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MINNESOTA STATE

Revenue Fund
Annual Financial Report

For the years ended June 30, 2018 and 2017

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

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Prepared by:

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES
REVENUE FUND

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 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 statements for the Minnesota State Colleges and Universities (Minnesota State) Revenue Fund for the fiscal years ended June 30, 2018 and 2017. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The Finance Division and the finance staff at the colleges and universities participating in the Revenue Fund are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report.

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

Within the financial statements, which were audited by CliftonLarsonAllen LLP, and received an unmodified opinion, you will find statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The Revenue Fund ended fiscal year 2018 with total net position of $234.8 million. Reserve balances, including requirements mandated by bond covenants, are invested with the Minnesota State Board of Investment or a Trustee.

Revenue Fund program directors are responsible for designing programs and services that meet the needs of students at their individual colleges or universities. All revenues and expenses are managed at each of the colleges and universities. The Revenue Fund provides about 9,310 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

Laura M. King
Vice Chancellor - Chief Financial Officer

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

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

All financial activity of the Minnesota State Colleges and Universities is included in the state of Minnesota Comprehensive Annual Financial Report.

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund, which is a proprietary fund of the state of Minnesota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Revenue Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

A member of Nexia International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Revenue Fund as of June 30, 2018 and 2017, and the respective changes in financial position, and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 1, the financial statements present only the Revenue Fund and do not purport to, and do not present fairly the financial position of Minnesota State Colleges and Universities as of June 30, 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, the University 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, the University'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, the schedule of the proportionate share of net pension liability, and the schedule of contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
Minnesota State Colleges and Universities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the Revenue Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revenue Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2018

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INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities (Minnesota State), for the fiscal years ended June 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

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

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position improved during fiscal year 2018 compared to fiscal year 2017. The Revenue Fund's financial position also improved at the end of fiscal year 2017 compared to fiscal year 2016. In fiscal year 2018 operating revenues decreased by $3.2 million, or 2.7 percent. Operating expenses increased by $0.4 million, or 0.3 percent, in fiscal year 2018 compared to fiscal year 2017. Of the increase $3.1 million is related to additional salaries and benefits due to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Cash and cash equivalents at year-end totaled $154.7 million, a decrease of $7.2 million from fiscal year 2017. Capital assets, net, excluding restricted construction in progress, decreased $7.6 million due to $16.3 million in new projects completed offset by a $23.9 million increase in accumulated depreciation. In February 2017, the Revenue Fund refunded the Series 2007A, 2007C and 2008A revenue bonds saving approximately $6.7 million in future interest costs over the remaining 10 years of the bonds. Also, in February 2017, the Revenue Fund issued new revenue bonds totaling $10.6 million, with maturity dates of 10 and 20 years.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by $10.4 million, with an offsetting reduction to fiscal year 2015 salaries and benefits expense of $0.8 million, resulting in net position decrease of $9.6 million in fiscal year 2015, related to the GASB Statement No. 68 implementation. An additional reduction to fiscal year 2016 salaries and benefits expense of $1.0 million resulted in a net position decrease of $8.6 million at the end of fiscal year 2016, related to the GASB Statement No. 68 implementation. Fiscal year 2017 brought an additional $4.4 million of salaries and benefits expense.

Fiscal year 2018 brought an additional $3.2 million of salaries and benefits expense bringing the total net position effect of GASB Statement No. 68 implementation to $16.3 million. The reduction to net position related to GASB Statement No. 68 was offset on the statement of net position by a net pension liability, deferred outflows and deferred inflows of resources. It is worth noting, that the impact on fiscal years 2018, 2017 and 2016 salaries and benefits expense is a result of a more comprehensive approach to pension expense, which reflects estimates of the amounts employees earned during the year, rather than actual contributions to the pension plans.

The actuarially derived net pension liability, deferred outflows, and deferred inflows of resources, can vary between years due to actuarial assumption changes, thus affecting financial statements comparability between years.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was implemented during fiscal year 2018. The beginning net position as of July 1, 2016 was restated by $476,000, with an increase to fiscal year 2017 salaries and benefits expense of $50,000, resulting in a net position decrease of $1.1 million in fiscal year 2017, related to the GASB Statement No. 75 implementation. A reduction to fiscal year 2018 salaries and benefits expense of $114,000 resulted in a net position decrease of $306,000 at the end of fiscal year 2018, related to the GASB Statement No. 75 implementation.

