Minnesota State Colleges & Universities

Revenue Fund Annual Financial Report

For the years ended June 30, 2015 and 2014

Minnesota
STATE COLLEGES
& UNIVERSITIES

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2015 and 2014

Prepared by:

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

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REVENUE FUND

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2015 and 2014

TABLE OF CONTENTS

INTRODUCTION

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SUPPLEMENTARY SECTION

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INTRODUCTION

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Minnesota
STATE COLLEGES
& UNIVERSITIES

November 13, 2015

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

Dear Board of Trustees and Chancellor Rosenstone:

I am pleased to submit to you the audited financial statements for the Minnesota State Colleges and Universities Revenue Fund for the fiscal years ended June 30, 2015 and 2014. 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 the Minnesota State Colleges and Universities. 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 2015 with total net position of $217.6 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 10,500 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

Laura M. King
Vice Chancellor and Chief Financial Officer

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 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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.

During fiscal year ended June 30, 2015, the Revenue Fund adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the Revenue Fund reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

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.

Board of Trustees
Minnesota State Colleges and Universities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revenue Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2015

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, for the fiscal years ended June 30, 2015 and 2014. 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 Colleges and Universities, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 31 state universities, technical, and community colleges. Historically, the Revenue Fund operated on only the seven state universities. Effective July 2008, the Revenue Fund was made available to all colleges in the system. 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 remained essentially unchanged at the end of fiscal year 2015 compared to fiscal year 2014. The Revenue Fund's financial position remained stable at the end of fiscal year 2014 compared to fiscal year 2013 as well. In fiscal year 2015 operating income increased by $4.9 million along with a $4.8 million inflow of capital contributions. These increases were tempered by a $10.4 million reduction in beginning net position along with a $0.8 million decrease in salaries and benefits expense from a new accounting standard related to pensions implemented in fiscal year 2015. Cash and cash equivalents at year-end totaled $189.7 million, an increase of $25.8 million from fiscal year 2014 at year-end. Capital assets, net, excluding restricted construction in progress, increased $1.7 million due to the completion of construction projects started in prior fiscal years, offset with an increase in the accumulated depreciation. In February 2015, the Revenue Fund refunded the Series 2005A bonds saving approximately $6.0 million in future interest costs over the remaining 18 years of the bonds. Also, in February 2015, the Revenue Fund issued bonds totaling $45.5 million, with maturity dates of 10 and 20 years.

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 and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Revenue Fund. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources (i.e., the point-in-time difference in value of what is owned compared to the value of what is owed) is net position, one indicator of the current financial condition of the Revenue Fund.

The change in net position is an indicator of whether the overall financial condition has improved or declined during the fiscal year (i.e., has the value of the difference between what is owned and owed increased or decreased over the past fiscal year). Assets and deferred outflows and 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, 2015, 2014, and 2013 follow:

(In Thousands)

	2015	2014	2013
Current assets	$ 87,712	$ 84,111	$ 81,700
Current restricted assets	106,701	83,006	112,913
Noncurrent restricted assets	30,351	21,484	26,945
Capital assets, net	359,765	357,921	334,980
Total assets	584,529	546,522	556,538
Deferred outflows of resources	1,012	-	-
Total assets and deferred outflows of resources	585,541	546,522	556,538
Current liabilities	30,276	30,874	25,886
Noncurrent liabilities	332,916	298,092	313,069
Total liabilities	363,192	328,966	338,955
Deferred inflows of resources	4,771	-	-
Total liabilities and deferred inflows of resources	367,963	328,966	338,955
Net position	$ 217,578	$ 217,556	$ 217,583

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by $2.1 million to total $83.0 million at June 30, 2015. This is compared to the increase of $2.0 million to total $81.0 million at June 30, 2014.

Current restricted assets — consist of unspent bond proceeds and debt service monies at June 30, 2015, which increased $23.7 million from June 30, 2014. The increase is primarily due to the issuance of $45.5 million of bond proceeds along with continued construction expenditures related to $58.8 million of revenue bonds sold during fiscal year 2013. This is compared to the fiscal year 2014 decrease of $29.9 million from June 30, 2013.

Noncurrent restricted assets — consist of construction in progress which increased $9.0 million at June 30, 2015 as construction on bond projects completed. This is compared to a decrease of $5.5 million from June 30, 2013.

