352</u>	<u>\$ 317,169</u>	<u>\$ 18,185</u>

Year Ended June 30, 2016 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 325,890	\$ —	\$ 14,385	\$ 311,505	\$ 16,315
Revenue bond premium/discount	8,882	—	641	8,241	—
Capital leases	5,046	—	398	4,648	412
Totals	<u>\$ 339,818</u>	<u>\$ —</u>	<u>\$ 15,424</u>	<u>\$ 324,394</u>	<u>\$ 16,727</u>

The changes in other compensation benefits for fiscal years 2017 and 2016 follow:

	Year Ended June 30, 2017				
	(In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 1,908	\$ 293	\$ 274	\$ 1,927	\$ 278
Early termination benefits	38	35	38	35	35
Net other postemployment benefits	563	211	106	668	—
Totals	<u>\$ 2,509</u>	<u>\$ 539</u>	<u>\$ 418</u>	<u>\$ 2,630</u>	<u>\$ 313</u>

	Year Ended June 30, 2016				
	(In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 1,943	\$ 256	\$ 291	\$ 1,908	\$ 273
Early termination benefits	—	38	—	38	38
Net other postemployment benefits	494	137	68	563	—
Totals	<u>\$ 2,437</u>	<u>\$ 431</u>	<u>\$ 359</u>	<u>\$ 2,509</u>	<u>\$ 311</u>

Revenue Bonds — The board of trustees for Minnesota State is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and renovation of buildings for residence hall, food service, student union, and other revenue-producing and related facilities at the institutions who participate in the Revenue Fund. Revenue bonds currently outstanding have interest rates of 1.0 to 5.30 percent. On February 23, 2017, Series 2017A revenue bonds were issued totaling \$9,520,000 with an average interest rate of 2.45 percent along with Series 2017B revenue bonds totaling \$1,130,000 with an average interest rate of 2.59 percent.

Refunding Bonds — On February 23, 2017, Minnesota State board of trustees issued \$17,905,000 in Series 2017A revenue refunding bonds with an average interest rate of 2.45 percent to redeem \$21,595,000 of outstanding Series 2007A revenue bonds issued with an average interest rate of 4.16 percent. Also on February 23, 2017, Minnesota State board of trustees issued \$2,070,000 in Series 2017B revenue refunding bonds with an average interest rate of 2.45 percent to redeem \$2,140,000 of outstanding Series 2007C revenue bonds issued with an average interest rate of 5.64. The cash savings from both refunding's was \$3,365,101 with a net present value of \$3,161,735.

Advance Refunding Bonds — On February 23, 2017, Minnesota State board of trustees issued \$24,480,000 in Series 2017A revenue refunding bonds with an average interest rate of 2.45 percent to redeem \$27,555,000 of outstanding Series 2008A revenue bonds issued with an average interest rate of 4.53 percent. The cash savings from the advance refunding was \$3,357,366 with a net present value of \$3,098,177.

Revenue Bond Premium/Discount — Bonds were issued in fiscal year 2017 resulting in a premium of \$6,539,842. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds. Bond discounts and premiums are combined on the statements of net position.

Capital Leases — In November 2001, the Minnesota State board of trustees guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation, Inc. in the amount of \$3,940,000. The Foundation used the proceeds to construct John Neumaier Hall Apartments. The Revenue Fund entered into an operating agreement with the Foundation with a lease term of 30 years. The principal portion outstanding at June 30, 2017 that is guaranteed by the Revenue Fund is \$2,672,550.

