MINNESOTA STATE

Annual Financial Report

For the years ended June 30, 2018 and 2017

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

MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Prepared by:

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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INTRODUCTION

MINNESOTA STATE

30 East 7th Street, Suite 350
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November 13, 2018

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 report for Minnesota State Colleges and Universities (Minnesota State) for the fiscal years ended June 30, 2018 and 2017. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

We are also providing separately audited financial statements for the Revenue Fund and St. Cloud State University. It is worth noting that the systemwide, Revenue Fund, and St. Cloud State audit opinions are each without modification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the system office.

For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of the report. The Finance Division and the finance staff at every college and university are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. We rely upon the administrative and finance staff at each college and university in provision of that assurance. Many people assisted in this effort and are deserving of our appreciation.

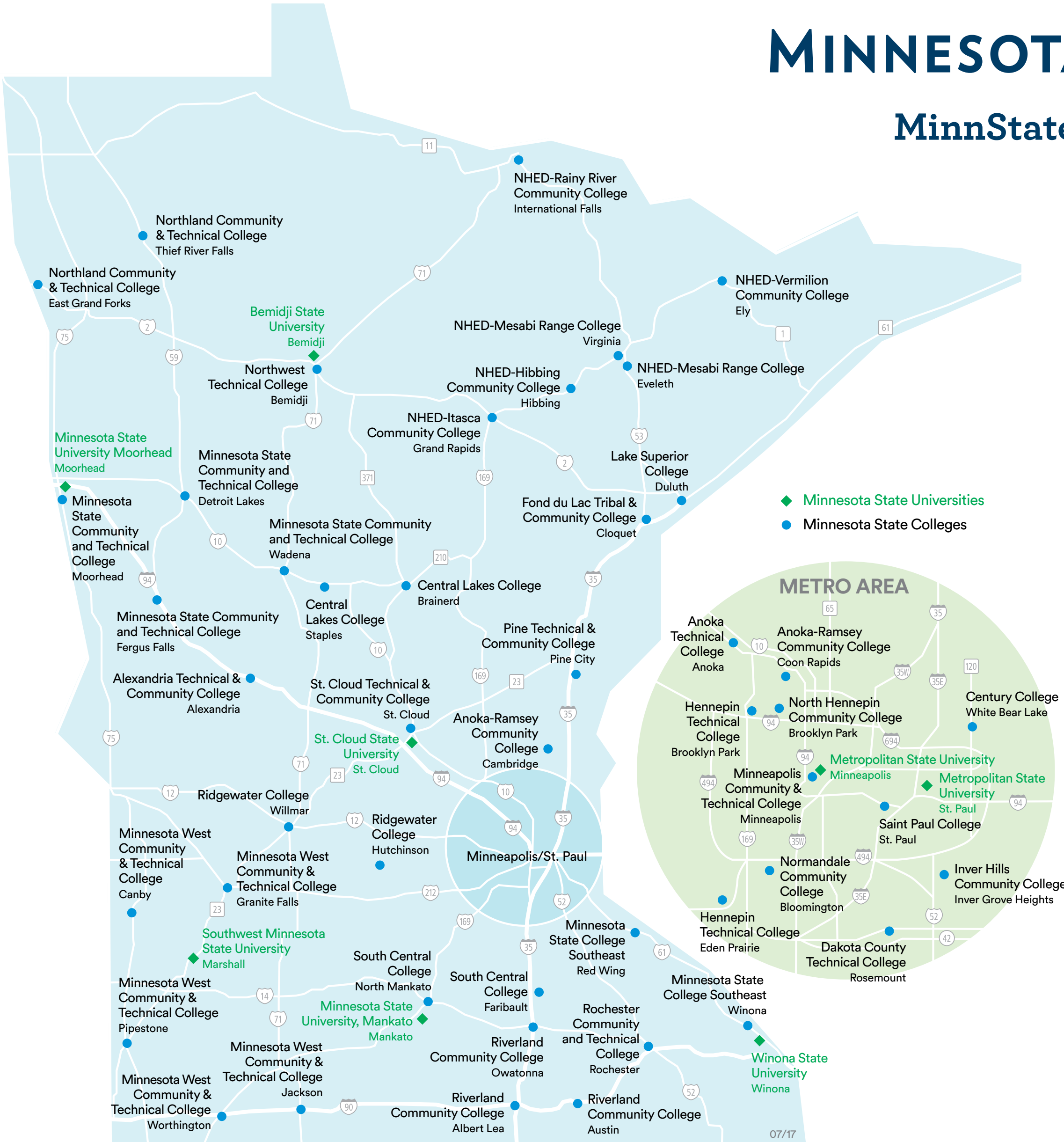
Sincerely,

Laura M. King
Vice Chancellor – Chief Financial Officer

Campus Map

MINNESOTA STATE

MinnState.edu



COLLEGES

Alexandria Technical & Community College
Anoka Technical College
Anoka-Ramsey Community College
Central Lakes College
Century College
Dakota County Technical College
Fond du Lac Tribal & Community College
Hennepin Technical College
Hibbing Community College
Inver Hills Community College
Itasca Community College
Lake Superior College
Mesabi Range College
Minneapolis Community & Technical College
Minnesota State College Southeast
Minnesota State Community and Technical College
Minnesota West Community & Technical College
Normandale Community College
North Hennepin Community College
Northland Community & Technical College
Northwest Technical College
Pine Technical & Community College
Rainy River Community College
Ridgewater College
Riverland Community College
Rochester Community and Technical College
Saint Paul College
South Central College
St. Cloud Technical & Community College
Vermilion Community College

UNIVERSITIES

Bemidji State University
Metropolitan State University
Minnesota State University, Mankato
Minnesota State University Moorhead
Southwest Minnesota State University
St. Cloud State University
Winona State University

Minnesota State Colleges and Universities

ALEXANDRIA TECHNICAL & COMMUNITY COLLEGE
Alexandria
Laura Urban, President
1-888-234-1222
www.alextech.edu

ANOKA-RAMSEY COMMUNITY COLLEGE ***
Cambridge, Coon Rapids
Kent Hanson
(763) 433-1100
www.anokaramsey.edu

ANOKA TECHNICAL COLLEGE***
Anoka
Kent Hanson
(763) 576-4850
www.anokatech.edu

BEMIDJI STATE UNIVERSITY*
Bemidji
Faith Hensrud, President
1-877-236-4354
www.bemidjistate.edu

CENTRAL LAKES COLLEGE
Brainerd, Staples
Hara Charlier, President
1-800-933-0346
www.clcmn.edu

CENTURY COLLEGE
White Bear Lake
Angelia Millender, President
1-800-228-1978
www.century.edu

DAKOTA COUNTY TECHNICAL COLLEGE
Rosemount
Michael Berndt, Interim President
1-877-937-3282
www.dctc.edu

FOND DU LAC TRIBAL & COMMUNITY COLLEGE
Cloquet
Stephanie Hammitt, Interim President
1-800-657-3712
www.fdltcc.edu

HENNEPIN TECHNICAL COLLEGE
Brooklyn Park, Eden Prairie
Merrill Irving Jr, President
1-800-345-4655
www.hennepintech.edu

HIBBING COMMUNITY COLLEGE**
Hibbing
Bill Maki, President
1-800-224-4422
www.hibbing.edu

INVER HILLS COMMUNITY COLLEGE
Inver Grove Heights
Michael Berndt, Interim President
(651) 450-3000
www.inverhills.edu

ITASCA COMMUNITY COLLEGE**
Grand Rapids
Bill Maki, President
1-800-996-6422
www.itascacc.edu

LAKE SUPERIOR COLLEGE
Duluth
Patrick Johns, President
1-800-432-2884
www.lsc.edu

MESABI RANGE COLLEGE**
Eveleth, Virginia
Bill Maki, President
1-800-657-3860
www.mesabirange.edu

METROPOLITAN STATE UNIVERSITY
St. Paul, Minneapolis
Ginny Arthur, President
(651) 793-1300
www.metrostate.edu

MINNEAPOLIS COLLEGE
Minneapolis
Sharon Pierce, President
1-800-247-0911
www.minneapolis.edu

MINNESOTA STATE COLLEGE SOUTHEAST
Red Wing, Winona
Larry Lundblad, Interim President
1-877-853-8324
www.southeastmn.edu

MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE
Detroit Lakes, Fergus Falls, Moorhead, Wadena
Carrie Brimhall, President
1-877-450-3322
www.minnesota.edu

MINNESOTA STATE UNIVERSITY, MANKATO
Mankato
Richard Davenport, President
1-800-722-0544
www.mnsu.edu

MINNESOTA STATE UNIVERSITY MOORHEAD
Moorhead
Anne Blackhurst, President
1-800-593-7246
www.mnstate.edu

MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE
Canby, Granite Falls, Jackson, Pipestone, Worthington
Terry Gaalswyk, President
1-800-658-2330
www.mnwest.edu

NORMANDALE COMMUNITY COLLEGE
Bloomington
Joyce Ester, President
1-866-880-8740
www.normandale.edu

NORTH HENNEPIN COMMUNITY COLLEGE
Brooklyn Park
Barbara McDonald, President
1-800-818-0395
www.nhcc.edu

NORTHLAND COMMUNITY & TECHNICAL COLLEGE
East Grand Forks, Thief River Falls
Dennis Bona, President
Toll-free: 1-800-959-6282
www.northlandcollege.edu

NORTHWEST TECHNICAL COLLEGE*
Bemidji
Faith Hensrud, President
1-800-942-8324
www.ntcmn.edu

PINE TECHNICAL & COMMUNITY COLLEGE
Pine City
Joe Mulford, President
1-800-521-7463
www.pinetech.edu

RAINY RIVER COMMUNITY COLLEGE**
International Falls
Bill Maki, President
1-800-456-3996
www.rrcc.mnscu.edu

RIDGEWATER COLLEGE
Hutchinson, Willmar
Craig Johnson, President
1-800-722-1151
www.ridgewater.edu

RIVERLAND COMMUNITY COLLEGE
Albert Lea, Austin, Owatonna
Adenuga Atewologun, President
1-800-247-5039
www.riverland.edu

ROCHESTER COMMUNITY AND TECHNICAL COLLEGE
Rochester
Jeffery Boyd, President
1-800-247-1296
www.rctc.edu

ST. CLOUD STATE UNIVERSITY
St. Cloud
Robbyn Wacker, President
1-877-654-7278
www.stcloudstate.edu

ST. CLOUD TECHNICAL & COMMUNITY COLLEGE
St. Cloud
Annesa Cheek, President
1-800-222-1009
www.sctcc.edu

SAINT PAUL COLLEGE
St. Paul
Rassoul Dastmozd, President
1-800-227-6029
www.saintpaul.edu

SOUTH CENTRAL COLLEGE
Faribault, Mankato
Annette Parker, President
1-800-722-9359
www.southcentral.edu

SOUTHWEST MINNESOTA STATE UNIVERSITY
Marshall
Connie Gores, President
1-800-642-0684
www.smsu.edu

VERMILION COMMUNITY COLLEGE**
Ely
Bill Maki, President
1-800-657-3608
www.vcc.edu

WINONA STATE UNIVERSITY
Winona
Scott Olson, President
1-800-342-5978
www.winona.edu

* Bemidji State University and Northwest Technical College are aligned.
**The Northeast Higher Education District is a consortium of five state colleges: Hibbing, Itasca, Mesabi Range, Rainy River and Vermilion.
***Anoka-Ramsey Community College and Anoka Technical College are aligned.

The financial activity of the Minnesota State Colleges and Universities is included in this report. It is comprised of 37 colleges and universities. The Revenue Fund activity is included in both this report and the separately issued Revenue Fund Annual Financial Report.

All financial activity of the Minnesota State Colleges and Universities is included in the Minnesota Comprehensive Annual Financial Report. A separately issued schedule of expenditures of federal awards will be available at a later date.

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 the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (Minnesota State) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Minnesota State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Bemidji State University Alumni and Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represents 82% of the total assets and 81% of the revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not audit the Foundations as listed above in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting and instances of reportable noncompliance associated with the Foundations.

Auditors' Responsibility (Continued)

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 Minnesota State'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 Minnesota State'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 opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State as of June 30, 2018 and 2017, and the respective changes in financial position and where applicable, 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 Minnesota State Colleges and Universities do not purport to, and do not, present fairly the financial position of the state of Minnesota as of June 30, 2018 and 2017, 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.

As discussed in Note 1 to the financial statements, Minnesota State implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2016, Minnesota State's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. 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 Changes in Total OPEB Liability and Related Ratios, and the Schedule of 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnesota State's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of Minnesota State'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 Minnesota State's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2018

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INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the Minnesota State Colleges and Universities (Minnesota State) for the years ended June 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

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. Offering more than 3,850 educational programs, the system serves approximately 244,825 students annually in credit-based courses, as measured by unduplicated headcount enrollment. The system serves over 65,000 students of color and American Indian students across the state. An additional 120,000 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs approximately 15,600 full time and part time faculty and staff. Minnesota State is governed by a fifteen member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees: one from a state university, one from a community college and one from a technical college, serve two-year terms. The board of trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

FINANCIAL HIGHLIGHTS

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented during fiscal year 2015. The adoption of GASB Statement No. 68 has a long term material negative impact on Minnesota State's financial position.