The following table shows the impact to unrestricted net position due to the implementation of GASB Statement No. 68 and GASB Statement No. 75:

(In Thousands)

	2018	Restated 2017	2016
Balance at June 30	$ 68,127	$ 68,682	$ 73,161
Prior year effect of GASB Statements No. 68 and No. 75	13,410	8,607	9,602
Current year effect of GASB Statements No. 68 and No. 75	3,238	5,051	(995)
Balance at June 30, without effect of GASB Statements No. 68 and No. 75	$ 84,775	$ 82,340	$ 81,768

USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

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

Condensed statements of net position for fiscal years ended June 30, 2018, 2017, and 2016 follows:

(In Thousands)

	2018	Restated 2017	2016
Current assets	$ 95,872	$ 93,201	$ 92,766
Noncurrent assets	70,744	73,862	96,875
Capital assets, net	407,743	421,003	386,323
Deferred outflows of resources	18,839	25,495	2,085
Total assets and deferred outflows of resources	593,198	613,561	578,049
Current liabilities	43,839	42,660	29,786
Noncurrent liabilities	304,465	335,837	315,963
Deferred inflows of resources	10,079	2,153	4,473
Total liabilities and deferred inflows of resources	358,383	380,650	350,222
Net position	$ 234,815	$ 232,911	$ 227,827

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by $2.5 million to total $91.0 million at June 30, 2018. This is compared to the increase of $0.4 million to total $88.5 million at June 30, 2017.

Current restricted assets — consist of unspent bond proceeds and debt service monies at June 30, 2018, which decreased $9.7 million from June 30, 2017. The decrease is primarily due to continued construction expenditures related to $9.5 million of revenue bonds sold during fiscal year 2017. This is compared to the fiscal year 2017 decrease of $4.7 million from June 30, 2016.

Noncurrent restricted assets — consist of construction in progress which increased by $6.6 million at June 30, 2018 as construction on bond funded projects from the 2017 sale of revenue bonds were completed. This is compared to a decrease of $18.3 million from June 30, 2016.

Capital assets, net — increased $7.6 million to total $401.2 million at June 30, 2018. This is compared to an increase of $29.9 million to total $408.7 million at June 30, 2017. This activity represents the portion of bonding projects completed and repairs and renovations of facilities funded through current operations. Also included is $0.5 million of food service vendor capital investments during fiscal year 2018. Food service vendor investments were $12.5 million during fiscal year 2017. These investments were made at the state universities that provide dining services to all students.

Current liabilities — consist primarily of accounts payable, interest payable, current portion of long-term debt and unearned revenue. Current liabilities increased by $1.2 million in fiscal year 2018 compared to fiscal year 2017. This is compared to a $12.9 million increase in fiscal year 2017. The increase in fiscal year 2017 is primarily from the addition of $12.5 million of unearned revenue related to the food service vendor’s investments in capital assets.

Noncurrent liabilities — consist primarily of revenue bonds payable, capital leases payable and net pension liability. Noncurrent liabilities decreased by $30.8 million to total $304.5 million at June 30, 2018. This was due to a decrease in net pension liability of $11.0 million along with $17.8 million in revenue bond principal repaid. This is compared to an increase of $19.3 million in fiscal year 2017 compared to fiscal year 2016. This was due to an increase in net pension liability of $27.9 million along with the issuance of $10.6 million of revenue bonds offset by $16.3 million in revenue bond principal repaid during fiscal year 2017.

Net position — represent the residual interest in the Revenue Fund's total assets and deferred outflows of resources after deducting total liabilities and deferred inflows of resources. The Revenue Fund's net position at June 30, 2018, 2017, and 2016 is summarized as follows:

(In Thousands)			
	2018	Restated 2017	2016
Net investment in capital assets	$ 145,941	$ 142,868	$ 133,905
Restricted expendable	20,747	21,781	20,761
Unrestricted	68,127	68,262	73,161
Total net position	$ 234,815	$ 232,911	$ 227,827

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

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

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in improving the quality of services provided at the colleges and universities is the development and renewal of the physical assets used to provide housing, dining, parking, wellness centers and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress increased in fiscal year 2018 by $0.8 million as a result of continuing construction expenditures for projects that were started in prior fiscal years. These construction projects included new construction along with major repair and replacement projects financed through fiscal year 2015 and 2017 bond proceeds and operating revenues. See comments in the section titled "Economic Factors That Will Affect the Future."

Capital outlays totaled $17.2 million in fiscal year 2018, compared to $39.1 million in fiscal year 2017 and $35.1 million in fiscal year 2016. Capital outlays were primarily for a renovation of Snarr Hall at Minnesota State University Moorhead, a surface parking lot expansion at Metropolitan State University, and parking lot improvements at Normandale Community College along with smaller renovations of residence halls, student unions, and parking facilities.