In March of 2002, the Minnesota State board of trustees guaranteed the repayment of the Series 2002 revenue bonds issued by the Housing and Redevelopment Authority of the City of St. Cloud to the St. Cloud State University Foundation, Inc. in the amount of \$16,515,000. The bond proceeds were used to construct and equip a stadium, a fitness center and an addition to the Atwood Memorial Center. The Atwood Memorial Center was completed in the spring of 2004, at which time the Revenue Fund began repayment of \$4,796,524 in bond debt attributed to the Atwood Memorial Center, as specified in the operating agreement. In June of 2012, the board of trustees guaranteed the refunding of the Series 2002 revenue bonds. The lease is payable through fiscal year 2023. As of June 30, 2017 \$1,563,536 is attributable to the Revenue Fund. The principal portion outstanding that is guaranteed by the Revenue Fund is an additional \$4,341,464 at June 30, 2017.

Both agreements contain lease terms meeting the criteria of a capital lease, as defined by the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The gross amount of the leased assets was \$8,842,267 and related depreciation as of June 30, 2017 and 2016, was \$5,103,600 and \$4,728,916 respectively, and is included within buildings and improvements.

The guarantees for both Minnesota State University Moorhead and St. Cloud State University were issued in accordance with Section 9.4 of the Amended and Restated Master Indenture of Trust dated as of June 1, 2009. This section outlines the conditions to be met by the Revenue Fund before entering into a Guarantee which are:

- The debt must be incurred to finance a facility which provides a direct benefit to students.
- Prior authorization by the board of trustees of Minnesota State.
- Amounts due are payable solely from the Revenue Fund and not from any other fund.
- The maximum amount the Revenue Fund is liable for does not cause non-compliance with other sections of the Amended and Restated Master Indenture of Trust.

Unless otherwise agreed to by Minnesota State, the obligation under each Guarantee shall be to pay the regularly scheduled lease payments due on account of the guaranteed obligation. As of June 30, 2017 the Revenue Fund had not been required to make any lease payments as guaranteed for either the Minnesota State University Moorhead Foundation, Inc. or the St. Cloud State University Foundation, Inc.

In the event the Revenue Fund is called upon to make any lease payments there are default provisions in each lease agreement where they can be terminated and possession of the buildings can be pursued legally by Minnesota State.

Compensated Absences — Revenue Fund 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 in cash or as a credit to a health care savings account only at the time of termination from state employment. There are no payment schedules for compensated absences.

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned.

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.

Net Pension Liability — The net pension liability was \$33,878,253 and \$5,973,778 at June 30, 2017 and 2016, respectively, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 7 to the financial statements provides additional information.

Bond covenants require the board to set fees and rates sufficient to cover debt service and debt service reserve requirements. Principal and interest payment schedules are provided in the following table for revenue bonds payable and capital leases.

Fiscal Years	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2018	\$ 17,755	\$ 11,378	\$ 425	\$ 229
2019	18,665	10,529	453	206
2020	19,110	9,921	471	187
2021	19,090	9,297	486	166
2022	19,695	8,612	498	145
2023-2027	95,905	31,553	1,038	449
2028-2032	83,475	12,431	1,207	158
2033-2037	24,650	1,534	150	7
2038	650	11	—	—
Total	\$ 298,995	\$ 95,266	\$ 4,728	\$ 1,547

7. EMPLOYEE PENSION PLANS

The Revenue Fund participates in two retirement plans; the State Employees' Defined Benefit Retirement Fund, administered by the Minnesota State Retirement System and a Defined Contribution Retirement Plan, administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund.

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 5.50 percent of their annual covered salary in fiscal years 2017 and 2016. The Minnesota State contributions to the General Plan for the fiscal year ending June 30, 2017 and 2016 were \$480,469 and \$566,851, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions - The Minnesota State net pension liability was measured as of June 30, 2016 and 2015, 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, 2016	June 30, 2015
Inflation	2.50 percent per year	2.75 percent per year
Active member payroll growth	3.25 percent per year	3.50 percent per year
Investment rate of return	7.50 percent	7.90 percent

Salary increases for the June 30, 2016 valuation were equal to prior year administrative expenses expressed as a percentage of prior year projected payroll. Mortality rates for active members, retirees, survivors and disabled persons were based on RP-2014 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.