Capital assets, net — increased $1.8 million to total $352.3 million at June 30, 2015. This is compared to an increase of $21.7 million to total $350.6 million at June 30, 2014. This activity represents the portion of bonding projects completed and repairs and renovations of facilities within current operations.

Current liabilities — consist primarily of accounts payable, interest payable, current portion of long-term debt and unearned revenue. Current liabilities remained relatively flat in fiscal year 2015, following a $5.0 million increase in fiscal year 2014 due to an estimated $2.3 million payable accrued for future pollution remediation costs at Metropolitan State University at June 30, 2014.

Noncurrent liabilities — consist primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable increased by $30.3 million to total $311.5 million at June 30, 2015. This was due to $14.1 million in revenue bond principal repaid along with $45.5 million in new revenue bond debt issued during fiscal year 2015. The addition of $5.6 million of net pension liability was also part of the increase. This is compared to the decrease of $14.1 million to total $281.2 million at June 30, 2014.

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, 2015, 2014, and 2013 are summarized as follows:

(In Thousands)	2015	2014	2013
Net investment in capital assets	$ 130,131	$ 125,495	$ 121,093
Restricted expendable	22,078	23,199	25,992
Unrestricted	65,369	68,862	70,498
Total net position	$ 217,578	$ 217,556	$ 217,583

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

Unrestricted Net Position (In Thousands)	
Balance at June 30, 2015	$ 65,369
Cumulative effect of change in accounting principle	10,424
Current year effect of GASB Statement No. 68	(822)
Balance at June 30, 2015, without effect of GASB Statement No. 68	$ 74,971

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.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated downward by $10.4 million to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year. Comparability between fiscal years will have variances due to this new accounting standard and is explained throughout the management discussion and analysis.

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, and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress increased in fiscal year 2015 by $9.0 million as a result of continued work on construction projects that were started in prior fiscal years. These construction projects were for 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 $27.8 million in fiscal year 2015, compared to $35.2 million in fiscal year 2014 and $35.7 million in fiscal year 2013. Capital outlays are primarily for the replacement and renovation of residence halls, student unions, wellness centers, and parking facilities.

Construction in progress totaled $35.6 million in fiscal year 2015, compared to $26.6 million in fiscal year 2014 and $30.8 in fiscal year 2013. 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 $18.5 million due to the completion of projects that were construction in progress at the end of fiscal year 2014.

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 titled statements of net position.

Summarized statements for the fiscal years ended June 30, 2015, 2014, and 2013 follows:

(In Thousands)

	2015	2014	2013
Operating revenues:			
Room and board	$ 80,932	$ 78,125	$ 77,468
Fees	22,129	21,233	21,728
Sales and services	6,212	7,609	7,329
Other	3,389	2,890	2,843
Total operating revenues	112,662	109,857	109,368
Nonoperating and other revenues:			
Interest and other nonoperating revenues	5,438	764	4,005
Total revenues	118,100	110,621	113,373
Operating expenses:			
Salaries and benefits	25,574	26,832	25,350
Supplies and services	43,758	43,032	42,751
Repairs and maintenance	3,915	4,601	4,199
Depreciation and amortization	18,371	17,750	16,196
Other	5,609	7,159	6,110
Total operating expenses	97,227	99,374	94,606
Nonoperating expenses:			
Interest and other nonoperating expenses	10,427	11,274	10,927
Total expenses	107,654	110,648	105,533
Change in net position	10,446	(27)	7,840
Net position, beginning of year	217,556	217,583	209,743
Change in accounting principle	(10,424)	-	-
Net position, beginning of year, as restated	207,132	217,583	209,743
Net position, end of year	$ 217,578	$ 217,556	$ 217,583

Room and board revenues — increased by $2.8 million in fiscal year 2015 compared to fiscal year 2014. This increase is due to an increase in room and board rates charged coupled with a slight decrease in overall occupancy in the residence hall program.

Interest and other nonoperating revenues — increased in fiscal year 2015 compared to fiscal year 2014. This is partially due to a one time reimbursement of $2.4 million received by Metropolitan State University's revenue fund program for the pollution remediation expenses incurred in fiscal year 2014. In addition, Vermilion Community College joined the Revenue Fund in fiscal year 2015. Their entrance brought in cash and capital assets, net of depreciation, in the amount of $2.4 million.