Construction in progress totaled $11.4 million in fiscal year 2018, compared to $10.5 million in fiscal year 2017 and $24.1 million in fiscal year 2016. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 6 to the financial statements. Note 4 to the financial statements shows that buildings and improvements increased by $12.9 million due to the completion of projects that were in construction in progress at the end of fiscal year 2017.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

Summarized statements for the fiscal years ended June 30, 2018, 2017, and 2016 follows:

(In Thousands)

	2018	Restated 2017	2016
Operating revenues:			
Room and board, fees and sales and services	$ 112,489	$ 116,201	$ 116,297
Other	4,499	4,060	2,885
Total operating revenues	116,988	120,261	119,182
Nonoperating revenues:			
Interest	2,182	1,256	907
Other	1,125	1,194	1,466
Total nonoperating revenues	3,307	2,450	2,373
Total revenues	120,295	122,711	121,555
Operating expenses:			
Salaries and benefits	31,136	31,630	26,114
Depreciation	23,907	22,729	19,643
Other	53,040	53,364	53,917
Total operating expenses	108,083	107,723	99,674
Nonoperating expenses:			
Interest expense	10,308	9,395	11,164
Other	-	33	468
Total nonoperating expenses	10,308	9,428	11,632
Total expenses	118,391	117,151	111,306
Change in net position	1,904	5,560	10,249
Net position, beginning of year, as reported	232,911	227,827	217,578
Cumulative effect of change in accounting principle	-	(476)	-
Net position, beginning of year, as restated	232,911	227,351	217,578
Net position, end of year	$ 234,815	$ 232,911	$ 227,827

The fiscal year 2018 total revenues decreased by 2.0 percent. This was primarily due to a 6.9 percent decrease in the overall occupancy in the residence hall program offset by a 3.0 percent average increase to room and board rates charged.

Compensation is the Revenue Fund's single largest expense component. Salaries and benefits decreased $0.5 million, or 1.6 percent, to total $31.1 million in fiscal year 2018 compared to fiscal year 2017. Excluding the GASB Statements No. 68 and No. 75 effect to compensation expense for both fiscal year 2018 and fiscal year 2017 results in a $0.7 million, or 2.6 percent increase, over fiscal year 2017.

Change in accounting principle — reflects a $0.5 million decrease to beginning net position due to GASB Statement No. 75 being implemented in fiscal year 2018. This required fiscal year 2017 beginning net position to be restated. Note 7 to the financial statements discusses this further.

CASH AND CASH EQUIVALENTS

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

The Revenue Fund will continue its management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include utilizing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services.

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

The Revenue Fund will look towards refunding the 2009 Series A Revenue Bonds during fiscal year 2019 with the goal of achieving future interest cost savings. Bond refunding's have historically occurred in the month of February. The bond market conditions in January 2019 will aid in the cost/benefit analysis for this potential bond refunding.

REQUESTS FOR INFORMATION

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

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

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

	2018	Restated 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 90,978	$ 88,492
Accounts receivable, net	4,894	4,709
Total current assets	95,872	93,201
Current Restricted Assets		
Cash and cash equivalents	63,741	73,414
Total current restricted assets	63,741	73,414
Noncurrent Restricted Assets		
Construction in progress	7,003	448
Total noncurrent restricted assets	7,003	448
Total restricted assets	70,744	73,862
Noncurrent Assets		
Land and construction in progress	6,553	12,261
Capital assets, net	401,190	408,742
Total noncurrent assets	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		
Salaries and benefits payable	1,193	1,034
Accounts payable	4,021	4,100
Unearned revenue	15,290	14,793
Payable from restricted assets	1,137	1,219
Interest payable	2,729	3,016
Current portion of long-term debt	19,140	18,185
Other compensation benefits	329	313
Total current liabilities	43,839	42,660
Noncurrent Liabilities		
Other liabilities	89	107
Noncurrent portion of long-term debt	278,642	298,984
Other compensation benefits	2,844	2,868
Net pension liability	22,890	33,878
Total 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 expendable	20,747	21,781
Unrestricted	68,127	68,262
Total Net Position	$ 234,815	$ 232,911

The notes are an integral part of the financial statements.