Salary increases for the June 30, 2015 valuation were based on a service-related table. Mortality rates for active members, retirees, survivors and disabled persons 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, 2016, valuation were based on the results of actuarial experience studies for the period July 1, 2009, through June 30, 2014, with an update of economic assumptions in 2014. Actuarial assumptions used in the June 30, 2015, 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 used in the determination of the total pension liability is 7.50 percent. This is a reduction of the assumed rate of 7.90 percent at June 30, 2015. The selection of the rate was determined by looking at the asset class targets allocations and long-term rate of return expectations from the State Board of Investment (SBI). During fiscal year 2016, the SBI hired an outside consultant to perform a thorough asset and liability study. Based on the study the asset allocation was updated. 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
Total	100	

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2016 and 2015, was 4.17 percent and 7.90 percent, respectively. As of June 30, 2016, the projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan fiduciary net position as of June 30, 2016 and future contributions were sufficient to finance the benefit payments through 2042. As a result, the long-term expected rate of return on pension plan assets was applied to projected benefit payments through 2042, and the municipal bond rate was applied to all benefit payments after the point of asset depletion. The discount rate at June 30, 2016 was based on the expected rate of return on pension plan investments of 7.50 percent and a municipal bond rate of 2.85 percent, as published by the Federal Reserve Board in June 2016, resulting in a single discount rate of 4.10 percent

As of June 30, 2015, 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 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 of 7.90 percent 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, 2017 and 2016, Minnesota State reported a liability of \$33,878,253 and \$5,973,778, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement periods July 1, 2015 through June 30, 2016 and July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2017 and 2016, the Minnesota State Revenue Fund proportion was 0.33 percent.

There have been no changes in plan provisions since the previous valuation.

Changes were 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 2.0 percent through 2043 and 2.5 percent thereafter to 2.0 percent for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 4.17 percent. Salary increases, retirement, termination, disability, mortality, percent married, and benefit election assumptions were changed pursuant to the experience study. The assumed future salary increases, payroll growth, and inflation were decreased by a further 0.25 percent from those assumptions.

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

Proportionate Share of Net Pension Liability Year Ended June 30, 2017 (In Thousands)		
One Percent Decrease in Discount Rate (3.17%)	Discount Rate	One Percent Increase in Discount Rate (5.17%)
\$ 44,667	\$ 33,878	\$ 25,205

Proportionate Share of Net Pension Liability Year Ended June 30, 2016 (In Thousands)		
One Percent Decrease in Discount Rate (6.90%)	Discount Rate	One Percent Increase in Discount Rate (8.90%)
\$ 12,111	\$ 5,974	\$ 762

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 years ended June 30, 2017 and 2016, Minnesota State Revenue Fund recognized an increase in pension expense of \$4,864,142 and a reduction in pension expense of \$532,616, respectively, related to pensions. At June 30, 2017 and 2016, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 1,485	\$ -
Changes in actuarial assumptions	20,878	1,081
Contributions paid to MSRS subsequent to the measurement date	480	-
Differences between expected and actual economic experience	141	577
Changes in proportion	57	495
Total	\$ <u>23,041</u>	\$ <u>2,153</u>

	2016	
	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 1,176	\$ 1,404
Changes in actuarial assumptions	-	1,972
Contributions paid to MSRS subsequent to the measurement date	567	-
Differences between expected and actual economic experience	-	937
Changes in proportion	97	160
Total	\$ 1,840	\$ 4,473

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State 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
2018	\$ (4,392)
2019	(4,392)
2020	(5,766)
2021	(5,858)
Total	\$ (20,408)

Minnesota State Colleges and Universities 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 6.0 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

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 5.0 percent of the 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
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 Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2017, 2016, and 2015 were equal to the required contributions for each year, which were \$1,154,388, \$1,164,491, and \$1,171,696, respectively.