Additionally, Minnesota State adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2016. The system's June 30, 2016 net position was restated for the cumulative effect of adopting GASB Statement No. 75. The restatement resulted in a decrease to net position of $14.3 million.

It is worth noting, that the impact on fiscal years 2018, 2017, and 2016 salaries and benefits expense due to GASB Statements No. 68 and No. 75 is a result of a more comprehensive approach to pension and other postemployment benefit expense, which reflects estimates of the amounts employees earned during the year, rather than actual contributions to the plans. The actuarially derived net pension liability, other postemployment benefit (OPEB) 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 system's overall financial position decreased by $140.3 million in fiscal year 2018. All of this decrease can be attributed to the system's changes in proportionate share of the net pension liability and deferred outflows and inflows of resources related to the system's pension plans per GASB Statement No. 68, and to the adoption in the current year of GASB Statement No. 75.

Excluding the GASB Statements No. 68 and No. 75 effect, fiscal years 2018 and 2017 net position increased by $38.8 million, or 1.7 percent, and $18.4 million or 0.8 percent, respectively.

- Loss before other revenues, expenses, gains or losses, described further below as the system's net operating revenue, experienced a loss of $168.9 million and $255.4 million in fiscal years 2018 and 2017, respectively. This compares to a gain of $48.4 million in fiscal year 2016. Excluding the effects of GASB Statements No. 68 and No. 75, the system experienced a net operating gain of $10.3 million in fiscal year 2018, a net operating loss of $17.0 million in fiscal year 2017 and a net operating gain of $3.6 million in fiscal year 2016.

- Compensation, the largest cost category in the system, decreased $48.2 million, or 3.1 percent, in fiscal year 2018 and increased $291.5 million, or 22.8 percent, in fiscal year 2017. This cost constitutes 70.9 percent of the system's fiscal year 2018 total operating expenses, compared to 72.2 percent for fiscal year 2017. Excluding the GASB Statements No. 68 and No. 75 adjustments, the net increase in compensation was $11.0 million or 0.8 percent and $11.1 million, or 0.8 percent in fiscal years 2018 and 2017, respectively.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation increased by $56.7 million, or 8.4 percent, in fiscal year 2018 following a 0.3 percent decrease in fiscal year 2017. Gross tuition revenue increased $6.0 million, or 0.8 percent, in fiscal year 2018. This is compared to the decrease of $14.5 million, or 1.8 percent, and $9.7 million, or 1.2 percent, in fiscal years 2017 and 2016, respectively. Tuition rates increased 1.0 percent for the two year colleges and an average of 3.9 percent for the universities in fiscal year 2018. This follows a 1.0 percent decrease in tuition for the two year colleges and frozen tuition for the universities in fiscal year 2017.

- The number of full-year equivalent students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2018, 2017 and 2016 totaled 128,800, 131,640, and 135,089, respectively. Enrollment in 2018 decreased 2.2 percent from fiscal year 2017. This follows an enrollment decrease of 2.6 percent between fiscal year 2017 and 2016.

- Federal grants remained relatively stable in fiscal year 2018 compared to fiscal year 2017, following a decrease of 6.1 percent, or $19.4 million in fiscal year 2017 compared to fiscal year 2016. The decrease in fiscal year 2017 is primarily attributable to the decrease in enrollments and related financial aid.

- Total debt supporting the system's capital asset investment programs decreased in fiscal year 2018 by $35.5 million to a total of $573.6 million, a 5.8 percent decrease. This decrease was primarily due to the repayment of general obligation bonds in the amount of $21.8 million and repayment of revenue bonds in the amount of $17.9 million. These decreases were offset by $11.7 million of new general obligation bonds issued during fiscal year 2018.

USING THE FINANCIAL STATEMENTS

This annual financial report includes five financial statements: the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows, the statements of fiduciary net position held for pension benefits, and the statements of changes in fiduciary net position held for pension benefits (the last two statements relate to the system's defined contribution retirement plan). These five financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the system 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 system. 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.

A summary of the system's statements of net position as of June 30, 2018, 2017 and 2016 follows:

(In Thousands)			
	2018	Restated 2017	2016
Current assets	$ 1,249,942	$ 1,153,405	$ 1,147,129
Noncurrent assets	25,065	25,447	26,438
Capital assets, net	2,021,039	2,071,109	2,072,844
Deferred outflows of resources	891,778	1,249,374	66,923
Total assets and deferred outflows of resources	4,187,824	4,499,335	3,313,334
Current liabilities	339,984	294,108	289,523
Noncurrent liabilities	1,994,479	2,601,722	1,117,950
Deferred inflows of resources	500,508	110,346	178,524
Total liabilities and deferred inflows of resources	2,834,971	3,006,176	1,585,997
Net position	$ 1,352,853	$ 1,493,159	$ 1,727,337

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $80.4 million to total $1.0 billion at June 30, 2018. This $1.0 billion of cash and cash equivalents plus investments of $22.7 million represent approximately 6.1 months of fiscal year 2018 operating expenses (excluding depreciation), an increase of 0.5 months from fiscal year 2017. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues.

Deferred outflows of $891.8 million and $1.2 billion were reported in fiscal years 2018 and 2017, respectively, which represent the consumption of net position in one period that is applicable to future periods, and is primarily due to GASB Statements No. 68 and No. 75.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2018 increased from the prior year by $11.3 million, or 9.5 percent, to a total of $129.7 million, primarily due to contract settlements paid out after June 30. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year. Accounts payable, including payables from restricted assets, increased $12.4 million or 24.3 percent, primarily due to more construction activity during fiscal 2018 compared to fiscal year 2017.

The noncurrent liabilities decreased by $607.2 million or 23.3 percent in fiscal year 2018 compared to fiscal year 2017. This was due primarily to a $568.5 million decrease in the net pension liability, coupled with a decrease in the noncurrent portion of long-term debt in fiscal year 2018 compared to fiscal year 2017.

Deferred inflows of $500.5 million and $110.3 million were reported in fiscal years 2018 and 2017, respectively, which represent the acquisition of net position in one period that is applicable to future periods, and is primarily due to GASB Statements No. 68 and No. 75. Additionally, GASB Statement No. 68 resulted in a net pension liability for fiscal years 2018 and 2017 in the amounts of $1.3 billion and $1.8 billion, respectively.

Net position represents the system's residual interest in total assets and deferred outflows after deducting total liabilities and deferred inflows. Net investment in capital assets, represents by far the largest portion of net position. Capital assets are carried at historical cost, not replacement cost. Restricted net position has constraints placed on its use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for debt service of $47.2 million, and restrictions imposed by bond covenants of $68.7 million, a combined $2.1 million decrease from fiscal year 2017.

The system's net position as of June 30, 2018, 2017 and 2016 follows:

(In Thousands)

	2018	Restated 2017	2016
Net investment in capital assets	$ 1,499,963	$ 1,526,372	$ 1,520,085
Restricted expendable, bond covenants	68,667	68,977	73,457
Restricted expendable, other	64,595	64,298	64,116
Unrestricted	(280,372)	(166,488)	69,679
Total net position	$ 1,352,853	$ 1,493,159	$ 1,727,337

The system's financial position declined during fiscal year 2018 with net position decreasing by $140.3 million, or 9.4 percent, on total revenues of $2.0 billion. Of the decrease, $26.4 million was due to a decrease in net investment in capital assets. This compares to an increase in net investment in capital assets from fiscal year 2016 to fiscal year 2017 of $6.3 million. Restricted net position stayed flat in fiscal year 2018 compared to fiscal year 2017. This compares to the decrease of $4.3 million, or 3.1 percent, in fiscal year 2017 compared to fiscal year 2016.

Unrestricted net position decreased by $113.9 million, or 68.4 percent, and $236.2 million, or 338.9 percent, in fiscal years 2018 and 2017, respectively. This is mainly due to GASB Statements No. 68 and No. 75, as seen in the table below. Without the effect of GASB Statements No. 68 and No. 75, unrestricted net position increased $65.2 million or 10.9 percent in fiscal year 2018, and $57.4 million or 10.6 percent in fiscal year 2017.

(In Thousands)

	2018	Restated 2017	2016
Unrestricted net position balance at June 30	$ (280,372)	$ (166,488)	$ 69,679
Prior year effect of GASB Statements No. 68 and No. 75	768,003	529,648	519,160
Current year effect of GASB Statements No. 68 and No. 75	179,128	238,355	(44,722)
Balance at June 30, without effect of GASB No. 68 and No. 75	$ 666,759	$ 601,515	$ 544,117

CAPITAL AND DEBT ACTIVITIES

With over 28 million managed square feet, the quality of the system's academic and residential life programs is closely linked to the development and renewal of its capital assets. The system continues to update and implement a long range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Note 16 to the financial statements.

Fiscal year 2018 capital outlays totaled $82.9 million, including $60.7 million of new construction in progress, compared to fiscal year 2017 capital outlays which totaled $126.4 million, including $90.8 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long-term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the system is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The system recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the system has no debt service responsibility. Total state appropriation in fiscal year 2018 was $731.5 million of which $1.3 million is included for asset repairs and improvements that are not capitalized. General obligation bonds payable totaled $211.3 million at June 30, 2018, a net decrease of $10.1 million during the fiscal year. Revenue bonds payable at June 30, 2018 totaled $282.6 million, a net decrease of $17.9 million from June 30, 2017.

The percentage of total revenue expended to cover debt service (principal and interest payments on general obligation and revenue bonds, capital leases and notes payable) has increased from 3.1 percent, or $63.8 million in fiscal year 2016, to 3.2 percent, or $66.1 million in fiscal year 2018. This compares to 1.1 percent of total revenue to cover debt service (principal and interest payments) on general obligation bonds only for fiscal year 2018.

Additional information on capital and debt activities can be found in Note 6 and Note 8 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the system's results of operations and the overall decrease in net position for the fiscal year. It is the difference between the year's revenue and expense activities that results in an overall increase or decrease to net position. The state appropriation and federal and state grants are required under GASB Statement No. 34 to be considered nonoperating revenues.

A summary of the system's statements of revenues, expenses and changes in net position as of June 30, 2018, 2017 and 2016 follows:

(In Thousands)	2018	Restated 2017	2016
Operating revenues:			
Tuition, fees and sales, net	$ 703,588	$ 704,540	$ 709,858
Restricted student payments, net	109,812	113,509	113,964
Other income	16,582	15,445	11,625
Total operating revenues	829,982	833,494	835,447
Nonoperating revenues and other revenues:			
State appropriations	731,500	674,824	676,850
Capital appropriations	25,747	31,936	59,367
Grants	433,247	432,458	446,250
Other	16,072	11,680	10,493
Total nonoperating and other revenues	1,206,566	1,150,898	1,192,960
Total revenues	2,036,548	1,984,392	2,028,407
Operating expenses:			
Salaries and benefits	1,520,140	1,568,326	1,276,821
Depreciation	133,266	128,354	119,557
Financial aid, net	50,650	45,424	38,451
Other	438,608	428,975	440,111
Total operating expenses	2,142,664	2,171,079	1,874,940
Nonoperating expenses and other expenses:			
Interest expense	21,395	21,232	23,618
Other	12,795	11,987	11,877
Total nonoperating and other expenses	34,190	33,219	35,495
Total expenses	2,176,854	2,204,298	1,910,435
Change in net position	(140,306)	(219,906)	117,972
Net position, beginning of year, as reported	1,493,159	1,727,337	1,609,365
Cumulative effect of change in accounting principle	-	(14,272)	-
Net position, beginning of year, as restated	1,493,159	1,713,065	1,609,365
Net position, end of year	$ 1,352,853	$ 1,493,159	$ 1,727,337

The fiscal year 2018 total revenues increased by 2.6 percent which was due primarily to an increase in state appropriation of $56.7 million.

Compensation is the system's single largest expense component. Compensation expense decreased $48.2 million, or 3.1 percent, in fiscal year 2018 and represented 71.0 percent of total operating expense, compared to 72.3 percent in fiscal year 2017. Total compensation expense included fringe benefit costs of $517.6 million and $569.4 million in fiscal years 2018 and 2017, respectively. Fringe benefit costs in fiscal year 2018 increased $179.1 million due to GASB Statements No. 68 and No.75 adjustments, compared to $238.4 million in fiscal year 2017, a decrease of $59.3 million between years. Excluding the GASB Statements No. 68 and No. 75 adjustments, the net increase in compensation was $11.0 million for fiscal year 2018.

The total of all other operating expenses increased slightly for fiscal year 2018 by 3.0 percent compared to fiscal year 2017, and was relatively flat between fiscal years 2017 and 2016. The most significant increase by percentage from fiscal year 2017 to fiscal year 2018 was 11.5 percent, or $5.2 million, in financial aid that was disbursed to students to cover housing and living expenses, and depreciation expense of 3.8 percent or $4.9 million due to major projects being completed and moved from construction in progress to building improvements.

The system's overall financial position decreased by $140.3 million in fiscal year 2018. This is mainly due to GASB Statements No. 68 and No. 75, as seen in the table below. Without the effect of GASB Statements No. 68 and No. 75, the system's overall financial position increased by $38.8 million in fiscal year 2018.