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

	2018	Restated 2017
Operating Revenues		
Room and board	$ 81,338	$ 84,642
Fees	24,373	24,603
Sales and services	6,778	6,956
Other income	4,499	4,060
Total operating revenues	116,988	120,261
Operating Expenses		
Salaries and benefits	31,136	31,630
Food service	26,728	26,675
Other purchased services	12,970	13,522
Supplies	4,645	4,186
Repairs and maintenance	3,944	4,162
Depreciation	23,907	22,729
Other expense	4,753	4,819
Total operating expenses	108,083	107,723
Operating income	8,905	12,538
Nonoperating Revenues (Expenses)		
Private grants	362	-
Interest income	2,182	1,256
Interest expense	(10,308)	(9,395)
Total nonoperating revenues (expenses)	(7,764)	(8,139)
Income Before Other Revenues, Expenses, Gains, or Losses	1,141	4,399
Capital contributions	763	1,194
Loss on disposal of capital assets	-	(33)
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

The notes are an integral part of the financial statements.

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

	2018	Restated 2017
Cash Flows from Operating Activities		
Cash received from customers	$ 113,677	$ 117,011
Cash payments to suppliers for goods or services	(53,288)	(52,225)
Cash payments to employees	(27,583)	(27,107)
Net cash flows provided by operating activities	32,806	37,679
Cash Flows from Noncapital and Related Financing Activities		
Private grants	362	-
Loans to other schools	(50)	(50)
Net cash flows provided by (used in) noncapital financing activities	312	(50)
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(13,430)	(25,494)
Capital contributions	763	1,194
Proceeds from borrowing	-	55,095
Proceeds from bond premium	-	6,540
Interest paid	(11,597)	(12,791)
Repayment of lease principal	(444)	(412)
Repayment of bond principal	(17,755)	(67,605)
Net cash flows used in capital and related financing activities	(42,463)	(43,473)
Cash Flows from Investing Activities		
Investment earnings	2,158	1,593
Net cash flows provided by 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

The notes are an integral part of the financial statements.

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

	2018	Restated 2017
Operating Income	$ 8,905	$ 12,538
Adjustment to Reconcile Operating Income to		
Net Cash Flows provided by Operating Activities		
Change in pension plan related items:		
Net pension liability	(10,989)	27,904
Deferred inflows of resources	7,895	(2,320)
Deferred outflows of resources	6,445	(21,201)
Depreciation	23,907	22,729
Donated and lease equipment not capitalized	-	492
Change in assets and liabilities		
Accounts receivable	(339)	(529)
Accounts payable	(230)	665
Salaries and benefits payable	158	76
Other compensation benefits and related deferred inflows and outflows	44	64
Unearned revenue	(2,974)	(2,721)
Other	(16)	(18)
Net reconciling items to adjust operating income	23,901	25,141
Net cash flows provided by operating activities	$ 32,806	$ 37,679
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 3,220	$ 2,923
Loss on disposal of capital assets	-	(33)
Investment earnings on account	35	11
Food service vendor investment	3,471	14,866
Deferred loss on bond refunding	-	2,269
Amortization of bond premium	1,199	1,215
Amortization of bond discount	(6)	(10)
Amortization of deferred loss on refunding	(191)	(191)

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

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

Basis of Presentation — The reporting policies of the Revenue Fund, a fund of the Minnesota State Colleges and Universities (Minnesota State), conform to generally accepted accounting principles (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows include financial activities of the Revenue Fund.

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

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

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

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

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

Estimated useful lives are as follows:

Asset Type	Useful Life
Buildings	30-40 years
Building Improvements	20 years
Equipment	3-20 years

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

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

Bonds Payable (In Thousands)

Bond Series	Average Interest Rate Percentage	Fiscal Year 2018	Fiscal Year 2017	Maturity Date
Series 2008B	5.1057	$ 140	$ 275	October 1, 2018
Series 2009A	4.2106	22,085	23,530	October 1, 2029
Series 2009B	4.3682	1,115	1,625	October 1, 2019
Series 2011A	4.2659	63,310	66,660	October 1, 2031
Series 2011B	3.4801	1,505	1,845	October 1, 2021
Series 2011C	3.4492	9,670	10,160	October 1, 2032
Series 2012A	1.8379	6,490	7,680	October 1, 2022
Series 2012B	2.0279	4,335	5,140	October 1, 2022
Series 2013A	2.7835	49,115	51,250	October 1, 2033
Series 2013B	1.9142	2,390	2,760	October 1, 2023
Series 2015A	3.0770	30,390	32,140	October 1, 2035
Series 2015B	3.4444	39,010	40,835	October 1, 2035
Series 2017A	2.4466	48,780	51,905	October 1, 2037
Series 2017B	2.5859	2,905	3,190	October 1, 2026
	Total	$ 281,240	$ 298,995	

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. Revenue bond principal and interest paid for the current fiscal year was $29,133,135 and total customer net revenues were $116,988,202. Note 6 to the financial statements provides additional information.