Repairs and maintenance expenses — decreased by $0.7 million in fiscal year 2015 compared to fiscal year 2014 due to pollution remediation costs incurred during fiscal year 2014 at Metropolitan State University.

The pollution remediation also affected fiscal year 2014 other expense due to an accrual of $2.3 million of estimated future pollution remediation costs. Note 11 to the financial statements addresses further this pollution remediation.

Change in accounting principle — reflects a $10.4 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 2013 and Series 2015 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 bond sales, 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 stable 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.

The Minnesota State Colleges and Universities obtained an increase in bonding authority from $300,000,000 to $405,000,000 from the state legislature during the 2012 session. The current bonding debt outstanding is $325,890,000 after a $45,540,000 bond sale in February 2015.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2015 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 Colleges and Universities
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, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 83,025	$ 80,967
Accounts receivable, net	4,687	3,144
Total current assets	87,712	84,111
Current Restricted Assets		
Cash and cash equivalents	106,701	83,006
Total current restricted assets	106,701	83,006
Noncurrent Restricted Assets		
Construction in progress	30,351	21,484
Total noncurrent restricted assets	30,351	21,484
Total restricted assets	137,052	104,490
Noncurrent Assets		
Land and construction in progress	7,473	7,307
Capital assets, net	352,292	350,614
Total noncurrent assets	359,765	357,921
Total Assets	584,529	546,522
Deferred Outflows of Resources	1,012	-
Total Assets and Deferred Outflows of Resources	585,541	546,522
Liabilities		
Current Liabilities		
Salaries and benefits payable	1,225	1,159
Accounts payable	3,313	4,226
Unearned revenue	2,572	2,543
Payable from restricted assets	4,878	5,152
Interest payable	3,225	3,049
Current portion of long-term debt	14,783	14,447
Other compensation benefits	280	298
Total current liabilities	30,276	30,874
Noncurrent Liabilities		
Other liabilities	142	160
Noncurrent portion of long-term debt	325,035	295,834
Other compensation benefits	2,157	2,098
Net pension liability	5,582	-
Total noncurrent liabilities	332,916	298,092
Total Liabilities	363,192	328,966
Deferred Inflows of Resources	4,771	-
Total Liabilities and Deferred Inflows of Resources	367,963	328,966
Net Position		
Net investment in capital assets	130,131	125,495
Restricted expendable	22,078	23,199
Unrestricted	65,369	68,862
Total Net Position	$ 217,578	$ 217,556

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, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Operating Revenues		
Room and board	$ 80,932	$ 78,125
Fees	22,129	21,233
Sales and services	6,212	7,609
Other income	3,389	2,890
Total operating revenues	112,662	109,857
Operating Expenses		
Salaries and benefits	25,574	26,832
Food service	26,312	25,179
Other purchased services	12,803	13,299
Supplies	4,643	4,554
Repairs and maintenance	3,915	4,601
Depreciation	18,371	17,750
Other expense	5,609	7,159
Total operating expenses	97,227	99,374
Operating income	15,435	10,483
Nonoperating Revenues (Expenses)		
Private grants	20	181
Interest income	615	582
Interest expense	(10,427)	(11,274)
Total nonoperating revenues (expenses)	(9,792)	(10,511)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	5,643	(28)
Capital contributions	4,803	-
Gain on disposal of capital assets	-	1
Change in net position	10,446	(27)
Total Net Position, Beginning of Year	217,556	217,583
Cumulative Change in Accounting Principle	(10,424)	-
Total Net Position, Beginning of Year, as Restated	207,132	217,583
Total Net Position, End of Year	$ 217,578	$ 217,556