In Thousands	2018	Restated 2017	2016
Increase (decrease) in net position including GASB 68 and GASB 75	$ (140,306)	$ (219,906)	$ 117,972
Impact on compensation expense			
Pension	176,795	235,697	(44,722)
Other postemployment benefits	2,333	2,658	-
Total GASB 68 and 75 impact	$ 179,128	$ 238,355	$ (44,722)
Increase (decrease) in net position excluding GASB 68 and 75	$ 38,822	$ 18,449	$ 73,250

INVESTMENTS

All balances related to tuition revenues and most fees are held in the state treasury. These funds are invested as part of the state's investment pool by the State Board of Investment. Under state statute, the system's share of earnings on the state's investment pool is allocated to schools by the System Office. Note 2 provides additional information on cash and investments, including steps taken to control interest and credit related risks. Revenue Fund cash balances are held in part by the state treasury and in part by U.S. Bank, N.A. as trustee, and are invested separately under contracts for investment management services.

FOUNDATIONS

The system's annual financial report for the years ended June 30, 2018 and 2017 includes financial statements for the foundations of all seven state universities, based on an assessment of the foundations' significance to the system's financial statements. The accompanying financial report includes the foundations' statements of financial position, and the foundations' statements of activities, analogous to the system's statements of revenues, expenses, and changes in net position. It should be noted that the foundations' financial statements are not consolidated but are reported separately within the system's financial statements. The relationships between the foundations and the related universities are described in Note 19.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Minnesota State maintained a sound financial position in fiscal year 2018. State appropriation support increased and tuition and fees revenue remained relatively flat in fiscal year 2018. Undergraduate tuition rates at colleges and universities were increased an overall average of 2.5 percent over fiscal year 2017.

It remains critical to manage expenses at a rate that is less than the growth of revenue from state appropriations and tuition. Consistent with national trends, enrollment at Minnesota State is decreasing, fueled largely by demographic trends and the economic recovery, as it returns to pre-recession levels and jobs openings increase in a state that has consistently had an unemployment level below the national average. The system has in place a number of strategic initiatives for growing enrollment, including programs to improve recruitment success, increase the retention and success of existing students, and address the needs of diverse populations traditionally underserved by higher education.

The system has sharpened its strategic focus on student success, equity and inclusion, and campus and program sustainability, all of which are driving system and campus initiatives. The Board of Trustess has launched a multiyear process to gather best practices on innovation from outside of higher education and augment the capacity of our colleges and universities to accelerate their innovative work, to make innovation integral to operational structures rather than periodic, and to ensure that there are structures in place that will bring innovations to scale across the 37 colleges and universities. The system will also continue its management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include developing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services. Fiscal year 2018 also saw the launch of a multiyear effort to replace the core information technology enterprise systems. In a comparison of similar institutions, Minnesota State ranks 33 out of 51 states and the District of Columbia in overall administrative spending per student. The system is committed to realizing further efficiencies over the next biennium.

The continuing success of the system depends in part on its partnership with the state of Minnesota and its citizens. Preserving the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The system leadership is committed to a statewide partnership with government, industry, and communities to add to the prosperity of Minnesota. A recent Economic Contribution Study found that the Minnesota State colleges and universities contributed $8 billion annually to the economic activity of the state. The partnership with the state of Minnesota enables the provision of accessible, high value, affordable higher education in accord with the economic and intellectual needs of the state.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Minnesota State's finances for all those with an interest in the system'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 St. E., Suite 350
St Paul, MN 55101-7804

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017
(IN THOUSANDS)

Assets	2018	Restated 2017
Current Assets		
Cash and cash equivalents	$ 1,006,509	$ 926,120
Investments	22,707	21,910
Grants receivable	21,262	20,165
Accounts receivable, net	56,074	58,005
Prepaid expense	30,934	31,111
Inventory and other assets	15,411	16,609
Student loans, net	3,801	4,413
Total current assets	1,156,698	1,078,333
Current Restricted Cash and Cash Equivalents	93,244	75,072
Noncurrent Restricted Assets		
Investments	296	296
Construction in progress	12,000	1,249
Total noncurrent restricted assets	12,296	1,545
Total restricted assets	105,540	76,617
Noncurrent Assets		
Notes receivable	1,865	1,989
Student loans, net	22,904	23,162
Capital assets, net	2,009,039	2,069,860
Total noncurrent assets	2,033,808	2,095,011
Total Assets	3,296,046	3,249,961
Deferred Outflows of Resources	891,778	1,249,374
Total Assets and Deferred Outflows of Resources	4,187,824	4,499,335
Liabilities		
Current Liabilities		
Salaries and benefits payable	129,730	118,431
Accounts payable	49,654	45,300
Unearned revenue	69,009	51,137
Payable from restricted assets	14,057	5,968
Funds held for others	7,947	7,839
Current portion of long-term obligations	47,415	43,851
Other compensation benefits	22,172	21,582
Total current liabilities	339,984	294,108
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	526,186	565,249
Other compensation benefits	192,771	192,461
Net pension liability	1,275,522	1,844,012
Total noncurrent liabilities	1,994,479	2,601,722
Total Liabilities	2,334,463	2,895,830
Deferred Inflows of Resources	500,508	110,346
Total Liabilities and Deferred Inflows of Resources	2,834,971	3,006,176
Net Position		
Net investment in capital assets	1,499,963	1,526,372
Restricted expendable, bond covenants	68,667	68,977
Restricted expendable, other	64,595	64,298
Unrestricted	(280,372)	(166,488)
Total Net Position	$ 1,352,853	$ 1,493,159

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017
(IN THOUSANDS)

Assets	2018	2017
Current Assets		
Cash and cash equivalents	$ 7,400	$ 7,353
Investments	78,207	74,028
Restricted cash and cash equivalents	1,029	1,870
Pledges and contributions receivable, net	9,700	8,277
Other receivables and Other assets	779	365
Annuities/Remainder interests/Trusts	231	349
Finance lease receivable	950	945
Total current assets	98,296	93,187
Noncurrent Assets		
Annuities/Remainder interests/Trusts	425	749
Long-term pledges receivable	8,280	11,271
Finance lease receivable, net	2,988	330
Investments	132,753	119,075
Restricted investments	5,273	7,509
Buildings, property and equipment, net	16,725	17,463
Other assets	3,570	3,898
Total noncurrent assets	170,014	160,295
Total Assets	$ 268,310	$ 253,482
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,007	$ 872
Interest payable	81	152
Unearned revenue	726	703
Annuities payable	1,107	1,148
Bonds payable	1,949	2,056
Scholarships payable and Other liabilities	155	1,032
Total current liabilities	5,025	5,963
Noncurrent Liabilities		
Annuities payable and Unitrust liabilities	1,147	1,845
Notes payable	1,564	1,564
Bonds payable	13,877	15,989
Total noncurrent liabilities	16,588	19,398
Total Liabilities	21,613	25,361
Net Assets		
Unrestricted	16,074	15,077
Temporarily restricted	89,786	79,196
Permanently restricted	140,837	133,848
Total Net Assets	246,697	228,121
Total Liabilities and Net Assets	$ 268,310	$ 253,482

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	Restated 2017
Operating Revenues		
Tuition, net	$ 525,037	$ 521,236
Fees, net	70,743	69,127
Sales and room and board, net	107,808	114,177
Restricted student payments, net	109,812	113,509
Other income	16,582	15,445
Total operating revenues	829,982	833,494
Operating Expenses		
Salaries and benefits	1,520,140	1,568,326
Purchased services	239,257	231,839
Supplies	129,634	128,634
Repairs and maintenance	28,069	27,323
Depreciation	133,266	128,354
Financial aid, net	50,650	45,424
Other expense	41,648	41,179
Total operating expenses	2,142,664	2,171,079
Operating loss	(1,312,682)	(1,337,585)
Nonoperating Revenues (Expenses)		
Appropriations	731,500	674,824
Federal grants	299,252	298,244
State grants	100,559	105,389
Private grants	32,834	26,608
Interest income	13,673	10,151
Interest expense	(21,395)	(21,232)
Grants to other organizations	(12,614)	(11,772)
Total nonoperating revenues (expenses)	1,143,809	1,082,212
Loss Before Other Revenues, Expenses, Gains, or Losses	(168,873)	(255,373)
Capital appropriations	25,747	31,936
Capital grants	602	2,217
Donated assets	2,399	1,529
Loss on disposal of capital assets	(181)	(215)
Change in net position	(140,306)	(219,906)
Total Net Position, Beginning of Year , as Reported	1,493,159	1,727,337
Cumulative Effect of Change in Accounting Principle (See Note 1)	-	(14,272)
Total Net Position, Beginning of Year, as Restated	1,493,159	1,713,065
Total Net Position, End of Year	$ 1,352,853	$ 1,493,159

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Support and Revenue				
Contributions	$ 5,229	$ 13,038	$ 5,074	$ 23,341
Endowment gifts	-	-	1,035	1,035
In-kind contributions	6,667	48	-	6,715
Investment income	1,581	11,246	22	12,849
Realized gain	94	2,034	9	2,137
Unrealized gain	259	1,028	575	1,862
Program income	1,197	273	-	1,470
Special events	-	385	-	385
Fundraising income	-	153	-	153
Other income	998	138	-	1,136
Reclassification of net assets	1,342	(1,356)	14	-
Net assets released from restrictions	16,137	(16,397)	260	-
Total support and revenue	33,504	10,590	6,989	51,083
Expenses				
Program services				
Program services	4,855	-	-	4,855
Scholarships	15,488	-	-	15,488
Institutional activities	809	-	-	809
Special projects	1,752	-	-	1,752
Total program services	22,904	-	-	22,904
Supporting services				
Interest expense	151	-	-	151
Management and general	3,716	-	-	3,716
Fundraising	5,728	-	-	5,728
Other expense	8	-	-	8
Total supporting services	9,603	-	-	9,603
Total expenses	32,507	-	-	32,507
Change in Net Assets	997	10,590	6,989	18,576
Net Assets, Beginning of Year	15,077	79,196	133,848	228,121
Net Assets, End of Year	$ 16,074	$ 89,786	$ 140,837	$ 246,697

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Support and Revenue				
Contributions	$ 6,374	$ 9,486	$ 9,626	$ 25,486
Endowment gifts	-	-	639	639
In-kind contributions	4,767	33	-	4,800
Investment income	1,128	12,857	10	13,995
Realized gain	121	2,626	7	2,754
Unrealized gain	556	3,821	6	4,383
Program income	1,154	278	-	1,432
Special events	-	427	-	427
Fundraising income	-	121	-	121
Other income	1,040	128	8	1,176
Reclassification of net assets	305	(104)	(201)	-
Net assets released from restrictions	15,401	(15,904)	503	-
Total support and revenue	30,846	13,769	10,598	55,213
Expenses				
Program services				
Program services	4,066	-	-	4,066
Scholarships	12,163	-	-	12,163
Institutional activities	1,704	-	-	1,704
Special projects	1,136	-	-	1,136
Total program services	19,069	-	-	19,069
Supporting services				
Interest expense	194	-	-	194
Management and general	3,785	-	-	3,785
Fundraising	5,415	-	-	5,415
Other expense	8	-	-	8
Total supporting services	9,402	-	-	9,402
Total expenses	28,471	-	-	28,471
Change in Net Assets	2,375	13,769	10,598	26,742
Net Assets, Beginning of Year	12,707	65,422	123,250	201,379
Net Asset Transfer Related to Application of UPMIFA	(5)	5	-	-
Net Assets, End of Year	$ 15,077	$ 79,196	$ 133,848	$ 228,121

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	Restated 2017
Cash Flows from Operating Activities		
Cash received from customers	$ 830,417	$ 848,330
Cash repayment of program loans	4,065	4,518
Cash paid to suppliers for goods or services	(437,280)	(433,134)
Cash payments for employees	(1,328,693)	(1,324,776)
Financial aid disbursements	(51,730)	(46,163)
Cash payments for program loans	(3,553)	(4,040)
Net cash flows used in operating activities	(986,774)	(955,265)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	731,500	674,824
Federal grants	300,214	284,517
State grants	100,559	105,389
Private grants	32,834	26,608
Agency activity	109	(311)
Grants to other organizations	(12,614)	(11,772)
Net cash flows provided by noncapital and related financing activities	1,152,602	1,079,255
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(65,736)	(112,150)
Capital appropriation	39,584	33,597
Capital grants	602	2,217
Proceeds from sale of capital assets and insurance proceeds	652	635
Proceeds from borrowing	11,677	64,146
Proceeds from bond premiums	2,288	8,607
Interest paid	(21,354)	(23,178)
Repayment of lease principal	(4,279)	(4,275)
Repayment of note principal	(498)	(600)
Repayment of bond principal	(38,736)	(88,855)
Net cash flows used in capital and related financing activities	(75,800)	(119,856)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,036	2,539
Purchase of investments	(1,197)	(546)
Investment earnings	8,694	6,399
Net cash flows provided by investing activities	8,533	8,392
Net Increase in Cash and Cash Equivalents	98,561	12,526
Cash and Cash Equivalents, Beginning of Year	1,001,192	988,666
Cash and Cash Equivalents, End of Year	$ 1,099,753	$ 1,001,192