Operating Activities — Operating activities as reported in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for providing services, and payments made for services or goods received. Nearly all of the Revenue Fund's revenues and expenses are from exchange transactions. Interest income, which is relied upon for operations, is recorded as nonoperating revenue.

Unearned Revenue — Unearned revenue consists of room deposits on account for fall semester in addition to room and board fees received but not earned for summer session. Also included are food service vendor capital investments that will benefit the Revenue Fund in the near future. The unearned revenue balances related to these capital improvements were $12,927,336 and $12,517,641 for fiscal years ended June 30, 2018 and 2017, respectively. The amount of revenue recognized from these vendor improvements was $3,061,306 and $2,348,697 for fiscal years ended June 30, 2018 and 2017, respectively.

Room and Board, Fees, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of $2,720,852 and $2,672,044 for fiscal years ended June 30, 2018 and 2017, respectively, are reported in Minnesota State system financial statements, but are not reflected in these statements.

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

The following tables summarize the Revenue Fund 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	$ -	$ 1,485
Changes in actuarial assumptions	15,837	20,878
Contributions paid to pension plans subsequent to the measurement date	486	480
Differences between expected and actual experience	167	141
Changes in proportion	105	57
Total related to pensions	16,595	23,041
Related to OPEB:		
Changes in actuarial assumptions	33	46
Contributions paid to plan subsequent to measurement date	79	85
Total related to OPEB	112	131
Related to Refunding:		
Economic loss on refunding of revenue bonds	2,132	2,323
Total	$ 18,839	$ 25,495

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Related to Pensions:		
Differences between projected and actual investment earnings	$ 393	$ -
Changes in actuarial assumptions	8,553	1,081
Differences between expected and actual experience	436	577
Changes in proportion	666	495
Total related to pensions	10,048	2,153
Related to OPEB:		
Changes in actuarial assumptions	31	-
Total	$ 10,079	$ 2,153

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.

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

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

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

- *Net investment in capital assets*: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: net position subject to externally imposed stipulations. Net position restrictions for the Revenue Fund are as follows:

  Restricted for debt service — restricted for repayment of bond debt.
  Restricted for capital projects — restricted for completion of capital projects.

Restricted Expendable
(In Thousands)

	2018	2017
Debt service	$ 19,931	$ 21,278
Capital projects	816	503
Total restricted expendable	$ 20,747	$ 21,781

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

New Accounting Standards — The Revenue Fund has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits.* GASB Statement No. 75 requires the Revenue Fund 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 $476,146.

(In Thousands)

Total Net Position, Beginning of Year, as Reported	$ 227,827
Cumulative Effect of Change in Accounting Principle	(476)
Total Net Position, Beginning of Year, as Restated	$ 227,351

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. The Revenue Fund 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 expense 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. The Revenue Fund 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.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to room and board and most fees are held in the state treasury. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. The statutes further require that such insurance and collateral shall be at least ten percent greater than the amount on deposit, except where the collateral is irrevocable standby letter of credit, in which case the collateral should at least equal the deposits.

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. 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.

As of June 30
(In Thousands)

Carrying Amount	2018	2017
Cash, treasury account	$ 121,004	$ 122,974
Cash, trustee account (US Bank)	33,715	38,932
Total	$ 154,719	$ 161,906

Restricted cash of $63,740,757 and $73,414,435 as of June 30, 2018 and 2017, respectively, represents unexpended bond proceeds, debt service monies and debt service reserve balances. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

Investments — The Minnesota State Board of Investment manages the majority of the state's investments. All investments managed by the State Board of Investment are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24 broadly restricts investments to obligations and stocks of the United States and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally, when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

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

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

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

At June 30, 2018 and June 30, 2017 the Revenue Fund had no debt securities.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Revenue Fund's policy for reducing this risk of loss is to comply with Board Procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Revenue Fund's policy for reducing this risk is to comply with Board Procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments.

At June 30, 2018 and June 30, 2017 the Revenue Fund had no investments.