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, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Cash Flows from Operating Activities		
Cash received from customers	$ 111,206	$ 109,496
Cash payments to suppliers for goods or services	(57,869)	(51,578)
Cash payments to employees	(26,289)	(26,389)
Net cash flows provided by operating activities	27,048	31,529
Cash Flows from Noncapital and Related Financing Activities		
Private grants	20	181
Net cash flows provided by noncapital financing activities	20	181
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(22,313)	(35,257)
Capital contributions	1,131	-
Proceeds from borrowing	76,620	-
Proceeds from bond premium	36	-
Interest paid	(10,252)	(11,461)
Repayment of lease principal	(387)	(374)
Repayment of bond principal	(46,005)	(12,425)
Net cash flows used in capital and related financing activities	(1,170)	(59,517)
Cash Flows from Investing Activities		
Investment earnings	(145)	(67)
Net cash flows used in investing activities	(145)	(67)
Net Increase (Decrease) in Cash and Cash Equivalents	25,753	(27,874)
Cash and Cash Equivalents, Beginning of Year	163,973	191,847
Cash and Cash Equivalents, End of Year	$ 189,726	$ 163,973

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, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Operating Income	$ 15,435	$ 10,483
Adjustment to Reconcile Operating Income to		
Net Cash Flows from Operating Activities		
Depreciation	18,371	17,750
Change in assets and liabilities		
Accounts receivable	(1,485)	(292)
Accounts payable	(3,017)	3,300
Salaries payable	65	270
Compensated absences payable	41	173
Net pension liability/Deferred outflows of resources	(821)	-
Unearned revenue	28	(70)
Other	(1,569)	(85)
Net reconciling items to be added to operating income	11,613	21,046
Net cash flows provided by operating activities	$ 27,048	$ 31,529
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 6,437	$ 4,632
Deferred loss on refunding	(261)	-
Investment earnings on account	228	196
Amortization of bond premium	728	657
Amortization of bond discount	(37)	(5)

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014

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, 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 the Minnesota State Colleges and Universities.

   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:

Asset Type	Useful Life
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 for items purchased since July 1, 2008; $5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and $2,000 and over for items purchased prior to July 1, 2003. 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 2034.

Bonds Payable (In Thousands)

Bond Series	Average Interest Rate Percentage	Fiscal Year 2015	Fiscal Year 2014	Maturity Date
Series 2005A	4.9233	$ —	$33,435	Refunded
Series 2005B	5.0000	410	800	October 1, 2015
Series 2007A	4.1566	24,975	26,575	October 1, 2026
Series 2007C	5.6409	2,450	2,595	October 1, 2026
Series 2008A	4.5338	30,950	32,560	October 1, 2028
Series 2008B	5.1057	520	635	October 1, 2018
Series 2009A	4.2106	26,260	27,560	October 1, 2029
Series 2009B	4.3682	2,575	3,015	October 1, 2019
Series 2011A	4.2659	73,220	76,370	October 1, 2031
Series 2011B	3.4801	2,485	2,795	October 1, 2021
Series 2011C	3.4492	11,105	11,560	October 1, 2032
Series 2012A	1.8379	10,000	11,110	October 1, 2022
Series 2012B	2.0279	6,700	7,470	October 1, 2022
Series 2013A	2.7835	54,315	55,315	October 1, 2033
Series 2013B	1.9142	3,305	3,480	October 1, 2023
Series 2015A	3.0770	35,340	—	October 1, 2035
Series 2015B	3.4444	41,280	—	October 1, 2035
	Total	$325,890	$295,275	

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 2036. Annual principal and interest payments on the bonds are expected to require less than 24.7 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $442,345,073. Revenue bond principal and interest paid for the current fiscal year was $57,851,953 and total customer net revenues were $112,662,741. 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 primarily of room deposits on account for fall semester in addition to room and board fees received but not earned for summer session.

Room and Board, Fees, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of $2,229,442 and $1,765,029 for fiscal years ended June 30, 2015 and 2014, respectively, are reported on the Minnesota State Colleges and Universities' 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 Colleges and Universities in one period that is applicable to

Deferred Outflows and Deferred Inflows of Resources —Deferred outflows of resources represent the consumption of net position by Minnesota State Colleges and Universities 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 revenue bonds that resulted from the difference in the carrying value of the refunded debt and its reacquisition price.

