



# MINNESOTA STATE

## Revenue Fund Annual Financial Report

For the years ended June 30, 2020 and 2019



# **REVENUE FUND**

**MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM**

## **ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

Prepared by:

Minnesota State Colleges and Universities  
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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, 2020 AND 2019

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# INTRODUCTION



MINNESOTA STATE

November 18, 2020

Board of Trustees  
Devinder Malhotra, Chancellor  
Minnesota State  
30 East 7<sup>th</sup> Street, Suite 350, St. Paul, MN 55101-7804

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, 2020 and 2019. 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 2020 with total net position of \$246.9 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 8,400 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,

Bill Maki  
Vice Chancellor for Finance and Facilities



## **Board of Trustees of the Minnesota State Colleges and Universities**

Ahmitara Alwal  
Asani Ajogun  
Alex Cirillo  
Jay Cowles, Chair  
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Jerry Janezich  
Roger Moe, Vice Chair  
Javier Morillo  
April Nishimura  
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Rudy Rodriguez  
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## **System Officers of the Minnesota State Colleges and Universities**

Devinder Malhotra, Chancellor  
  
Ron Anderson, Senior Vice Chancellor  
Academic and Student Affairs  
  
Bill Maki, Vice Chancellor  
Finance and Facilities  
  
Eric Davis, Vice Chancellor  
Human Resources  
  
Ross Berndt, Interim Vice Chancellor  
Information Technology Services  
  
Gary Cunningham, General Counsel  
  
Noelle Hawton, Chief Marketing and Communications Officer  
  
Andriel Dees, Interim Chief Diversity Officer

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

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

## FINANCIAL SECTION



## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund, which is a proprietary fund of the state of Minnesota, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Revenue Fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Revenue Fund as of June 30, 2020 and 2019, 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, 2020 and 2019, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in total other postemployment benefits 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020, on our consideration of the Revenue Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revenue Fund's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 18, 2020

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)***

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### **INTRODUCTION**

The following discussion and analysis provide 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, 2020, 2019 and 2018. 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 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**

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during fiscal year 2015. The adoption of GASB Statement No. 68 will have a long-term material negative impact on Revenue Fund's financial position.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was implemented during fiscal year 2018. 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. An increase to fiscal year 2019 salaries and benefits expense of \$56,000 resulted in a net position decrease of \$359,000 at the end of fiscal year 2019. An increase to fiscal year 2020 salaries and benefits expense of \$48,000 resulted in a net position decrease of \$407,000 at the end of fiscal year 2020.

It is worth noting, that the impact on fiscal years 2020, 2019 and 2018 salaries and benefits expense due to GASB Statements No. 68 and No. 75 is a result of a more comprehensive approach to pension and other postemployment benefit expense, which reflects estimates of the amounts that employees earned during the year, rather than actual contributions to the plans. The actuarially derived net pension liability, other postemployment benefit (OPEB) liability, deferred outflows, and deferred inflows of resources, can vary between years due to actuarial assumption changes, thus affecting financial statements comparability between years.

The Revenue Fund's overall financial position decreased by \$1.7 million during fiscal year 2020 compared to fiscal year 2019. The Revenue Fund's financial position increased by \$13.8 million at the end of fiscal year 2019 compared to fiscal year 2018. In fiscal year 2020 operating revenues decreased by \$19.9 million, or 16.8 percent. Operating expenses decreased by \$0.2 million, or 0.2 percent, in fiscal year 2020 compared to fiscal year 2019.

Cash and cash equivalents at year-end totaled \$147.6 million, a decrease of \$7.3 million from fiscal year 2019. Capital assets, net, excluding restricted construction in progress, decreased \$16.8 million due to \$7.4 million in new projects completed offset by a \$24.2 million increase in accumulated depreciation. In August 2019, the Revenue Fund partially refunded the Series 2009A revenue bonds saving approximately \$3.3 million in future interest costs over the remaining 10 years of the bonds. Also, in August 2019, the Revenue Fund issued new revenue bonds totaling \$13.8 million, with maturity dates of 10 years.