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	Restated 2017
Operating Loss	$ (1,312,682)	$ (1,337,585)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Change in pension plan related items:		
Net pension liability	(568,490)	1,479,249
Deferred inflows of resources	387,946	(70,135)
Deferred outflows of resources	357,331	(1,173,418)
Depreciation	133,266	128,354
Provision for loan defaults	99	74
Loan principal repayments	4,065	4,518
Loans issued	(3,553)	(4,040)
Forgiven loans	260	374
Change in assets and liabilities		
Inventory	1,141	(164)
Accounts receivable	1,618	5,527
Accounts payable	2,794	(3,815)
Salaries and benefits payable	11,299	2,979
Other compensation benefits and related deferred outflows and inflows	2,898	5,458
Capital contributions payable	(1,080)	(738)
Unearned revenue	(1,181)	9,308
Other	(2,505)	(1,211)
Net reconciling items to adjust operating loss	325,908	382,320
Net cash flow used in operating activities	$ (986,774)	$ (955,265)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 20,795	$ 10,701
Amortization of bond premium	3,948	4,173
Food service vendor investment	3,471	14,934

MINNESOTA STATE COLLEGES AND UNIVERSITIES
DEFINED CONTRIBUTION RETIREMENT FUND
STATEMENTS OF FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
AS OF JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Assets		
Mutual Funds	$ 2,047,351	$ 1,877,294
Total Assets	2,047,351	1,877,294
Liabilities		
Total Liabilities	-	-
Net Position Held in Trust for Pension Benefits	$ 2,047,351	$ 1,877,294

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
DEFINED CONTRIBUTION RETIREMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Additions:		
Contributions		
Employer	$ 44,092	$ 44,349
Member	36,860	37,077
Contributions from roll overs and other sources	6,314	5,372
Total Contributions	87,266	86,798
Net Investment Gain	174,846	208,617
Total Additions	262,112	295,415
Deductions:		
Benefits and refunds paid to plan members	90,630	82,913
Administrative fees	1,425	1,466
Total Deductions	92,055	84,379
Net Increase	170,057	211,036
Net Position Held in Trust for Pension Benefits, Beginning of Year	1,877,294	1,666,258
Net Position Held in Trust for Pension Benefits, End of Year	$ 2,047,351	$ 1,877,294

The notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State Colleges and Universities (Minnesota State) conform to generally accepted accounting principles (GAAP) in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows represent the financial activities of each institution and the System's activity in total.

Financial Reporting Entity — Minnesota State is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. The Minnesota State financial statements include 37 member colleges and universities, the System Office, and System wide activity. The operations of most student organizations are included in the reporting entity because the board of trustees has certain fiduciary responsibilities for these resources.

Minnesota State may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund, a legally separate entity, but are also included here. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund Financial Report. Copies are available from the financial reporting director at the address listed at the end of the Management's Discussion and Analysis section.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 19. For GASB financial statement purposes, most college foundations are not considered significant to the Minnesota State System and, therefore, are not included as discretely presented component units.

Complete financial statements of the foundations may be obtained from their respective administrative offices as follows:

Bemidji State University Alumni and Foundation
1500 Birchmont Dr. #17
Bemidji, MN 56601-2699

Metropolitan State University Foundation
700 East Seventh Street
St. Paul, MN 55106

MN State University, Mankato Foundation, Inc.
224 Alumni Foundation Center
Mankato, MN 56001

MN State University Moorhead Alumni Foundation, Inc.
1104 Seventh Ave. South
Moorhead, MN 56563

St. Cloud State University Foundation, Inc.
Alumni and Foundation Center
720 Fourth Ave. South
St. Cloud, MN 56301-4498

Southwest Minnesota State University Foundation
1501 State Street
Marshall, MN 56258

Winona State University Foundation
P.O.Box 5838
175 West Mark Street
Winona, MN 55987-5838

Fiduciary funds are omitted from inclusion in the net position of Minnesota State. Separate statements are included for the Minnesota State Defined Contribution Retirement Fund.

Joint Ventures and Jointly Governed Organizations — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2018, joint ventures received revenues of $6,076,623 and incurred expenses of $6,425,584. In fiscal year 2017 the amounts for revenues and expenses were $6,374,675 and $8,094,974, respectively.

Minnesota State jointly governs the Fond du Lac Tribal & Community College. The governing boards are the Minnesota State board of trustees and the Tribal College board of directors. The Tribal College reimburses the Community College for certain expenses. The financial position and results of operations of the Tribal College are reported in the financial statements of the Fond du Lac Reservation. Revenues and expenses related to operations of the Community College are included in the Minnesota State financial statements.

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

Budgetary Accounting — Minnesota State budgetary accounting, which is the basis for annual budgets and allocation of the state appropriation, differs from GAAP. Budgetary accounting includes all receipts and expenses up to the close of the books in August for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenses is the actual disbursement, and not when the goods or services are received.

The state of Minnesota operates on a two year (biennial) budget cycle ending on June 30 of odd numbered years. Minnesota State is governed by a 15 member board of trustees appointed by the Governor with the advice and consent of the state senate. The board approves the individual colleges and universities biennial budget requests and allocations as part of the Minnesota State total budget.

Budgetary control is maintained at the college and university level. Presidents have the authority and responsibility to administer the budget and can transfer money between programs within each college and university without board approval. The budget of a college or university can be legally amended by the authority of the Vice Chancellor or Chief Financial Officer of Minnesota State.

State appropriations do not lapse at fiscal year-end. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums. State appropriation included $1,323,155 and $702,487 in fiscal years 2018 and 2017 respectively, for asset repairs and improvements that are not capitalized.

Capital Appropriation Revenue — Minnesota State is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. The portion of general obligation bond debt service that is payable by the state of Minnesota is recognized by Minnesota State as capital appropriation revenue when the related expenses are incurred. Individual colleges and universities are allocated cash, capital appropriation revenue, and debt based on capital project expenses.

Cash and Cash Equivalents — The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, high liquid deposits having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents include amounts in demand deposits with the Minnesota State Board of Investment, savings accounts, cash management pools, repurchase agreements, and money market funds.

Restricted cash is cash held for capital projects and cash in the Revenue Fund for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses, and net position of revenue producing facilities, which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. Each campus has at least one account in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

Investments — Investments are reported at fair value using quoted market prices. In addition, Minnesota State invests funds held for auxiliary and student activities in various brokerage accounts.

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

Inventories — Inventories are valued at cost using the actual cost, first in first out, retail cost, and weighted average cost methods.

Prepaid Expense — Prepaid expense consists primarily of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

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

Estimated useful lives are as follows:

Asset Type	Useful Life
Buildings	30-40 years
Building improvement	15-20 years
Equipment	3-20 years
Internally developed software	7 years
Library collections	7 years

Equipment includes all items purchased with an original cost of $10,000 and over. Buildings, building improvements, and internally developed software include all projects with a cost of $250,000 and over for projects started since July 1, 2008, and $100,000 and over for projects started prior to July 1, 2008. All land and library collection purchases are capitalized regardless of amount spent.

Funds Held for Others — Funds held for others are assets held primarily for student organizations, faculty and staff health reimbursement accounts.

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for unspent bond proceeds, residence hall deposits, and from grants which have not yet been earned under the terms of the agreement. In fiscal years 2018 and 2017, $2,758,391 and $12,572,041, respectively, was recorded for food service vendor capital investments that will benefit Minnesota State over the next several years. The amount of food service revenue recognized in fiscal years 2018 and 2017 was $3,074,906 and $2,362,297, respectively.

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of Minnesota State facilities as approved through the state's capital budget process. Minnesota State is responsible for a portion of the debt service on the bonds sold for some college and university projects. Minnesota State may sell revenue bonds and may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, net pension liability, early retirement benefits, other postemployment benefits, workers' compensation claims, notes payable, and capital contributions payable associated with Perkins Loan agreements with the United States Department of Education.

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, other postemployment benefits (OPEB), and economic gains/losses related to revenue bond and general obligation bond refunding, which is a result of the difference in the carrying value of the refunded debt and its reacquisition price.

The following tables summarize Minnesota State deferred outflows and inflows:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Related to Pensions:		
Differences between projected and actual investment earnings	$ 11	$ 81,955
Changes in actuarial assumptions	835,838	1,112,978
Contributions paid to plans subsequent to the measurement date	27,264	27,319
Differences between expected and actual experience	9,714	9,492
Changes in proportion	9,938	8,352
Total related to pensions	882,765	1,240,096
Related to OPEB:		
Contributions paid to plan subsequent to measurement date	4,849	4,522
Changes in actuarial assumptions	2,031	2,433
Total related to OPEB	6,880	6,955
Related to Refunding:		
Economic loss on refunding of revenue bonds	2,133	2,323
Total	$ 891,778	$ 1,249,374

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Related to Pensions:		
Differences between projected and actual investment earnings	$ 19,803	$ -
Changes in actuarial assumptions	411,220	47,632
Differences between expected and actual experience	21,778	27,022
Changes in proportion	41,372	31,565
Total related to pensions	494,173	106,219
Related to OPEB:		
Changes in actuarial assumptions	1,923	-
Related to Refunding:		
Economic gain on refunding of general obligation bonds	4,412	4,127
Total	$ 500,508	$ 110,346

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 expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

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

Restricted Student Payments — Restricted student payments consist of room and board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowance. Note 12 to the financial statements provides additional information.

Federal Grants — Minnesota State participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, and TRIO. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the system will record such disallowance at the time the determination is made.

Capital Grants — Minnesota State receives federal, state, and private grants which are restricted for the acquisition or construction of capital assets, or are in kind equipment donations.

Other Postemployment Benefits (OPEB) — For purposes of measuring the total OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to and deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The plan is not funded. GASB Statement No. 75 has been implemented as of July 1, 2017, resulting in a restatement of Minnesota State's net position. Minnesota State recognized an increase in expense of $2,333,000 and $2,658,000, respectively, related to OPEB. This increase is comprised of OPEB expense of $7,182,000 and $7,180,000, net of reduction to expense for yearly contributions of $4,849,000 and $4,522,000 for fiscal years 2018 and 2017, respectively.

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. For the years ended June 30, 2018 and 2017, Minnesota State recognized an increase in expense of $176,787,192 and $235,701,967, respectively, related to defined benefit pensions. This increase is comprised of pension expense of $204,051,371 and $263,020,599, net of reduction to expense for yearly contributions of $27,264,179 and $27,318,632 for fiscal years 2018 and 2017, respectively.

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

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

- *Net investment in capital assets:* capital assets, net of accumulated depreciation and outstanding principal balances of debt and other borrowings attributable to the acquisition, construction or improvement of those assets.

- *Restricted expendable:* net position subject to externally imposed stipulations. Net position restrictions for Minnesota State are as follows:

  Restricted for bond covenants — revenue bond restrictions.

  Restricted for other — includes restrictions for the following:

    Capital projects — restricted for completion of capital projects.

    Debt service — legally restricted debt repayment.

    Donations — restricted per donor requests.

    Faculty contract obligations — for faculty development and travel as required by contracts.

    Loans — college and university capital contributions for Perkins Loans.

Net Position Restricted for Other
(In Thousands)

	2018	2017
Capital projects	$ 817	$ 503
Debt service	47,178	48,958
Donations	4,267	2,908
Faculty contract obligations	8,832	8,308
Loans	3,501	3,621
Total	$ 64,595	$ 64,298

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

New Accounting Standards — Minnesota State has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits.* GASB Statement No. 75 requires Minnesota State to report the total other postemployment benefit (OPEB) liability on the statement of net position, and any deferred outflows of resources and inflows of resources related to the OPEB liability. The July 1, 2016 balance of the OPEB 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 $14,272,000.

(In Thousands)

Total Net Position, Beginning of Year , as Reported	$ 1,727,337
Cumulative Effect of Change in Accounting Principle	(14,272)
Total Net Position, Beginning of Year, as Restated	$ 1,713,065

In November, 2016 the GASB issued Statement No. 83, *Certain Asset 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 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.

In April, 2018 the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* which improves consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements, and to provide additional information about debt. Statement No. 88 is effective for the fiscal year beginning July 1, 2019. Minnesota State has implemented GASB No. 88 in fiscal year 2018.

In June, 2018 the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires interest incurred before the end of a construction period to be recognized as an expenses in the period in which the cost is incurred, and not capitalized as part of the historic cost of a capital asset. GASB No. 89 is effective for years beginning after December 15, 2019 and is applied prospectively. Minnesota State has implemented GASB No. 89 in fiscal year 2018.

In August, 2018 the GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. GASB No. 90 is effective for years beginning after December 15, 2018. The effect GASB Statement No. 90 will have on the fiscal year 2020 financial statements has not yet been determined.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net position previously reported.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the state appropriation, tuition revenues, and most fees are held in the state treasury. In addition, each campus has at least one local bank account. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. 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 an 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. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State's name. All cash and cash equivalents are included in Category 1.

At June 30, 2018 and 2017, the local bank balances were $85,275,235 and $87,138,535, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

The following table summarizes cash and cash equivalents, including amounts reported as restricted cash:

Year Ended June 30 (In Thousands)		
Carrying Amount	2018	2017
Cash, in bank	$ 36,632	$ 37,441
Money markets	9,865	12,366
Repurchase agreements	31,910	28,838
Cash, trustee account (US Bank)	33,715	38,932
Total local cash and cash equivalents	112,122	117,577
Total treasury cash accounts	987,631	883,615
Grand Total	$ 1,099,753	$ 1,001,192

The balance in the state treasury is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent. The Revenue Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services of Revenue Fund cash. The cash accounts are invested in short term, liquid, high quality debt securities.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has foreign checking accounts, denominated entirely in British Pounds. At June 30, 2018 and 2017, the fair value in U.S. Dollars is $89,057 and $120,543, respectively.