3. ACCOUNTS RECEIVABLE

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

Summary of Accounts Receivable at June 30
(In Thousands)

	2018	2017
Room and board	$ 4,869	$ 4,943
Fees	1,623	1,638
Sales and service	749	290
Other income	98	313
Total accounts receivable	7,339	7,184
Allowance for uncollectible	(2,445)	(2,475)
Net accounts receivable	$ 4,894	$ 4,709

The allowance for uncollectible accounts for fiscal year 2018 and 2017 are computed based on the following aging schedule:

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

4. CAPITAL ASSETS

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

Year Ended June 30, 2018
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 2,203	$ —	$ —	$ —	$ 2,203
Construction in progress	10,506	13,700	—	(12,853)	11,353
Total capital assets, not depreciated	12,709	13,700	—	(12,853)	13,556
Capital assets, depreciated:					
Buildings	387,687	—	—	500	388,187
Building improvements	301,465	3,470	—	12,353	317,288
Equipment	1,939	32	14	—	1,957
Total capital assets, depreciated	691,091	3,502	14	12,853	707,432
Less accumulated depreciation:					
Buildings	132,089	10,699	—	—	142,788
Building improvements	149,145	13,033	—	—	162,178
Equipment	1,115	175	14	—	1,276
Total accumulated depreciation	282,349	23,907	14	—	306,242
Total capital assets depreciated, net	408,742	(20,405)	—	12,853	401,190
Total capital assets, net	$ 421,451	$ (6,705)	$ —	$ —	$ 414,746

Year Ended June 30, 2017 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 2,203	$ —	$ —	$ —	$ 2,203
Construction in progress	24,053	24,098	—	(37,645)	10,506
Total capital assets, not depreciated	26,256	24,098	—	(37,645)	12,709
Capital assets, depreciated:					
Buildings	352,145	—	—	35,542	387,687
Building improvements	284,495	14,867	—	2,103	301,465
Equipment	2,073	138	272	—	1,939
Total capital assets, depreciated	638,713	15,005	272	37,645	691,091
Less accumulated depreciation:					
Buildings	123,966	8,123	—	—	132,089
Building improvements	134,715	14,430	—	—	149,145
Equipment	1,178	176	239	—	1,115
Total accumulated depreciation	259,859	22,729	239	—	282,349
Total capital assets depreciated, net	378,854	(7,724)	33	37,645	408,742
Total capital assets, net	$ 405,110	$ 16,374	$ 33	$ —	$ 421,451

5. ACCOUNTS PAYABLE AND PAYABLE FROM RESTRICTED ASSETS

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

Summary of Accounts Payable and Payable From Restricted Assets at June 30 (In Thousands)		
	2018	2017
Capital projects	$ 2,233	$ 1,944
Purchased services and other payables	640	927
Repairs and maintenance	376	585
Supplies	772	644
Total accounts payable	4,021	4,100
Payable from restricted assets	1,137	1,219
Total accounts payable and payable from restricted assets	$ 5,158	$ 5,319

6. LONG-TERM OBLIGATIONS

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

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

Year Ended June 30, 2018 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 298,995	$ —	$ 17,755	$ 281,240	$ 18,665
Revenue bond premium/discount	13,446	—	1,193	12,253	—
Capital leases	4,236	—	444	3,792	460
Notes payable	492	5	—	497	15
Totals	$ 317,169	$ 5	$ 19,392	$ 297,782	$ 19,140

Year Ended June 30, 2017 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	$ 311,505	$ 55,095	$ 67,605	$ 298,995	$ 17,755
Revenue bond premium/discount	8,241	6,540	1,335	13,446	—
Capital leases	4,648	—	412	4,236	430
Notes payable	—	492	—	492	—
Totals	$ 324,394	$ 62,127	$ 69,352	$ 317,169	$ 18,185

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	$ 1,927	$ 471	$ 279	$ 2,119	$ 329
Early termination benefits	35	—	35	—	—
Other postemployment benefits	1,219	115	280	1,054	—
Totals	$ 3,181	$ 586	$ 594	$ 3,173	$ 329

Year Ended June 30, 2017 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 1,908	$ 293	$ 274	$ 1,927	$ 278
Early termination benefits	38	35	38	35	35
Other postemployment benefits	1,144	181	106	1,219	—
Totals	$ 3,090	$ 509	$ 418	$ 3,181	$ 313

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

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

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

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

Capital Leases — In November 2001, the Minnesota State board of trustees guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation, Inc. in the amount of $3,940,000. The Foundation used the proceeds to construct John Neumaier Hall Apartments.

The Revenue Fund entered into an operating agreement with the Foundation with a lease term of 30 years. The principal portion outstanding at June 30, 2018 that is guaranteed by the Revenue Fund is $2,530,494.