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)			
	2020	2019	2018
Unrestricted net position balance at June 30	\$ 73,036	\$ 75,153	\$ 68,127
Prior year effect of GASB Statements No. 68 and No. 75	12,023	16,648	13,410
Current year effect of GASB Statements No. 68 and No. 75	257	(4,625)	3,238
Balance at June 30, without effect of GASB No. 68 and No. 75	<u>\$ 85,316</u>	<u>\$ 87,176</u>	<u>\$ 84,775</u>

## USING THE FINANCIAL STATEMENTS

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

## STATEMENTS OF NET POSITION

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

A summary of the Revenue Fund's statements of net position as of June 30, 2020, 2019, and 2018 follows:

(In Thousands)			
	2020	2019	2018
Current assets	\$ 95,665	\$ 97,615	\$ 95,872
Restricted assets	57,996	61,565	70,744
Capital assets, net	383,693	400,940	407,743
Deferred outflows of resources	8,877	13,490	18,839
Total assets and deferred outflows of resources	<u>546,231</u>	<u>573,610</u>	<u>593,198</u>
Current liabilities	41,302	40,930	43,839
Noncurrent liabilities	244,737	266,316	304,465
Deferred inflows of resources	13,277	17,762	10,079
Total liabilities and deferred inflows of resources	<u>299,316</u>	<u>325,008</u>	<u>358,383</u>
Net position	<u>\$ 246,915</u>	<u>\$ 248,602</u>	<u>\$ 234,815</u>

*Current assets* — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents decreased by \$3.7 million to total \$89.6 million at June 30, 2020. This is compared to the increase of \$2.4 million to total \$93.4 million at June 30, 2019.

*Current restricted assets* — consist of unspent bond proceeds and debt service monies at June 30, 2020, which decreased \$3.6 million from June 30, 2019. This is compared to the fiscal year 2019 decrease of \$2.2 million from June 30, 2018. These decreases are due to continued construction expenditures related to revenue bonds sold during fiscal year 2015 and fiscal year 2017.

*Noncurrent restricted assets* — consist of construction in progress which remained zero at June 30, 2020 and June 30, 2019. This follows a decrease of \$7.0 million during fiscal year 2018 as construction on bond funded projects from the 2017 sale of revenue bonds were completed.

*Capital assets, net* — decreased \$16.8 million to total \$378.7 million at June 30, 2020. This is compared to a decrease of \$5.6 million to total \$395.6 million at June 30, 2019. This activity represents the portion of bonding projects completed and repairs and renovations of facilities funded through current operations. Food service vendor investments were valued at \$11.9 million at June 30, 2020. These investments were made at the state universities that provide dining services to all students. The decrease is attributable to the depreciation exceeding the investments in both fiscal year 2020 and 2019.

*Current liabilities* — consist primarily of accounts payable, interest payable, current portion of long-term debt and unearned revenue. Current liabilities increased by \$0.4 million in fiscal year 2020 compared to fiscal year 2019. This is compared to a \$2.9 million decrease in fiscal year 2019 from fiscal year 2018.

*Noncurrent liabilities* — consist primarily of revenue bonds payable, capital leases payable and net pension liability. Noncurrent liabilities decreased by \$21.6 million to total \$244.7 million at June 30, 2020. This was primarily due to \$17.6 million in revenue bond principal repaid. This is compared to a decrease of \$38.1 million in fiscal year 2019 compared to fiscal year 2018. This was due to a decrease in net pension liability of \$17.5 million along with \$18.7 million in revenue bond principal repaid during fiscal year 2019.

*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, 2020, 2019, and 2018 is summarized as follows:

	(In Thousands)		
	2020	2019	2018
Net investment in capital assets	\$ 153,658	\$ 152,801	\$ 145,941
Restricted expendable	20,221	20,648	20,747
Unrestricted	73,036	75,153	68,127
Total net position	<u>\$ 246,915</u>	<u>\$ 248,602</u>	<u>\$ 234,815</u>

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

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

## CAPITAL AND DEBT ACTIVITIES

One of the critical factors in improving the quality of services provided at the colleges and universities is the development and renewal of the physical assets used to provide housing, dining, parking, wellness centers and student union facilities. The Revenue Fund continues to implement a long-range plan to eliminate identified deferred maintenance. Construction in progress decreased in fiscal year 2020 by \$0.5 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 2017 bond proceeds and operating revenues. See comments in the section titled “Economic Factors That Will Affect the Future.”

Capital outlays totaled \$7.0 million in fiscal year 2020, compared to \$9.1 million in fiscal year 2019 and \$17.2 million in fiscal year 2018. Capital outlays during fiscal year 2020 were primarily for a new seasonal sports dome at Minnesota State University, Mankato, renovation of Nelson Residence Hall at Minnesota State University Moorhead, along with smaller renovations of residence halls and student unions.

Construction in progress totaled \$2.7 million in fiscal year 2020, compared to \$3.2 million in fiscal year 2019 and \$11.4 million in fiscal year 2018. Note 4 to the financial statements shows that buildings and improvements increased by \$5.6 million due to the completion of projects that were in construction in progress at the end of fiscal year 2019. 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.