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 U.S. 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.

Investments are categorized to give an indication of the level of custodial credit risk. Category 1 includes securities insured, registered, or held by Minnesota State or its agent in Minnesota State's name. All investments are in Category 1.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, Minnesota State 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 Minnesota State policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit investments to the top quality rating categories of a nationally recognized rating agency.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Minnesota State 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. Minnesota State complies 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.

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

- *Level 1* — Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds.

- *Level 2* — Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

- *Level 3* — Inputs that are unobservable and significant to the fair value measurement.

Minnesota State had the following investments and maturities held in various brokerage accounts:

Year Ended June 30, 2018
(In Thousands)

Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$ 3,773	3.94		x	
U.S. agencies	9,440	3.17	x		
Asset backed securities	116	2.42		x	
U.S. treasuries	3,088	0.69	x		
Total	16,417				
Portfolio weighted average maturity		2.88			
Certificates of deposit	3,106			x	
Stock	3,480			x	
Total	$ 23,003				

Year Ended June 30, 2017
(In Thousands)

Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$ 3,985	3.36		x	
U.S. agencies	10,410	3.71	x		
Asset backed securities	175	2.69		x	
U.S. treasuries	1,432	0.29	x		
Total	16,002				
Portfolio weighted average maturity		2.48			
Certificates of deposit	2,270			x	
Stock	3,934			x	
Total	$ 22,206				

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2018 and 2017. At June 30, 2018 and 2017, the total accounts receivable balances were $88,089,652 and $90,342,578, respectively, less an allowance for uncollectible receivables of $32,014,841 and $32,337,084, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2018	2017
Tuition	$ 42,585	$ 44,907
Fees	8,623	9,783
Sales and service	9,357	10,595
Room and board	4,927	4,845
Third party obligations	6,040	5,681
Inventory	42	229
Interest	5,266	3,058
Capital projects	-	313
Financial aid	4,824	5,669
Direct loans	1,467	896
Other	4,958	4,366
Total accounts receivable	88,089	90,342
Allowance for doubtful accounts	(32,015)	(32,337)
Net accounts receivable	$ 56,074	$ 58,005

The allowance for uncollectible accounts has been 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. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $27,247,542 and $27,680,619 for fiscal years 2018 and 2017, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. Also, included in prepaid expenses for fiscal years 2018 and 2017 were $3,685,927 and $3,430,469, respectively, stemming from prepaid maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provided the funding for those loans. The Perkins Loan Program expired September 30, 2017. No new Perkins loan advances are permitted after June 30, 2018. Funds collected will be returned to the Department and the institution on an annual basis. The Minnesota State loans collection unit and the colleges and universities are responsible for loans collection. As of June 30, 2018 and 2017, the loans receivable for this program totaled $29,664,478 and $30,436,828, respectively, less an allowance for uncollectible loans of $2,959,868 and $2,861,412, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2018 and 2017 follow:

Year Ended June 30, 2018
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 86,306	$ 439	$ 149	$ -	$ 86,596
Construction in progress	64,881	60,693	-	(51,274)	74,300
Total capital assets, not depreciated	151,187	61,132	149	(51,274)	160,896
Capital assets, depreciated:					
Buildings and improvements	3,524,933	4,064	-	51,274	3,580,271
Equipment	205,021	12,672	10,344	-	207,349
Internally developed software	9,778	442	2,445	-	7,775
Library collections	40,065	4,634	6,033	-	38,666
Total capital assets, depreciated	3,779,797	21,812	18,822	51,274	3,834,061
Less accumulated depreciation:					
Buildings and improvements	1,688,990	112,698	-	-	1,801,688
Equipment	142,445	13,584	10,745	-	145,284
Internally developed software	4,975	1,460	2,445	-	3,990
Library collections	23,465	5,524	6,033	-	22,956
Total accumulated depreciation	1,859,875	133,266	19,223	-	1,973,918
Total capital assets depreciated, net	1,919,922	(111,454)	(401)	51,274	1,860,143
Total capital assets, net	$ 2,071,109	$ (50,322)	$ (252)	$ -	$ 2,021,039

Year Ended June 30, 2017
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 86,290	$ 16	$ -	$ -	$ 86,306
Construction in progress	163,164	90,754	-	(189,037)	64,881
Total capital assets, not depreciated	249,454	90,770	-	(189,037)	151,187
Capital assets, depreciated:					
Buildings and improvements	3,320,962	14,934	-	189,037	3,524,933
Equipment	200,400	13,930	9,309	-	205,021
Internally developed software	8,423	1,493	138	-	9,778
Library collections	41,146	5,273	6,354	-	40,065
Total capital assets, depreciated	3,570,931	35,630	15,801	189,037	3,779,797
Less accumulated depreciation:					
Buildings and improvements	1,581,076	107,914	-	-	1,688,990
Equipment	138,477	13,496	9,528	-	142,445
Internally developed software	3,893	1,220	138	-	4,975
Library collections	24,095	5,724	6,354	-	23,465
Total accumulated depreciation	1,747,541	128,354	16,020	-	1,859,875
Total capital assets, depreciated, net	1,823,390	(92,724)	(219)	189,037	1,919,922
Total capital assets, net	$ 2,072,844	$ (1,954)	$ (219)	$ -	$ 2,071,109

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

		2018		2017
Purchased services	$	16,794	$	14,638
Grants to others		733		946
Supplies		4,371		7,058
Repairs and maintenance		2,216		5,537
Other payables		6,314		3,593
Employee benefits		3,667		3,204
Inventory		1,214		1,116
Interest		7,607		4,475
Capital projects		6,738		4,733
Total accounts payable	$	49,654	$	45,300

In addition, as of June 30, 2018 and 2017, Minnesota State had payable from restricted assets in the amounts of $14,057,388 and $5,968,367, respectively, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

The changes in long-term obligations for fiscal years 2018 and 2017 follow:

Year Ended June 30, 2018
(In Thousands)

		Beginning Balance		Increases		Decreases		Ending Balance		Current Portion
Liabilities for:										
Bond premium	$	30,483	$	2,288	$	3,948	$	28,823	$	-
Capital leases		18,020		-		4,279		13,741		4,247
General obligation bonds		221,428		11,677		21,774		211,331		20,851
Notes payable		11,528		-		498		11,030		671
Revenue bonds		300,465		-		17,885		282,580		18,795
Capital contributions payable		27,176		-		1,080		26,096		2,851
Total long-term obligations	$	609,100	$	13,965	$	49,464	$	573,601	$	47,415

Year Ended June 30, 2017 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 26,049	$ 8,607	$ 4,173	$ 30,483	$ -
Capital leases	21,635	660	4,275	18,020	4,264
General obligation bonds	235,526	9,051	23,149	221,428	21,120
Notes payable	4,842	7,286	600	11,528	582
Revenue bonds	313,105	55,095	67,735	300,465	17,885
Capital contributions payable	27,914	-	738	27,176	-
Total long-term obligations	$ 629,071	$ 80,699	$ 100,670	$ 609,100	$ 43,851

The changes in other compensation benefits for fiscal years 2018 and 2017 follow:

Year Ended June 30, 2018 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 141,847	$ 18,846	$ 17,104	$ 143,589	$ 18,500
Early termination benefits	2,756	1,306	2,207	1,855	1,222
Other postemployment benefits	64,823	7,098	6,763	65,158	-
Workers' compensation	4,617	1,670	1,946	4,341	2,450
Total other compensation benefits	$ 214,043	$ 28,920	$ 28,020	$ 214,943	$ 22,172

Year Ended June 30, 2017 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 138,947	$ 19,557	$ 16,657	$ 141,847	$ 17,104
Early termination benefits	3,011	1,730	1,985	2,756	1,939
Other postemployment benefits	60,831	9,613	5,621	64,823	-
Workers' compensation	4,462	2,085	1,930	4,617	2,539
Total other compensation benefits	$ 207,251	$ 32,985	$ 26,193	$ 214,043	$ 21,582

Bond Premium — Bonds were issued in fiscal years 2018 and 2017, resulting in net premiums of $2,288,373 and $8,606,801 respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

Capital Leases — Liabilities for capital leases include those leases that are generally defined as one that transfers benefits and risk of ownership to the lessee. Note 11 to the financial statements provides additional information.

General Obligation Bonds — The state of Minnesota sells general obligation bonds to finance Minnesota State capital projects. The interest rate on these bonds ranges from 2.0 to 5.5 percent. Minnesota State is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded.

Notes Payable — Notes payable consist of financing agreements on computers and equipment that are under the equipment capitalization threshold. All projects completed under Minnesota Statutes, Section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Sections 16C.14 and 16C.144, have an interest component. The interest rate for the financing agreements ranges from 1.17 percent to 4.92 percent.

Notes Payable also consist of energy efficiency loans granted by energy companies in order to improve energy efficiency in college and university buildings. The interest rate for the energy loans are tied to the prime interest rate at the time of the project.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at an institution. Revenue bonds currently outstanding have interest rates of 1.0 percent to 5.3 percent.

The revenue bonds are payable solely from and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2038. Annual principal and interest payments on the bonds are expected to require less than 25.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $365,127,343. Principal and interest paid for the current year and total customer net revenues were $29,133,135 and $116,988,202 respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2038. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 36.6 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,548,341. For the current year, principal and interest paid and total customer net revenues were $172,337 and $480,088, respectively. These revenue bonds have a variable interest rate of 1.75 percent to 3.65 percent.

Capital Contributions Payable — The liabilities of $26,096,010 and $27,175,528 at June 30, 2018 and 2017, respectively, represent the amount Minnesota State would owe the federal government if it were to discontinue the Perkins loan program.

Compensated Absences — Minnesota State employees accrue vacation, sick, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences will be converted to a health care savings plan account or severance pay under specific conditions as defined in bargaining unit contracts. This leave is liquidated only at the time of termination from state employment.

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned, as well as the right to continue, at the employer's expense, health insurance benefits until death. Note 9 to the financial statements provides additional information.

Other Postemployment Benefits — Other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program, retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. Note 10 to the financial statements provides additional information.

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $4,341,204 and $4,616,911 at June 30, 2018 and 2017, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end and is an undiscounted estimate of future payments.

Net Pension Liability — The net pension liability of $1,275,522,145 and $1,844,012,156 at June 30, 2018 and 2017, respectively, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 14 to the financial statements provides additional information.

Principal and interest payment schedules are provided in the table below for general obligation bonds, revenue bonds, capital leases and notes payable.

There are no payment schedules for bond premium, compensated absences, early termination benefits, other postemployment benefits, workers' compensation, net pension liability, and capital contributions payable.

Long-Term Obligation Repayment Schedule
(In Thousands)

	General Obligation Bonds		Revenue Bonds	
Fiscal Years	Principal	Interest	Principal	Interest
2019	$ 20,851	$ 9,619	$ 18,795	$ 10,569
2020	20,340	8,431	19,245	9,958
2021	19,475	7,463	19,225	9,330
2022	18,900	6,479	19,835	8,642
2023	17,394	5,589	20,120	7,870
2024-2028	69,168	17,115	94,410	27,673
2029-2033	34,655	5,817	75,435	9,223
2034-2038	10,548	854	15,515	831
Total	$ 211,331	$ 61,367	$ 282,580	$ 84,096

Long-Term Obligation Repayment Schedule
(In Thousands)

	Capital Leases		Notes Payable	
Fiscal Years	Principal	Interest	Principal	Interest
2019	$ 4,247	$ 1,480	$ 671	$ 312
2020	4,141	1,563	588	290
2021	1,754	486	633	270
2022	1,316	222	681	248
2023	308	138	640	224
2024-2028	1,230	455	3,102	834
2029-2033	745	127	3,033	419
2034-2036	-	-	1,682	63
Total	$ 13,741	$ 4,471	$ 11,030	$ 2,660

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned.

Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2018 and 2017.

Minnesota State College Faculty (MSCF) contract — The MSCF contract allows former Minnesota Community College Faculty Association (MCCFA) faculty members who meet certain eligibility and a combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary, and health insurance paid for one year after separation. The cash incentive can be paid either in one or two payments.

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2018 and 2017 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2018	17	$ 475
2017	32	1,202

The MSCF contract allows former United Technical College Educators (UTCE) faculty members who meet certain eligibility and a combination of age and years of service requirements, to receive either an early retirement incentive cash payment, the right to continue, at the employer's expense, health insurance benefits until age 65 or death; or a combination of both. The cash incentive can be paid either in one or more payments.