In March of 2002, the Minnesota State board of trustees guaranteed the repayment of the Series 2002 revenue bonds issued by the Housing and Redevelopment Authority of the City of St. Cloud to the St. Cloud State University Foundation, Inc. in the amount of $16,515,000. The bond proceeds were used to construct and equip a stadium, a fitness center and an addition to the Atwood Memorial Center. The Atwood Memorial Center was completed in the spring of 2004, at which time the Revenue Fund began repayment of $4,796,524 in bond debt attributed to the Atwood Memorial Center, as specified in the operating agreement. In June of 2012, the board of trustees guaranteed the refunding of the Series 2002 revenue bonds. The lease is payable through fiscal year 2023. As of June 30, 2018 $1,260,947 is attributable to the Revenue Fund. The principal portion outstanding that is guaranteed by the Revenue Fund is an additional $3,699,053 at June 30, 2018.

Both agreements contain lease terms meeting the criteria of a capital lease, as defined by the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The gross amount of the leased assets was $8,842,267 and related depreciation as of June 30, 2018 and 2017, was $5,478,284 and $5,103,600 respectively, and is included within buildings and improvements.

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

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

Unless otherwise agreed to by Minnesota State, the obligation under each Guarantee shall be to pay the regularly scheduled lease payments due on account of the guaranteed obligation. As of June 30, 2018 the Revenue Fund had not been required to make any lease payments as guaranteed for either the Minnesota State University Moorhead Alumni Foundation, Inc. or the St. Cloud State University Foundation, Inc.

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

Notes Payable — In July 2016, the Minnesota State board of trustees entered into a lease purchase agreement with the Banc of America Public Capital Corp in the amount of $491,920. This agreement provided funds for the purchase and installation of efficient lighting fixtures in the Centennial Student Union building on the campus of Minnesota State University, Mankato.

Compensated Absences — Revenue Fund employees accrue vacation, sick, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences will be converted to a health care savings plan account or severance pay under specific conditions as defined in bargaining unit contracts. This leave is liquidated in cash or as a credit to a health care savings account only at the time of termination from state employment. There are no payment schedules for compensated absences.

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned. Fiscal year 2018 had an ending balance of zero.

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 7 to the financial statements provides additional information.

Net Pension Liability — The net pension liability of $22,889,569 and $33,878,253 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 8 to the financial statements provides additional information.

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

Long-Term Obligations Repayment Schedule
(In Thousands)

	Revenue Bonds		Capital Leases		Notes Payable	
Fiscal Years	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 18,665	$ 10,529	$ 460	$ 137	$ 15	$ 12
2020	19,110	9,921	474	120	16	12
2021	19,090	9,297	485	103	17	11
2022	19,695	8,612	493	85	18	11
2023	19,975	7,844	175	54	20	10
2024-2028	93,755	27,630	960	186	125	43
2029-2033	75,435	9,223	745	40	176	26
2034-2038	15,515	831	—	—	110	4
Total	$ 281,240	$ 83,887	$ 3,792	$ 725	$ 497	$ 129

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description — The Revenue Fund 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	193
Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	-
Total	203

Actuarial Methods and Assumptions — The total OPEB liability for the Revenue Fund 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	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	2017
Balance, Beginning of Year	$ 1,219	$ 1,144
Changes for the Year		
Service Cost	84	83
Interest	31	45
Changes in Assumptions	(207)	53
Benefit Payments	(73)	(106)
Net Changes	(165)	75
Balance, End of Year	$ 1,054	$ 1,219

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 Revenue Fund 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	$ 1,104	1.85	$ 1,274
Current Discount Rate	3.58	1,054	2.85	1,219
1 Percent Higher	4.58	1,005	3.85	1,163

Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rates — The following presents the Revenue Fund 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	$ 950	$ 1,104
Current Trend Rate	1,054	1,219
1 Percent Higher	1,176	1,352

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources — For the years ended June 30, 2018 and 2017, the Revenue Fund recognized an increase in benefit expense of $116,782 and $134,878, respectively, related to OPEB. At June 30, 2018 and 2017, the Revenue Fund 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
Changes in actuarial assumptions	$ 33	$ 46
Contributions made subsequent to the measurement date	79	85
Total	$ 112	$ 131

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2018	2017
Changes in actuarial assumptions	$ 31	$ -

Amounts reported as deferred outflows of resources related to OPEB resulting from the Revenue Fund 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	$ 1
2020	1
2021	1
2022	1
2023	1
Therafter	(3)
Total	$ 2

8. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund

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

Benefits Provided - MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan.

Annuitants receive benefit increases of 2.00 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 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions - Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.50 percent of their annual covered salary in fiscal years 2018 and 2017. The Minnesota State contributions to the General Plan for the fiscal year ending June 30, 2018 and 2017 were $486,168 and $480,469, 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 the year ending June 30, 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, the Minnesota State Revenue Fund reported a liability of $22,889,569 and $33,878,253, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of those dates.