#### 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 change 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, 2020, 2019, and 2018 follows:

	(In Thousands)		
	2020	2019	2018
Operating revenues:			
Room and board, fees and sales and services	\$ 93,294	\$ 113,785	\$ 112,489
Other income	4,878	4,275	4,499
Total operating revenues	<u>98,172</u>	<u>118,060</u>	<u>116,988</u>
Nonoperating revenues:			
Federal grant (CARES Act)	6,666	-	-
Interest	2,571	3,508	2,182
Other	-	2,230	1,125
Total nonoperating revenues	<u>9,237</u>	<u>5,738</u>	<u>3,307</u>
Total revenues	<u>107,409</u>	<u>123,798</u>	<u>120,295</u>
Operating expenses:			
Salaries and benefits	27,978	23,671	31,136
Depreciation	24,177	23,957	23,907
Other	48,143	52,838	53,040
Total operating expenses	<u>100,298</u>	<u>100,466</u>	<u>108,083</u>
Nonoperating expenses:			
Interest expense	8,798	9,535	10,308
Loss on disposal of capital assets	-	10	-
Total nonoperating expenses	<u>8,798</u>	<u>9,545</u>	<u>10,308</u>
Total expenses	<u>109,096</u>	<u>110,011</u>	<u>118,391</u>
Change in net position	<u>(1,687)</u>	<u>13,787</u>	<u>1,904</u>
Net position, beginning of year	<u>248,602</u>	<u>234,815</u>	<u>232,911</u>
Net position, end of year	<u>\$ 246,915</u>	<u>\$ 248,602</u>	<u>\$ 234,815</u>

The fiscal year 2020 total revenues decreased by \$16.4 million, or 13.2 percent. This decrease was due to the impact of the pandemic, which resulted in refunds of \$18.5 million, being returned to students who were no longer staying at the residential halls once the State of Minnesota declared a peace time emergency plan. This amount was offset with \$6.7 million in federal Coronavirus Aid, Relief, and Economic and Security Act (CARES) grant revenue, with a net impact of \$11.8 million decrease in total revenue or 71 percent of the fiscal year 2020 decrease. In addition there was a 7.4 percent decrease in overall occupancy in the residence hall program, offset with a 2.8 percent average increase to room and board rates charged, resulting in an additional \$4.6 million decrease in room and board and other operating revenue. This follows a 2.9 percent increase in total revenues in fiscal year 2019. This was primarily due to a 3.9 percent average increase to room and board rates offset by a 2.2 percent decrease in overall occupancy in the residence hall program.

Compensation is the Revenue Fund's single largest expense component. Salaries and benefits increased \$4.3 million, or 18.2 percent, to total \$28.0 million in fiscal year 2020 compared to fiscal year 2019. Excluding the GASB Statements No. 68 and No. 75, the effect to compensation expense in fiscal year 2020 decreased by \$0.6 million, or 2.0 percent, from fiscal year 2019. This follows a \$0.2 million, or 0.7 percent increase in fiscal year 2019 compared to fiscal year 2018.

## CASH AND CASH EQUIVALENTS

All outstanding revenue bond issues have their debt service reserve balances 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

Prior to the COVID-19 pandemic, the colleges and universities in the Revenue Fund have been successfully able to manage through enrollment declines the past several years. Enrollment declines along with modest annual fee increases has put pressure on total revenue keeping pace with total expenditures. 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 pandemic has caused additional challenges for budgets system-wide. These challenges come on top of the existing long-term concerns regarding inflationary pressures and enrollment uncertainty. Strong efforts by colleges and universities have shifted course delivery methods while continuing to provide affordable programs and services to students.

As a large portion of course delivery has moved online and on-campus activities have been constrained by social distancing requirements; room and board revenues, parking revenues and revenues from on-campus events have shown significant reductions for fiscal year 2021. While fiscal year 2021 budgets seem able to withstand the challenges posed to date, prospects for future enrollment levels, on-campus activity levels, and state and federal assistance all remain as high-level risks for our institutions.

While federal CARES funding allowed campuses with housing to refund unused room and board charges on a one-time basis for spring semester 2020, continuing low housing occupancy and on-campus activity participation pose significant threats for facilities that require ongoing upkeep and repayment of bond-funded financing. Options to address these concerns include increased use of revenue fund balances, loans from general fund balances, or one-time assistance from Federal or state sources. Even with the potential options, projecting and planning for different recovery scenarios in these areas of campus life is crucial. This poses critical challenges if the level of the shift to remote program and service delivery continues to a similar extent beyond fiscal year 2021.