The following table summarizes the Minnesota State Colleges and Universities' deferred outflows and inflows:

(In Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ —	$ 2,383
Changes in actuarial assumptions	2	2,243
Contributions paid to pension plans subsequent to the measurement date	467	—
Difference between expected and actual experience	212	67
Change in proportion	70	78
Total Related to Pensions	751	4,771
Related to Refunding:		
Economic loss on refunding of revenue bonds	261	—
Total	$ 1,012	$ 4,771

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)		
	2015	2014
Debt service	$ 22,078	$ 22,379
Capital projects	—	820
Total restricted expendable	$ 22,078	$ 23,199

- *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 — Minnesota State Colleges and Universities has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statements No. 68 and 71 require Minnesota State Colleges and Universities to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the pension plans. The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the statement of revenues, expenses, and changes in net position as a restatement to the beginning net position, in the amount of $10,423,679. The pension plans were not able to provide sufficient information to restate the June 30, 2014, financial statements.

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 10 percent greater than the amount on deposit.

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

As of June 30 (In Thousands)		
Carrying Amount	2015	2014
Cash, treasury account	$ 118,296	$ 108,662
Cash, trustee account (US Bank)	71,430	55,311
Total	$ 189,726	$ 163,973

Restricted cash of $106,700,736 and $83,006,247 as of June 30, 2015 and 2014, 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, 2015 and June 30, 2014, 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, 2015 and June 30, 2014 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)

	2015	2014
Room and board	$ 5,387	$ 3,743
Fees	1,656	1,397
Sales and service	179	242
Other income	91	186
Total accounts receivable	7,313	5,568
Allowance for uncollectible	(2,626)	(2,424)
Total	$ 4,687	$ 3,144

The allowance for uncollectible accounts for fiscal year 2015 and 2014 are computed based on the following aging schedule:

Age	Allowance Percentage
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 2015 and 2014 follow:

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 2,173	$ 30	$ —	$ —	$ 2,203
Construction in progress	26,618	27,494	—	(18,490)	35,622
Total capital assets, not depreciated	28,791	27,524	—	(18,490)	37,825
Capital assets, depreciated:					
Buildings	320,786	3,736	—	—	324,522
Building improvements	248,908	—	—	18,490	267,398
Equipment	3,094	266	525	—	2,835
Total capital assets, depreciated	572,788	4,002	525	18,490	594,755
Less accumulated depreciation:					
Buildings	111,698	6,404	—	—	118,102
Building improvements	108,312	14,240	—	—	122,552
Equipment	2,164	162	516	—	1,810
Total accumulated depreciation	222,174	20,806	516	—	242,464
Total capital assets depreciated, net	350,614	(16,804)	9	18,490	352,291
Total capital assets, net	$ 379,405	$ 10,720	$ 9	$ —	$ 390,116

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 2,173	$ —	$ —	$ —	$ 2,173
Construction in progress	30,804	35,128	—	(39,314)	26,618
Total capital assets, not depreciated	32,977	35,128	—	(39,314)	28,791
Capital assets, depreciated:					
Buildings	308,608	—	821	12,999	320,786
Building improvements	222,521	72	—	26,315	248,908
Equipment	3,117	34	57	—	3,094
Total capital assets, depreciated	534,246	106	878	39,314	572,788
Less accumulated depreciation:					
Buildings	106,087	6,433	822	—	111,698
Building improvements	97,143	11,165	(4)	—	108,312
Equipment	2,068	152	56	—	2,164
Total accumulated depreciation	205,298	17,750	874	—	222,174
Total capital assets depreciated, net	328,948	(17,644)	4	39,314	350,614
Total capital assets, net	$ 361,925	$ 17,484	$ 4	$ —	$ 379,405

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. Included in the restricted purchased services payables for fiscal year 2014 is $2,314,266 of an estimated accrual for pollution remediation at Metropolitan State University.

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

	2015	2014
Capital projects	$ 1,434	$ 1,363
Purchased services and other payables	787	1,334
Repairs and maintenance	645	1,112
Supplies	447	417
Total accounts payable	3,313	4,226
Restricted purchased services payables	4,878	5,152
Total	$ 8,191	$ 9,378

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 2015 and 2014 follow:

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 295,275	$ 76,620	$ 46,005	$ 325,890	$ 14,385
Revenue bond premium/discount	9,573	1,333	2,024	8,882	—
Capital leases	5,433	—	387	5,046	398
Totals	$ 310,281	$ 77,953	$ 48,416	$ 339,818	$ 14,783