The Minnesota State proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement periods July 1, 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, 2017 and 2016, the Minnesota State Revenue Fund proportion was 0.38 and 0.33 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 Revenue Fund's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 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	$ 32,071	3.17	$ 44,667
Current Discount Rate	5.42	22,890	4.17	33,878
1 Percent Higher	6.42	15,387	5.17	25,205

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 Revenue Fund recognized an increase in expense of $3,654,477 and $4,864,142, 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	$ -	$ 1,485
Changes in actuarial assumptions	15,837	20,878
Contributions paid to MSRS subsequent to the measurement date	486	480
Differences between expected and actual economic experience	167	141
Changes in proportion	105	57
Total	$ 16,595	$ 23,041

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

	2018	2017
Differences between projected and actual investment earnings	$ 393	$ -
Changes in actuarial assumptions	8,553	1,081
Differences between expected and actual economic experience	436	577
Changes in proportion	666	495
Total	$ 10,048	$ 2,153

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State Revenue Fund 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	$	2,097
2020		4,153
2021		4,291
2022		(4,480)
Total	$	6,061

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

Contributions - There are two member groups participating in the IRAP, a faculty group and an administrators group. For both faculty and administrators, the employer and employee statutory contribution rates are 6.0 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Supplemental Retirement Plan (SRP)

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

Contributions - Participants contribute 5.0 percent of the eligible compensation up to a defined maximum annual contribution as specified in the following table.

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	$ 6,000 to 60,000	$ 2,700
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

The Revenue Fund's contributions under both plans for the fiscal years ended June 30, 2018, 2017, and 2016 were equal to the required contributions for each year, which were $1,157,598, $1,154,388, and $1,164,491, respectively.

9. UNRESTRICTED NET POSITION

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

Unrestricted Net Position
(In Thousands)

	2018	2017
Maintenance and operations	$ 45,467	$ 50,896
Repairs and replacements	22,660	17,786
Total	$ 68,127	$ 68,682

10. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of Minnesota State. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were $6,049,238 and $5,956,564 for the years ended June 30, 2018 and 2017, respectively.

Within the accounts receivable balance, $1,834,602 and $1,788,830 is due from other funds as of June 30, 2018 and 2017, respectively, which is cash held in a local account outside of the Revenue Fund.

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

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

11. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Risk Management Fund. Some colleges and universities also purchase optional physical damage coverage for their newest or most expensive vehicles.

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2018 and 2017.

Coverage Type	Amount
Property and contents in institution deductible	$1,000 to $250,000
Property and contents fund responsibility	$1,000,000
Property 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

The Revenue Fund retains the risk of loss and did not have any settlements in excess of coverage in the last three years.

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

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self-insurance for which Minnesota State pays the cost of claims through the state Workers' Compensation Fund. A Minnesota State workers' compensation payment pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars and claims history. From this pool all workers' compensation claims are paid to the state Workers' Compensation Fund.

12. COMMITMENTS AND CONTINGENCIES

During fiscal year 2018 the Revenue Fund activities included a commitment for the following project:

- Minnesota State University Moorhead expended $7,002,708 to date for renovations to East Snarr Residence Hall. Total project cost is estimated at $9,300,000 with completion expected in August 2018.

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REQUIRED SUPPPLEMENTARY INFORMATION SECTION

MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
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	$ 1,219	$ 1,144
Changes for the Year		
Service Cost	84	83
Interest	31	45
Changes in Assumptions	(207)	53
Benefit Payments	(73)	(106)
Net Changes	(165)	75
Balance, End of Year	$ 1,054	$ 1,219
Covered-Employee Payroll	$ 16,122	$ 18,246
Total OPEB Liability as a Percentage of Covered-Employee Payroll	6.54	6.68

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 UNVERSITIES REVENUE FUND
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.34	$ 5,582	$ 8,339	66.95	87.64
June 30, 2015	0.33	5,974	8,494	70.33	88.32
June 30, 2016	0.33	33,878	8,470	399.98	47.51
June 30, 2017	0.38	22,890	8,736	262.02	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	$ 467	$ 467	$ —	$ 8,494	5.50
June 30, 2016	466	466	—	8,470	5.50
June 30, 2017	480	480	—	8,736	5.50
June 30, 2018	486	486	—	8,839	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. They are summarized as follows:

- 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.

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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 Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund and a proprietary fund of the state of Minnesota as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Revenue Fund's basic financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Revenue Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Minnesota State Colleges and Universities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2018

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

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