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2018 and 2017 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2018	63	$ 992
2017	39	937

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2018 and 2017 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2018	16	$ 327
2017	16	360

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2018 and 2017 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2018	3	$ 61
2017	9	257

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description — Minnesota State provides health insurance benefits for certain retired employees under the "Minnesota State Colleges and Universities Postretirement Medical Plan", a single employer fully insured plan**,** as required by Minnesota Statutes, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the plan. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

As of the July 1, 2016 actuarial valuation, the following current and former employees were covered by benefit terms under the plan:

Active employees	11,925
Inactive employees or beneficiaries currently receiving benefits	593
Inactive employees entitled to but not yet receiving benefits	-
Total	12,518

Actuarial Methods and Assumptions — The total OPEB liability for Minnesota State was measured as of June 30, 2017 and the total OPEB liability was determined by an actuarial valuation as of July 1, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial assumptions:

Inflation	2.75 percent per year
Initial Medical Trend Rate	3.80 to 6.40 percent
Ultimate Medical Trend Rate	3.80 percent
Year Ultimate Trend Rate Reached	2073

Discount Rate — The discount rate used to measure the total OPEB liability at June 30, 2018 and 2017 was 3.58 percent and 2.85 percent, respectively. The discount rate was based on a municipal bond rate based on the 20-year Bond Buyer GO Index as of the end of the fiscal year. The plan is not funded by assets in a separate trust. Therefore, the municipal bond rate was applied to all period of projected benefit payments to determine the total OPEB liability.

Changes in Total OPEB Liability — The changes in total OPEB liability are as follows:

Changes in Total OPEB Liability
(In Thousands)

	2018	Restated 2017
Balance, Beginning of Year	$ 64,823	$ 60,831
Changes for the Year		
Service Cost	5,167	4,404
Interest	1,931	2,374
Changes in Assumptions	(2,241)	2,835
Benefit Payments	(4,522)	(5,621)
Net Changes	335	3,992
Balance, End of Year	$ 65,158	$ 64,823

There have been no changes in benefit terms since the previous valuation.

Changes were made in assumptions that affect the total OPEB liability since the prior valuation. The discount rate was changed from 2.85 percent to 3.58 percent.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate — The following presents the Minnesota State total OPEB liability calculated using the discount rate above, as well as the total OPEB liability if it were calculated using a discount rate that is one percentage lower or one percentage higher than the current discount rate:

Sensitivity of Total OPEB Liability to Changes in the Discount Rate (In Thousands)

	2018			2017		
	Percent		Amount	Percent		Amount
1 Percent Lower	2.58	$	68,224	1.85	$	67,771
Current Discount Rate	3.58		65,158	2.85		64,823
1 Percent Higher	4.58		62,088	3.85		61,838

Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the Minnesota State total OPEB liability, calculated using the healthcare cost trend rates, as well as the total OPEB liability if it were calculated using a discount rate that is one percentage lower (5.40 percent decreasing to 2.80 percent) or one percentage higher (7.40 percent decreasing to 4.80 percent) than the current healthcare cost trend rate (6.40 percent decreasing to 3.80 percent):

Sensitivity of Total OPEB Liability to changes in the Health Care Trend Rate (In Thousands)

		2018		2017
1 Percent Lower	$	58,712	$	58,735
Current Trend Rate		65,158		64,823
1 Percent Higher		72,664		71,908

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources — For the years ended June 30, 2018 and 2017, Minnesota State recognized an increase in benefit expense of $7,182,000 and $7,180,000, respectively, related to OPEB. At June 30, 2018 and 2017, Minnesota State reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources Year Ended June 30 (In Thousands)

		2018		2017
Contributions made subsequent to the measurement date	$	4,849	$	4,522
Changes in actuarial assumptions		2,031		-
Total	$	6,880	$	4,522

Deferred Inflows of Resources Year Ended June 30 (In Thousands)

		2018		2017
Changes in actuarial assumptions	$	1,923	$	2,433

Amounts reported as deferred outflows of resources related to OPEB resulting from Minnesota State contributions subsequent to the measurement date and before the end of the fiscal year will be recognized as a reduction of the total OPEB liability in the following fiscal year. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

(In Thousands)		
Fiscal Year		Amount
2019	$	84
2020		84
2021		84
2022		84
2023		84
Therafter		(312)
Total	$	108

11. LEASE AGREEMENTS

Operating Leases — Minnesota State is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2018 and 2017, totaled $18,573,133 and $19,034,546, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net position.

In March 2005, an operating lease agreement between Zeller-World Trade, L.L.C. and the state of Minnesota on behalf of the System Office was executed for existing and additional expansion leased space in the amount of $11,025,612. The lease was effective beginning August 1, 2005 and was for a period of 10 years. In March 2011, the lease was amended to a 17 year period and a total amount of $18,558,680. Future minimum payments under the operating lease include the System Office's current share of real estate taxes and other operating expenses.

On August 1, 2017 an operating lease agreement between Stadium Heights Apartments, LLLP and the state of Minnesota on behalf of Minnesota State University, Mankato was extended for existing leased space in the amount of $8,489,424 for a period of 5 years.

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

Year Ended June 30 (In Thousands)		
Fiscal Year		Amount
2019	$	14,651
2020		9,552
2021		7,571
2022		7,016
2023		2,718
2024-2028		5,592
2029-2033		987
2034-2038		260
2039-2043		277
2044-2048		294
2049-2053		313
2054-2055		98
Total	$	49,329

Capital Leases — Minnesota State has entered into several capital lease agreements. Current and noncurrent portions of the capital leases are reported separately.

- In fiscal year 2002, St. Cloud State University guaranteed revenue bonds issued by the city of St. Cloud Housing and Redevelopment Authority to the foundation. The proceeds of the bonds were used to fund an addition to the Atwood Memorial Center in the amount of $4,704,344 and a stadium and student recreation center in the amount of $10,084,954.

- In fiscal year 2003, Minnesota State University Moorhead entered into a lease with the Minnesota State University Moorhead Alumni Foundation, Inc. The lease was a $3,940,000, thirty year capital lease for John Neumaier Hall Apartments.

- In fiscal year 2005, the Minnesota State University, Mankato entered into a fifteen year, $3,281,428 (principal and interest) capital lease for an emergency generator.

- In fiscal year 2011, St. Cloud State University entered into lease agreements with Wedum St. Cloud Housing LLC for the Coborn Plaza residence hall and Welcome Center space for a term of ten years with two successive options for five year extensions. The annual rent ranges from $3,579,960 to $4,165,032. The Welcome Center has been extended for an additional five years to August 2025, the residence hall lease will end in August 2020.

The total cost of all capital assets acquired with capital leases and corresponding accumulated depreciation at June 30, 2018, are $53,684,172 and $34,161,417 respectively.

Income Leases — Minnesota State has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2018 and 2017 totaled $3,553,979 and $3,331,175, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position.

Future expected income receipts for existing lease agreements are as follows:

Year Ended June 30
(In Thousands)

Fiscal Year		Amount
2019	$	2,523
2020		1,239
2021		941
2022		656
2023		339
2024		15
Total	$	5,713

12. TUITION, FEES, SALES AND ROOM AND BOARD

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

Year Ended June 30
(In Thousands)

	2018			2017		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 795,056	$ (270,019)	$ 525,037	$ 789,073	$ (267,837)	$ 521,236
Fees	91,067	(20,324)	70,743	89,762	(20,635)	69,127
Sales and room and board	118,234	(10,426)	107,808	125,807	(11,630)	114,177
Restricted student payments	112,934	(3,122)	109,812	116,642	(3,133)	113,509
Total	$ 1,117,291	$ (303,891)	$ 813,400	$ 1,121,284	$ (303,235)	$ 818,049

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2018
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 131,797	$ 46,743	$ 78,773	$ 1,341	$ 258,654
Institutional support	129,265	48,680	80,839	1,336	260,120
Instruction	534,391	172,346	164,017	5,762	876,516
Public service	6,445	2,021	7,778	64	16,308
Research	4,354	1,128	4,529	42	10,053
Student services	152,460	51,356	83,760	1,531	289,107
Auxiliary enterprises	43,759	16,267	152,178	11,319	223,523
Scholarships and fellowships	-	-	50,650	-	50,650
Add GASB 68/75 expense	-	179,128	-	-	179,128
Less interest expense	-	-	-	(21,395)	(21,395)
Total operating expenses	$ 1,002,471	$ 517,669	$ 622,524	$ -	$ 2,142,664

Year Ended June 30, 2017
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 136,610	$ 46,948	$ 79,379	$ 1,543	$ 264,480
Institutional support	124,736	45,339	74,041	1,134	245,250
Instruction	532,690	170,811	161,539	6,254	871,294
Public service	6,935	1,945	7,361	102	16,343
Research	3,729	970	3,812	38	8,549
Student services	152,339	49,856	81,788	1,885	285,868
Auxiliary enterprises	41,889	15,174	149,409	10,276	216,748
Scholarships and fellowships	-	-	45,424	-	45,424
Add GASB 68/75 expense	-	238,355	-	-	238,355
Less interest expense	-	-	-	(21,232)	(21,232)
Total operating expenses	$ 998,928	$ 569,398	$ 602,753	$ -	$ 2,171,079

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund

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

Benefits Provided — MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.00 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.50 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 1.20 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.70 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 1.70 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 2018 and 2017. The Minnesota State contributions to the General Plan for the fiscal years ending June 30, 2018 and 2017 were $12,548,022 and $12,412,891, 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, 2017 and 2016, 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:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases for the June 30, 2017 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. 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 disabilitants 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.

Actuarial assumptions used in the June 30, 2017 and 2016, valuation were based on the results of actuarial experience studies dated July 30, 2015, for the period July 1, 2008, through June 30, 2014, reviews of inflation and investment return assumptions, dated September 11, 2014 and September 11, 2017, and a recent liability study obtained by SBI.

The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.50 percent. The rate was determined using a building-block method. The selection of the rate was determined by looking at the asset class target 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 Allocation Percentage	Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic equities	39	5.10
International equities	19	5.00
Domestic bonds	20	0.75
Private markets	20	5.90
Cash	2	0.00
Total	100	

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2017 and 2016, was 5.42 percent and 4.17 percent, respectively.

As of June 30, 2017, 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, 2017 and future contributions were sufficient to finance the benefit payments through 2049. As a result, the long-term expected rate of return on pension plan assets was applied to projected benefit payments through 2049, and the municipal bond rate was applied to all benefit payments after the point of asset depletion. The discount rate at June 30, 2017 was based on the expected rate of return on pension plan investments of 7.50 percent and the long-term municipal bond rate of 3.56 percent (based on Fidelity Index's 20-Year Municipal GO AA Index as of June 30, 2017), resulting in a single discount rate of 5.42 percent.

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, resulting in a single discount rate of 4.17 percent.

Net Pension Liability — At June 30, 2018 and 2017, Minnesota State reported a liability of $574,921,476 and $999,422,865, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation 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 period July 1, 2016, through June 30, 2017, and July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2018 and 2017, the Minnesota State proportion was 7.75 percent and 8.13 percent, respectively.

Changes were made to plan provisions since the prior measurement date. Actuarial equivalent factors were updated to reflect current mortality and interest assumptions, effective January 1, 2017.

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The Combined Service Annuity loads were revised. The single discount rate was changed from 4.17 percent to 5.42 percent.

Pension Liability Sensitivity — The following presents the Minnesota State 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:

	Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)			
	2018		2017	
	Percent	Amount	Percent	Amount
1 Percent Lower	4.42	$ 805,534	3.17	$ 1,317,688
Current Discount Rate	5.42	574,921	4.17	999,423
1 Percent Higher	6.42	386,479	5.17	743,544

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, 2018 and 2017, Minnesota State recognized an increase in expense of $88,703,608 and $143,492,226, respectively, related to pensions.

At June 30, 2018 and 2017, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ -	$ 43,982
Changes in actuarial assumptions	460,904	639,128
Contributions paid to MSRS subsequent to the measurement date	12,548	12,413
Differences between expected and actual economic experience	4,065	1,368
Changes in proportion	1,906	3,203
Total	$ 479,423	$ 700,094

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ 13,803	$ -
Changes in actuarial assumptions	313,772	47,632
Differences between expected and actual economic experience	15,972	25,272
Changes in proportion	18,007	8,665
Total	$ 361,554	$ 81,569

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
2019	$ 37,415
2020	76,606
2021	79,268
2022	(87,968)
Total	$ 105,321

Teachers Retirement Fund

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

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

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

Contributions — Minnesota Statute Chapter 354 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. TRA Basic Plan members and Coordinated Plan members were required to contribute 11.0 percent and 7.50 percent, respectively, of their annual covered salary in fiscal years 2018 and 2017. In fiscal years 2018 and 2017, the employer was required to contribute 11.50 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. Minnesota State contributions to the TRA for the fiscal years ended June 30, 2018 and 2017, were $13,647,521 and $13,754,222, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2017 and 2016, 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, 2017	June 30, 2016
Inflation	2.50 percent per year	2.75 percent per year
Active member payroll growth	3.00 percent per year	3.50 percent per year
Investment rate of return	7.50 percent	8.00 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants 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.

Actuarial assumptions used in the June 30, 2017 and 2016 valuations were based on the results of actuarial experience studies dated June 5, 2015 that covered the six-year period beginning July 1, 2008 and ending June 30, 2014.

The long-term expected rate of return on pension plan investments is 7.50 percent. An experience study of the economic assumptions prepared in 2017 recommended that the long-term rate of return be reduced to 7.50 percent from 8.00 percent. The review considered long-term historical data, estimates inherent in current market date, and an analysis in which best estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) were developed using assumptions for each major asset class, as well as estimates of variability and correlations, provided by the Minnesota State Board of Investment (SBI). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage then adding expected inflation.