8. UNRESTRICTED NET POSITION

Unrestricted net position is those assets having no constraints placed on their use by external creditors, grantors, contributors, laws, or regulations. Unrestricted net position is either designated or undesignated. Designated net position is not available for general operations. The Revenue Fund has placed constraints on the use of the resources. The Revenue Fund has designated net positions for the following:

Net Position (In Thousands)		
	2017	2016
Maintenance and operations	\$ 50,896	\$ 58,030
Repairs and replacements	17,786	15,131
Total	\$ <u>68,682</u>	\$ <u>73,161</u>

9. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were \$5,956,564 and \$5,605,579 for the years ended June 30, 2017 and 2016, respectively.

Within the accounts receivable balance, \$1,788,830 and \$2,090,114 is due from other funds as of June 30, 2017 and 2016, respectively, which is cash held in a local account outside of the Revenue Fund.

During 2002, the Revenue Fund leased a parcel of land to the Minnesota State University Moorhead Alumni Foundation, Inc. to construct a student housing apartment building. The duration of the lease is for 30 years. In consideration of the lease agreement, the Foundation is to pay total lease payments of one dollar. The Minnesota State board of trustees has guaranteed the \$3,940,000 Clay County note payable amount issued to the Foundation. Note 6 to the financial statements provides additional information.

In 2002, the board of trustees, on behalf of the Revenue Fund, entered into an agreement with the St. Cloud State University Foundation, Inc. to guarantee the repayment of revenue bonds in the amount of \$4,796,524 issued to construct an addition to the Atwood Memorial Center, which would be maintained and operated by the university. Note 6 to the financial statements provides additional information.

10. 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 Risk Management Fund. Some colleges and universities also purchase optional physical damage coverage for their newest or most expensive vehicles.

While property and casualty coverage is required by Minnesota State policy, colleges and universities may select optional coverage such as international accident, international liability, and professional liability for employed physicians and student health services professional liability.

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2017 and 2016.

Coverage	Amount
Institution deductible	\$2,500 to \$250,000
Fund responsibility	\$1,000,000
Primary re-insurer coverage	\$1,000,001 to \$25,000,000
Multiple re-insurer 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 Revenue Fund retains the risk of loss and did not have any settlements in excess of coverage in the last three years.

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.

11. COMMITMENTS AND CONTINGENCIES

During fiscal year 2017 the Revenue Fund activities included commitments for the following projects:

- Minnesota State University Moorhead expended \$6,524,099 to date for renovations to Snarr Residence Hall. Total project cost is estimated at \$18,080,000 with completion expected in June 2018.

In the summer of fiscal year 2016 Metropolitan State University discovered contaminated soil on a parcel of land adjacent to their parking ramp. The land was acquired during fiscal year 2016 using general fund monies for future parking expansion. The estimated soil remediation costs of \$196,312 were recorded as a liability and an expense in the fiscal year 2017 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
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	\$ 5,582	\$ 8,339	66.95	87.64
June 30, 2015	0.33	5,974	8,494	70.33	88.32
June 30, 2016	0.33	33,878	8,470	399.98	47.51

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	\$ 467	\$ 467	\$ —	\$ 8,494	5.50
June 30, 2016	466	466	—	8,470	5.50
June 30, 2017	480	480	—	8,736	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, 2017 AND 2016**

There have been no changes in plan provisions since the prior actuarial valuation.

There were changes in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. They are summarized as follows:

- The assumed post-retirement benefit increase rate was changed from 2.0 percent through 2043 and 2.5 percent thereafter to 2.0 percent for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 4.17 percent.
- Salary increases, retirement, termination, disability, mortality, percent married, and benefit election assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by a further 0.25 percent from those assumptions.

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SUPPLEMENTARY SECTION



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 Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund and a proprietary fund of the State of Minnesota as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Revenue Fund's basic financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Revenue Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Revenue Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Revenue Fund'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 Revenue Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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 Revenue Fund’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Revenue Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revenue Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2017

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Individuals with hearing or speech disabilities may contact us via their preferred Telecommunications Relay Service.

Minnesota State is an affirmative action, equal opportunity employer and educator.