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 307,700	$ —	$ 12,425	$ 295,275	$ 14,060
Revenue bond premium/discount	10,225	—	652	9,573	—
Capital leases	5,807	—	374	5,433	387
Totals	$ 323,732	$ —	$ 13,451	$ 310,281	$ 14,447

The changes in other compensation benefits for fiscal years 2015 and 2014 follow:

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 1,986	$ 268	$ 311	$ 1,943	$ 280
Net other postemployment benefits	410	167	83	494	—
Totals	$ 2,396	$ 435	$ 394	$ 2,437	$ 280

Year Ended June 30, 2014
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 1,857	$ 403	$ 274	$ 1,986	$ 298
Net other postemployment benefits	366	88	44	410	—
Totals	$ 2,223	$ 491	$ 318	$ 2,396	$ 298

Revenue Bonds — The Minnesota State Colleges and Universities Board of Trustees is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 0.8 to 5.75 percent. On February 26, 2015, Series 2015A revenue bonds were issued totaling $4,260,000 with an average interest rate of 2.92 percent and Series 2015B revenue bonds totaling $41,280,000 were issued with an average interest rate of 3.48 percent.

Advance Refunding Bonds — On February 26, 2015, the Minnesota State Colleges and Universities Board of Trustees issued $31,080,000 in Series 2015A revenue refunding Bonds with an average interest rate of 2.70 percent to redeem $31,945,000 of outstanding Series 2005A revenue bonds issued with an average interest rate of 4.45 percent. The cash savings from the refunding was $7,239,796 with a net present value of $6,000,561.

Revenue Bond Premium/Discount — Bonds were issued in fiscal year 2015 resulting in a premium of $1,422,005 and a discount of $89,375. 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 Colleges and Universities Board of Trustees guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation 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. The lease term is for 30 years and $2,907,652 of principal was outstanding at June 30, 2015.

In March of 2002, the Minnesota State Colleges and Universities 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, 2015 $2,138,295 is attributable to the Revenue Fund. The principal portion outstanding that is guaranteed by the Revenue Fund is an additional $6,431,705 at June 30, 2015.

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, 2015 and 2014, was $4,354,232 and $4,114,406 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 Minnesota State Colleges and Universities Board of Trustees.
- 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 Colleges and Universities, 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, 2015 the Revenue Fund had not been required to make any lease payments as guaranteed for either the Minnesota State University Moorhead Foundation 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 Colleges and Universities.

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.

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 of $5,582,661 at June 30, 2015, 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.

Long-Term Debt Repayment Schedule
(In Thousands)

	Revenue Bonds		Capital Leases	
Fiscal Years	Principal	Interest	Principal	Interest
2016	$ 14,385	$ 12,342	$ 398	$ 241
2017	16,315	11,633	412	225
2018	18,095	11,071	430	210
2019	18,730	10,449	438	194
2020	19,220	9,793	455	175
2021-2025	96,585	38,303	1,473	560
2026-2030	91,615	19,002	1,079	246
2031-2035	47,980	3,804	361	14
2036-2040	2,965	58	—	—
Total	$ 325,890	$ 116,455	$ 5,046	$ 1,865

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 the Minnesota State Colleges and Universities Defined Contribution Retirement Plan, administrated 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 5.0 percent of their annual covered salary in fiscal year 2014. Effective July 1, 2014, member and employer rates increased to 5.5 percent of total compensation. The Minnesota State Colleges and Universities contribution to the General Plan for the fiscal year ending June 30, 2015 was $467,148. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions - The Minnesota State Colleges and Universities net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

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

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2014, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2013, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 4.63 percent. The projection showed that assets would be available to pay benefits only through 2045, with a resulting single discount rate of 6.63 percent, and an increase of 1.27 percent between the beginning and the end of the measurement period.

Net Pension Liability - At June 30, 2015, Minnesota State Colleges and Universities reported a liability of $5,582,661 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Minnesota State Colleges and Universities proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2014, the Minnesota State Colleges and Universities proportion was 0.34 percent.

Two changes in benefit provisions affected the measurement of the total pension liability since the prior measurement date. Member and employer contribution rates increased from 5 percent to 5.5 percent of pay effective the first day of the first full pay period beginning after July 1, 2014. Beginning July 1, 2014, the funding ratio threshold that must be attained to pay a 2.5 percent post-retirement benefit increase to benefit recipients was changed from 90 percent for one year to 90 percent for two consecutive years.