The target asset allocation and best estimates of geometric rates of return for each major asset class, as provided by the SBI are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic equities	39	5.10
International equities	19	5.00
Domestic bonds	20	0.75
Private markets	20	5.90
Cash	2	0.00
Total	100	

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2017 and 2016, was 5.12 percent and 4.66 percent, respectively. As of June 30, 2017 and 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, 2017 and 2016 and future contributions were sufficient to finance the benefit payments through 2053 and 2052, respectively. As a result, the long-term expected rate of return on pension plan assets was applied to projected benefit payments through 2053 and 2052, respectively, and the municipal bond rate was applied to all benefit payments after the point of asset depletion.

The discount rate at June 30, 2017 and 2016 was based on the expected rate of return on pension plan investments of 7.50 and 8.00 percent, respectively, and the municipal bond index rate of 3.56 and 3.01 percent, respectively. The municipal bond index rate used is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate, formerly published monthly by the Board of Governors of the Federal Reserve System, resulting in a single discount rate of 5.12 percent and 4.66 percent, respectively.

Net Pension Liability — At June 30, 2018 and 2017, Minnesota State reported a liability of $684,949,723 and $823,265,102, respectively, for its proportionate share of TRF net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by TRF during the measurement period July 1, 2016 through June 30, 2017 and July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of TRF's participating employers. At June 30, 2018 and 2017, the Minnesota State proportion was 3.43 percent and 3.45 percent, respectively.

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

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The discount rate was changed from 4.66 percent to 5.12 percent. The investment return assumption was changed from 8.00 percent to 7.50 percent. The cost of living adjustment was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years. The assumptions for inflation, payroll growth, general wage growth and salary increases were all adjusted.

Pension Liability Sensitivity — The following presents the Minnesota State 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:

	Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)			
	2018		2017	
	Percent	Amount	Percent	Amount
1 Percent Lower	4.12	$ 904,002	3.66	$ 1,060,571
Current Discount Rate	5.12	684,950	4.66	823,265
1 Percent Higher	6.12	506,439	5.66	629,987

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2018 and 2017, Minnesota State recognized expense of $114,935,083 and $118,129,465, respectively, related to pensions. At June 30, 2018 and 2017, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ -	$ 35,615
Changes in actuarial assumptions	372,491	469,457
Contributions paid to TRA subsequent to the measurement date	13,648	13,754
Differences between expected and actual economic experience	5,158	8,064
Changes in proportion	8,009	5,093
Total	$ 399,306	$ 531,983

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ 5,367	$ -
Changes in actuarial assumptions	95,951	-
Differences between expected and actual economic experience	4,810	23
Changes in proportion	20,541	19,714
Total	$ 126,669	$ 19,737

Amounts reported as deferred outflows of resources related to pensions resulting from the 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
2019	$	67,765
2020		79,743
2021		72,266
2022		59,668
2023		(20,453)
Total	$	258,989

General Employees Retirement Fund

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

Benefits Provided — PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.50 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1.00 percent increases. The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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

Contributions — Minnesota Statute Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar years 2018 and 2017. In calendar years 2018 and 2017, the employer was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. Minnesota State contributions to the GERF for the plan's fiscal years ended June 30, 2018 and 2017 were $1,028,430 and $1,085,141 respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The total pension liability in the June 30, 2017 and 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases for the June 30, 2017 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. Salary increases for the June 30, 2016 valuation were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2017 and 2016, valuation were based on the results of actuarial experience studies dated June 30, 2015, for the period July 1, 2008, through June 30, 2014, reviews of inflation and investment return assumptions, dated September 11, 2014 and September 11, 2017, and a recent asset liability study obtained by SBI.

Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent thereafter.

The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. The best-estimate ranges were developed in a 2014 and 2017 economic assumption review using capital market assumptions from SBI and eight additional investment consultants. Ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages and then adding expected inflation.

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

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic stocks	39	5.10
International stocks	19	5.00
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	100	

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2017 and 2016 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee, employer and state contributions will be made at the current statutory rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability — At June 30, 2018 and 2017, Minnesota State reported a liability of $14,631,978 and $20,241,923, respectively, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on Minnesota State contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 and July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 and 2017, the Minnesota State proportion was 0.2292 percent and 0.2493 percent, respectively.

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

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The Combined Service Annuity loads were revised. The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Pension Liability Sensitivity — The following presents the Minnesota State 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:

	Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)			
	2018		2017	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	$ 22,695	6.50	$ 28,750
Current Discount Rate	7.50	14,632	7.50	20,242
1 Percent Higher	8.50	8,031	8.50	13,234

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2018 and 2017, Minnesota State recognized expense of $517,897 and $1,488,954, respectively, related to pensions. At June 30, 2018 and 2017, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ -	$ 2,260
Changes in actuarial assumptions	2,429	4,366
Contributions paid to PERA subsequent to the measurement date	1,028	1,086
Differences between expected and actual economic experience	482	60
Changes in proportion	-	56
Total	$ 3,939	$ 7,828

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ 633	$ -
Changes in actuarial assumptions	1,467	-
Differences between expected and actual economic experience	941	1,644
Changes in proportion	2,468	2,652
Total	$ 5,509	$ 4,296

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
2019	$ (1,432)
2020	39
2021	(584)
2022	(621)
Total	$ (2,598)

St. Paul Teachers Retirement Fund

<u>Plan Description</u> — The St. Paul Teachers Retirement Fund Association (SPTRFA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund (SPTRF). SPTRFA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. SPTRF is a separate statutory entity and administered by a board of trustees. The Board consists of nine members elected from the association membership and one member appointed by the Board of ISD 625, St. Paul Public Schools (SPPS).

SPTRFA membership consists of licensed teachers employed by SPPS, certain licensed teachers employed by Saint Paul College, certain licensed teachers employed by charter schools within the City of St. Paul, and SPTRFA staff. Until its merger into the Minnesota State system on July 1, 1995, all Saint Paul College teachers were contributing members of the Fund. As part of the merger process, SPTRFA-covered Saint Paul College teachers were given the option to remain active members of the Fund or to choose other retirement coverage, thus, converting to a deferred status with SPTRFA.

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

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

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	Years of service	2.0 percent per year
Coordinated	First ten years if service years are up to July 1, 2015	1.2 percent per year
	First ten years if service years are July 1, 2015 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2015	1.7 percent per year
	All other years of service if service years are July 1, 2015 or after	1.9 percent per year

With these provisions:
- Normal retirement age is 65 with less than 30 years of allowable service and age 55 with 30 or more years of allowable service.
- 0.25 percent per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits

For years of service prior to July 1, 2015 a level formula of 1.7 percent per year for coordinated members and 2.5 percent per year for basic members is applied. For years of service July 1, 2015 and after, a level formula of 1.9 percent per year for coordinated members and 2.5 for basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after July 1, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

Contributions — Minnesota Statute Chapter 354A sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. SPTRFA Basic Plan members and Coordinated Plan members were required to contribute 10.00 percent and 7.50 percent, respectively, of their annual covered salary in fiscal years 2018 and 2017. In fiscal years 2018 and 2017, the employer was required to contribute 13.64 percent of pay for Basic Plan members and 10.34 percent for Coordinated Plan members. Minnesota State contributions to the SPTRFA for the fiscal year ended June 30, 2018 and 2017, were $40,206 and $66,378, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2017 and 2016, 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:

Inflation	4.00 percent per year
Active member payroll growth	4.00 to 8.90 percent per year
Investment rate of return	8.00 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 are assumed to be 1.00 percent every January 1 through 2041, 2.00 percent through 2051, and 2.50 percent thereafter.

Actuarial assumptions used in the June 30, 2017 and 2016, valuation were based on the results of actuarial experience studies for the period July 1, 2006, through June 30, 2011, with an update of economic assumptions in 2013.

The long-term expected rate of return on pension plan investments is 8.00 percent. This rate was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the board of trustees after considering input from investment consultant and actuary.

Best estimates for each major asset class included in the target asset allocation as of the measurement date of June 30, 2017, are summarized as follows:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Arithmetic)Percentage
Domestic equity	35	6.55
International equity	20	6.98
Fixed income	20	3.45
Real assets	11	3.90
Private equity & alternatives	9	7.47
Opportunistic	5	6.08
Total	100	

Discount Rate — The discount rate used to measure the total pension liability was 8.00 percent. This discount rate was based on the expected rate of return on pension plan investments of 8.00 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, SPTRFA's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments of 8.00 percent was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability — At June 30, 2018 and 2017, Minnesota State reported a liability of $1,018,968 and $1,082,266, respectively, for its proportionate share of the SPTRFA's net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on Minnesota State contributions received by SPTRFA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 and July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of SPTRA's participating employers. At June 30, 2018 and 2017, the Minnesota State proportion was 0.176 percent and 0.171 percent, respectively.

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

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The Combined Service Annuity loads were revised. The assumed cost-of-living adjustments were changed from 1.00 per year through 2054, 2.00 percent beginning 2055, 2.50 percent beginning 2066 to1.00 percent per year through 2041, 2.00 percent beginning 2042, and 2.50 percent beginning 2052.

Pension Liability Sensitivity — The following presents the Minnesota State 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:

Sensitivity of Net Pension Liability at Current Single Discount Rate
(In Thousands)

	2018		2017	
	Percent	Amount	Percent	Amount
1 Percent Lower	7.00	$ 1,342	7.00	$ 1,375
Current Discount Rate	8.00	1,019	8.00	1,082
1 Percent Higher	9.00	749	9.00	837

Pension Plan Fiduciary Net Position — Detailed information about the plan's fiduciary net position is available in a separately-issued financial report. That report may be obtained by writing SPTRFA at 1619 Dayton Avenue, Room 309, St. Paul, MN, 55104-6206.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the fiscal years ended June 30, 2018 and 2017, Minnesota State recognized a reduction in expense of $105,217 and $90,046, respectively, related to pensions. At June 30, 2018 and 2017, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ 11	$ 98
Changes in actuarial assumptions	14	27
Contributions paid to SPTRFA subsequent to the measurement date	40	66
Differences between expected and actual economic experience	9	-
Changes in proportion	23	-
Total	$ 97	$ 191

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Differences between projected and actual investment earnings	$ -	$ -
Changes in actuarial assumptions	30	-
Differences between expected and actual economic experience	55	83
Changes in proportion	356	534
Total	$ 441	$ 617

Amounts reported as deferred outflows of resources related to pensions resulting from the 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
2019	$ (199)
2020	(174)
2021	9
2022	(20)
Total	$ (384)

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

Required contributions for Minnesota State were:

(In Thousands)		
Fiscal Year	Employer	Employee
2018	$ 28,554	$ 21,415
2017	28,729	21,547
2016	28,287	21,215

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 5.0 percent of eligible compensation up to a defined maximum annual contribution as specified in the following table:

Member Group		Eligible Compensation		Maximum Annual Contribution
Administrators	$	6,000 to 60,000	$	2,700
Inter Faculty Organization		6,000 to 51,000		2,250
Middle Management Association Unclassified		6,000 to 40,000		1,700
Minnesota Association of Professional Employees Unclassified		6,000 to 40,000		1,700
Minnesota State College and Faculty Association		6,000 to 56,000		2,700
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

Minnesota State provides a match in amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for Minnesota State were:

(In Thousands)		
Fiscal Year		Amount
2018	$	15,300
2017		15,442
2016		14,860

Voluntary Retirement Savings Plans

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

The Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statute, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2018, the plan has 4,924 participants.

In addition, to the state's Deferred Compensation program, Minnesota State also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2018, the plan has 3,980 participants.

15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a standalone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains, losses, assets, deferred outflows, liabilities and deferred inflows that are required by an external party to be accounted for separately.

Minnesota State Revenue Fund issues revenue bonds to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at an institution. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory. Note 8 to the financial statements provides additional information on the pledging of the revenues.