Two changes in assumptions affected the measurement of the total pension liability since the prior measurement date. The single discount rate changed from 6.63 percent to 7.90 percent. The post-retirement benefit increase changed from 2 percent indefinitely, to 2 percent through 2015, and 2.5 percent thereafter.

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

(In Thousands)

	One Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	One Percent Increase in Discount Rate (8.9%)
Proportionate share of the net pension liability	$ 7,697	$ 5,583	$ 1,617

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2015, the Minnesota State Colleges and Universities recognized a reduction in pension expense of $354,246 related to pensions. At June 30, 2015, the Minnesota State Colleges and Universities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(In Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 2,383
Changes in actuarial assumptions	2	2,243
Contributions paid to pension plans subsequent to the measurement date	467	-
Difference between expected and actual experience	212	67
Change in proportion	70	78
Total	$ 751	$ 4,771

Amounts reported as deferred outflows of resources related to pensions resulting from the Minnesota State Colleges and Universities contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. 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
2016	$	(1,496)
2017		(1,496)
2018		(1,495)
Total	$	(4,487)

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities 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 Colleges and Universities unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately.

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

Individual Retirement Account Plan (IRAP)

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

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

Supplemental Retirement Plan (SRP)

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

Contributions — Participants contribute 5 percent of 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, 2015, 2014, and 2013 were equal to the required contributions for each year, which were $1,171,696, $1,115,021, and $1,138,149, 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)	
	2015	2014
Maintenance and operations	$ 42,244	$ 46,947
Repairs and replacements	23,125	21,915
Total	$ 65,369	$ 68,862

9. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State Colleges and Universities. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were $5,442,148 and $5,342,230 for the years ended June 30, 2015 and 2014, respectively.

Within the accounts receivable balance, $2,062,766 and $2,167,759 is due from other funds as of June 30, 2015 and 2014, 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 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 Colleges and Universities 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.

In April 2014, Metropolitan State University discovered contaminated soil during the construction of their parking ramp and student center. Actual pollution remediation expenses paid by the revenue fund during fiscal year 2014 were $715,932. The remaining estimate of future remediation costs was recorded as a pollution remediation liability of $2,314,266 at fiscal year ended June 30, 2014.

In fiscal year 2015, Metropolitan State University used general fund monies to pay for the remediation to relieve the burden on the revenue fund. This resulted in $2,362,848 of capital contribution revenue in fiscal year 2015.

10. RISK MANAGEMENT

Minnesota State Colleges and Universities 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 Colleges and Universities manage 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 Colleges and Universities 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 2015 and 2014.

Coverage	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	$1,000,000
Primary reinsurer coverage	$1,000,001 to $25,000,000
Multiple reinsurer 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 reinsurer	$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 Colleges and Universities 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 Colleges and Universities pays the cost of claims through the State Workers' Compensation Fund. A Minnesota State Colleges and Universities 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 2015, the Revenue Fund activities included commitments for the following projects:

- Metropolitan State University expended $17,905,495 to date for a new parking ramp. Total project cost is estimated at $19,199,000 with completion expected in August 2015.
- Metropolitan State University expended $6,806,655 to date for a new student union. Total project cost is estimated at $12,271,665 with completion expected in November 2015.
- Minnesota State University Moorhead expended $1,783,117 to date for an addition and renovation to Comstock Memorial Union. Total project cost is estimated at $8,884,808 with completion expected in April 2016.

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REQUIRED SUPPPLEMENTARY 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	$ 5,583	$8,339	66.95	87.64

Schedule of Employer Contributions
(In Thousands)

Measurement Date	Statutorily Required Contributions	Contributions Recognized By MSRS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2014	$ 417	$ 417	$ —	$ 8,339	5.0

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 YEAR ENDED JUNE 30, 2015

There are no factors that affect trends in the amounts reported, such as a change of benefit terms or assumptions. With only one year reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, would be obtained from the Minnesota State Retirement System (MSRS) Comprehensive Annual Financial Report.

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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, 2015, 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 13, 2015.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2015

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