Summary financial information for Minnesota State Revenue Fund for the fiscal years ended June 30, 2018 and 2017 follows:

Summary Financial Information for Revenue Fund
(In Thousands)

	2018	Restated 2017
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 95,872	$ 93,201
Restricted assets	70,744	73,862
Capital assets, net	407,743	421,003
Total assets	574,359	588,066
Deferred outflows of resources	18,839	25,495
Total assets and deferred outflows of resources	593,198	613,561
Liabilities		
Current liabilities	43,839	42,660
Noncurrent liabilities	304,465	335,837
Total liabilities	348,304	378,497
Deferred inflows of resources	10,079	2,153
Total liabilities and deferred inflows of resources	358,383	380,650
Net Position		
Net investment in capital assets	145,941	142,868
Restricted	88,874	90,043
Total net position	$ 234,815	$ 232,911
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 116,988	$ 120,261
Depreciation expense	(23,907)	(22,729)
Other operating expenses	(84,176)	(84,994)
Net operating income	8,905	12,538
Nonoperating revenues (expenses)		
Interest income	2,182	1,256
Private grants	362	-
Capital contributions	763	1,194
Interest expense	(10,308)	(9,395)
Loss on disposal of capital assets	-	(33)
Total nonoperating revenues (expenses)	(7,001)	(6,978)
Change in net position	1,904	5,560
Total net position, beginning of year , as reported	232,911	227,827
Cumulative change in accounting principle	-	(476)
Total net position, beginning of year, as restated	232,911	227,351
Total net position, end of year	$ 234,815	$ 232,911
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 32,806	$ 37,679
Noncapital and related financing activities	312	(50)
Capital and related financing activities	(42,463)	(43,473)
Investing activities	2,158	1,593
Net decrease in cash and cash equivalents	(7,187)	(4,251)
Cash and cash equivalents, beginning of year	161,906	166,157
Cash and cash equivalents, end of year	$ 154,719	$ 161,906

Summary financial information for Itasca Community College's Residence Halls for the fiscal years ended June 30, 2018 and 2017 follows:

Summary Financial Information for Itasca Community College
(In Thousands)

	2018	Restated 2017
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 547	$ 464
Restricted assets	296	296
Capital assets, net	2,597	2,715
Total assets	3,440	3,475
Deferred outflows of resources	103	133
Total assets and deferred outflows of resources	3,543	3,608
Liabilities		
Current liabilities	140	143
Noncurrent liabilities	1,383	1,554
Total liabilities	1,523	1,697
Deferred inflows of resources	60	17
Total liabilities and deferred inflows of resources	1,583	1,714
Net Position		
Net investment in capital assets	1,257	1,245
Restricted	296	296
Unrestricted	407	353
Total net position	$ 1,960	$ 1,894
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 481	$ 493
Depreciation expense	(119)	(119)
Other operating expenses	(260)	(273)
Net operating income	102	101
Nonoperating revenues (expenses)		
Interest/Other income	6	5
Interest expense	(42)	(45)
Total nonoperating revenues (expenses)	(36)	(40)
Changes in net position	66	61
Total net position, beginning of year, as reported	1,894	1,904
Cumulative change in accounting principle	-	(71)
Total net position, beginning of year, as restated	1,894	1,833
Total net position, end of year	$ 1,960	$ 1,894
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 249	$ 243
Capital and related financing activities	(173)	(175)
Investing activities	6	5
Net increase in cash and cash equivalents	82	73
Cash and cash equivalents, beginning of year	424	351
Cash and cash equivalents, end of year	$ 506	$ 424

16. COMMITMENTS

Minnesota State Involvement in Ongoing Projects as of June 30, 2018
(In Thousands)

Institution *	Project	Total Cost	Spent to Date	Balance	Completion Date
Bemidji	Academic Learning Center	$ 22,525	$ 974	$ 21,551	Oct 2020
Hibbing	Campus Renovation and Rightsizing	11,610	4,497	7,113	Jan 2019
Moorhead	Snarr Residence Hall Renovation	9,300	7,003	2,297	Aug 2018
Rochester	Memorial and Plaza Halls Renovation	23,853	960	22,893	Aug 2020
St. Paul	Health and Science Alliance Center Addition	18,829	16,842	1,987	Jan 2019
St. Cloud	Eastman Hall Renovation	19,437	4,997	14,440	Mar 2019
South Central	STEM and Healthcare Renovation	9,600	230	9,370	Aug 2020
Winona	Education Village	31,208	12,854	18,354	Mar 2019

* Bemidji State University; Hibbing Community College; Minnesota State University Moorhead; Rochester Community & Technical College; Saint Paul College; St. Cloud State University; South Central College; Winona State University

17. CONTINGENCIES

Lawsuits and other claims furnish a basis for potential liability. The following matters, in which Minnesota State, its officers or employees are respondents, may constitute a material claim, litigation or assessment in excess of $500,000.

A group of female student athletes initiated a lawsuit against St. Cloud State University after it decided to eliminate certain sports programs in March 2016. Trial is scheduled to commence on November 26, 2018. St. Cloud State University is vigorously contesting the case. If the matter is not resolved before trial, the federal district court could issue a permanent injunction, which may cause St. Cloud State University to incur substantial costs, and order St. Cloud State University to pay Plaintiffs' attorneys' fees.

18. RISK MANAGEMENT

Minnesota State is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. 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 the 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 2018 and 2017.

Coverage Type	Amount
Property and contents institution deductible	$1,000 to $250,000
Property and contents fund responsibility	$1,000,000
Propery and contents primary re-insurer coverage	$1,000,001 to $1,250,000,000
Third party bodily injury and property damage per person	$500,000
Third party bodily injury and property damage per occurrence	$1,500,000

Minnesota State retains the risk of loss. Minnesota State did not have any settlements in excess of coverage in the last three years.

The Minnesota Risk Management Fund purchases other insurance on the open market for some campuses. These generally include student intern professional liability, dental clinics professional liability, aviation insurance, and a variety of bonds.

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 Colleges and Universities 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.

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2018 and 2017.

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/18	$ 4,617	$ 1,670	$ 1,946	$ 4,341
Fiscal Year Ended 6/30/17	4,462	2,085	1,930	4,617

19. COMPONENT UNITS

The following legally separate tax exempt foundations affiliated with Minnesota State are included as a major component unit of Minnesota State. The Bemidji State University Alumni and Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation, St. Cloud State University Foundation, Inc., and Winona State University Foundation are formed for the purpose of obtaining and disbursing funds for the sole benefit of their college or university.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, Minnesota State presents the combined statement of financial position and the combined statement of activities of the foundations on separate pages of the financial statements.

Minnesota State received $15,507,053 and $15,931,585 in fiscal years 2018 and 2017, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

The seven state universities do not appoint any members of their respective boards and the resources held by the foundations can only be used by, or for the benefit of, the associated university. Each foundation's relationship with their institution is such that exclusion of the foundation's financial statements would cause the Minnesota State financial statements to be misleading or incomplete. The foundations are considered a component unit of their university and their statements are discretely presented in the universities' financial statements.

The foundations financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions and reported as follows:

- *Unrestricted*: those assets that are not subject to donor imposed stipulations.
- *Temporarily restricted*: those assets subject to donor imposed restrictions as to the use of those donated assets.
- *Permanently restricted*: those assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

Investments — The foundations' investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

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

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

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2018	Level 1	Level 2	Level 3
Money market	$ 8,816	$ 8,809	$ 7	$ -
Fixed income	19,114	11,864	7,250	-
Mutual funds	97,288	73,630	16,482	7,176
Equity securities	65,334	35,694	29,640	-
Bonds/U.S treasuries	22,059	1,652	20,407	-
Other	3,622	-	21	3,601
Total	$ 216,233	$ 131,649	$ 73,807	$ 10,777

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2017	Level 1	Level 2	Level 3
Money market	$ 7,839	$ 7,833	$ 6	$ -
Fixed income	21,373	10,150	5,023	6,200
Mutual funds	56,521	41,179	15,342	-
Equity securities	87,355	58,685	28,670	-
Bonds/U.S treasuries	22,643	6,194	16,449	-
Real estate	18	-	-	18
Other	4,863	-	16	4,847
Total	$ 200,612	$ 124,041	$ 65,506	$ 11,065

Capital Assets — Summaries of the foundations' capital assets for fiscal years 2018 and 2017 follow:

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

	2018	2017
Capital assets, not depreciated:		
Land	$ 2,188	$ 2,421
Total capital assets, not depreciated	2,188	2,421
Capital assets, depreciated:		
Buildings and improvements	23,364	23,364
Equipment	1,683	1,929
Leasehold improvments	107	107
Total capital assets, depreciated	25,154	25,400
Total accumulated depreciation	(10,617)	(10,358)
Total capital assets depreciated, net	14,537	15,042
Total capital assets, net	$ 16,725	$ 17,463

Long-Term Obligations — Payment schedule of the foundations' long-term obligations follow. Excluded from the table below is St. Cloud State University Foundation's unamortized bond premium of $475,859, which is amortized over the life of the bonds and also $134,154, which is unamortized debt issuance costs. Also excluded from the table below is Winona State University Foundation's loan agreement with a local bank of $1,564,376.

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2019	$ 1,949
2020	2,008
2021	2,058
2022	2,098
2023	2,140
Thereafter	5,231
Total	$ 15,484

Endowment Funds — The foundations' endowment includes both donor-restricted funds and funds designated by the foundation board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the foundation board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets as of June 30, 2018 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2018
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 4,183	$ 40,473	$ 132,359	$ 177,015
Change in value of trusts	-	-	-	-
Contributions	5	410	5,221	5,636
Investment income	118	7,976	15	8,109
Amounts appropriated for expenditures	(64)	(1,992)	11	(2,045)
Other transfers	(8)	(2,728)	257	(2,479)
Net assets, end of year	$ 4,234	$ 44,139	$ 137,863	$ 186,236

Changes in endowment net assets as of June 30, 2017 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2017
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 3,598	$ 30,103	$ 117,508	$ 151,209
Change in value of trusts	21	2,581	34	2,636
Contributions	92	817	14,653	15,562
Investment income	275	12,759	19	13,053
Amounts appropriated for expenditures	61	(4,213)	99	(4,053)
Other transfers	136	(1,574)	46	(1,392)
Net assets, end of year	$ 4,183	$ 40,473	$ 132,359	$ 177,015

20. SUBSEQUENT EVENTS

General Obligation Bond Issuances — In August 2018 $56.8 million in general obligation state bonds Series 2018A were issued at a true interest rate of 3.102 percent. Minnesota State pays one third of the debt service on those bonds, over the life of the bonds. The first debt service payment on these bonds was in November 2018.

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Schedule of Changes in Total OPEB Liability
(In Thousands)

	2018	2017
Balance, Beginning of Year	$ 64,823	$ 60,831
Changes for the Year		
Service Cost	5,167	4,404
Interest	1,931	2,374
Changes in Assumptions	(2,241)	2,835
Benefit Payments	(4,522)	(5,621)
Net Changes	335	3,992
Balance, End of Year	$ 65,158	$ 64,823
Covered-Employee Payroll	$ 950,401	$ 938,713
Total OPEB Liability as a Percentage of Covered-Employee Payroll	6.86	6.91

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, 2018 and 2017

There have been no changes in benefit terms since the previous valuation.

Changes were made in assumptions that affect the total OPEB liability since the prior valuation. They are summarized as follows:

- The discount rate was changed from 2.85 percent to 3.58 percent.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
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	8.35	$ 135,402	$ 213,833	63.32	87.64
June 30, 2015	8.19	126,222	221,209	57.06	88.32
June 30, 2016	8.13	999,423	223,418	447.33	47.51
June 30, 2017	7.75	574,921	225,689	254.74	62.73

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	$ 12,166	$ 12,166	$ —	$ 221,209	5.50
June 30, 2016	12,288	12,288	—	223,418	5.50
June 30, 2017	12,413	12,413	—	225,689	5.50
June 30, 2018	12,548	12,548	—	228,146	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, 2018 and 2017

Changes were made to plan provisions since the prior actuarial valuation. Actuarial equivalent factors were updated to reflect current mortality and interest assumptions, effective January 1, 2017.

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 Combined Service Annuity loads were revised.
- The discount rate was changed from 4.17 percent to 5.42 percent.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
TEACHERS RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	3.84	$ 176,742	$ 175,083	100.95	81.50
June 30, 2015	3.60	222,609	179,801	123.81	76.77
June 30, 2016	3.45	823,265	179,147	459.55	44.88
June 30, 2017	3.43	684,950	183,390	373.49	51.57

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By TRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 13,485	$ 13,485	$ —	$ 179,801	7.50
June 30, 2016	13,436	13,436	—	179,147	7.50
June 30, 2017	13,754	13,754	—	183,390	7.50
June 30, 2018	13,647	13,647	—	181,967	7.50

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

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 discount rate was changed from 4.66 percent to 5.12 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The cost of living adjustment was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- The assumptions for inflation, payroll growth, general wage growth and salary increases were all adjusted.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.3271	$ 15,366	$ 17,173	89.48	78.75
June 30, 2015	0.2807	14,547	15,807	92.03	78.19
June 30, 2016	0.2493	20,242	15,093	134.11	68.91
June 30, 2017	0.2292	14,632	14,467	101.14	75.90

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By PERA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 1,185	$ 1,185	$ —	$ 15,807	7.50
June 30, 2016	1,132	1,132	—	15,093	7.50
June 30, 2017	1,085	1,085	—	14,467	7.50
June 30, 2018	1,028	1,028	—	13,712	7.50

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

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 Combined Service Annuity loads were revised.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
ST. PAUL TEACHERS RETIREMENT FUND

Schedule of Proportionate Share of SPTRA 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	0.311	$ 1,666	$ 2,082	80.03	66.12
June 30, 2015	0.238	1,385	1,566	88.41	63.56
June 30, 2016	0.171	1,082	1,067	101.46	60.26
June 30, 2017	0.176	1,019	1,062	95.94	64.07

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By SPTRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 86	$ 86	$ —	$ 1,566	5.50
June 30, 2016	64	64	—	1,067	6.00
June 30, 2017	66	66	—	1,062	6.25
June 30, 2018	40	40	—	619	6.50

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, 2018 and 2017

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 Combined Service Annuity loads were revised.
- The assumed cost-of-living adjustments were changed from 1.00 per year through 2054, 2.00 percent beginning 2055, 2.50 percent beginning 2066 to1.00 percent per year through 2041, 2.00 percent beginning 2042, and 2.50 percent beginning 2052.

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SUPPLEMENTARY SECTION

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (Minnesota State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Minnesota State's basic financial statements, and have issued our report thereon dated November 13, 2018. Our report includes references to other auditors who audited the financial statements of Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represent 82% of the total assets and 81% of the total revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnesota State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnesota State's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnesota State'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 Minnesota State's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting (Continued)

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 Minnesota State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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 Minnesota State's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnesota State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2018

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MINNESOTA STATE

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