The Revenue Fund will continue its prudent management of costs to ensure efficient, effective operations on behalf of current and future students. Cost containment is of particular importance as the Revenue Fund wants to respond appropriately to the increased expectation to keep fee rates and user charges at a reasonable price to reduce or eliminate the debt to the students.

#### REQUESTS FOR INFORMATION

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

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

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2020 AND 2019**  
**(IN THOUSANDS)**

	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 89,643	\$ 93,387
Accounts receivable, net	6,022	4,228
Total current assets	<u>95,665</u>	<u>97,615</u>
<b>Current Restricted Assets</b>		
Cash and cash equivalents	57,996	61,565
Total current restricted assets	<u>57,996</u>	<u>61,565</u>
<b>Noncurrent Assets</b>		
Land and construction in progress	4,950	5,369
Capital assets, net	378,743	395,571
Total noncurrent assets	<u>383,693</u>	<u>400,940</u>
Total Assets	<u>537,354</u>	<u>560,120</u>
Deferred Outflows of Resources	8,877	13,490
Total Assets and Deferred Outflows of Resources	<u>546,231</u>	<u>573,610</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Salaries and benefits payable	1,219	1,106
Accounts payable	2,736	2,141
Unearned revenue	13,859	15,187
Payable from restricted assets	103	-
Interest payable	2,416	2,577
Current portion of long-term debt	20,648	19,600
Other compensation benefits	321	319
Total current liabilities	<u>41,302</u>	<u>40,930</u>
<b>Noncurrent Liabilities</b>		
Other liabilities	53	71
Noncurrent portion of long-term debt	236,285	257,860
Other compensation benefits	2,996	3,037
Net pension liability	5,403	5,348
Total noncurrent liabilities	<u>244,737</u>	<u>266,316</u>
Total Liabilities	<u>286,039</u>	<u>307,246</u>
Deferred Inflows of Resources	13,277	17,762
Total Liabilities and Deferred Inflows of Resources	<u>299,316</u>	<u>325,008</u>
<b>Net Position</b>		
Net investment in capital assets	153,658	152,801
Restricted expendable	20,221	20,648
Unrestricted	73,036	75,153
Total Net Position	<u>\$ 246,915</u>	<u>\$ 248,602</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**  
**(IN THOUSANDS)**

	2020	2019
Operating Revenues		
Room and board	\$ 64,018	\$ 81,842
Fees	24,296	24,275
Sales and services	4,980	7,668
Other income	4,878	4,275
Total operating revenues	<u>98,172</u>	<u>118,060</u>
Operating Expenses		
Salaries and benefits	27,978	23,671
Food service	23,063	26,906
Other purchased services	13,264	12,973
Supplies	3,878	5,672
Repairs and maintenance	4,014	3,164
Depreciation	24,177	23,957
Other expense	3,924	4,123
Total operating expenses	<u>100,298</u>	<u>100,466</u>
Operating income (loss)	<u>(2,126)</u>	<u>17,594</u>
Nonoperating Revenues (Expenses)		
Federal grant (CARES Act)	6,666	-
Interest income	2,571	3,508
Interest expense	(8,798)	(9,535)
Total nonoperating revenues (expenses)	<u>439</u>	<u>(6,027)</u>
Gain (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,687)	11,567
Capital contributions	-	2,230
Loss on disposal of capital assets	-	(10)
Change in net position	<u>(1,687)</u>	<u>13,787</u>
Total Net Position, Beginning of Year	<u>248,602</u>	<u>234,815</u>
Total Net Position, End of Year	<u>\$ 246,915</u>	<u>\$ 248,602</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**  
**(IN THOUSANDS)**

	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	\$ 93,207	\$ 117,991
Cash payments to suppliers for goods or services	(47,708)	(55,347)
Cash payments to employees	(27,615)	(28,276)
Net cash flows provided by operating activities	<u>17,884</u>	<u>34,368</u>
Cash Flows from Noncapital and Related Financing Activities		
Federal grant (CARES Act)	<u>6,666</u>	<u>-</u>
Net cash flows provided by noncapital financing activities	<u>6,666</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(4,887)	(10,046)
Capital contributions	-	2,230
Proceeds from borrowing	13,770	-
Proceeds from bond premium	2,645	-
Interest paid	(10,586)	(10,678)
Repayment of lease principal	(474)	(459)
Repayment of note principal	(15)	(15)
Repayment of bond principal	(34,930)	(18,665)
Net cash flows used in capital and related financing activities	<u>(34,477)</u>	<u>(37,633)</u>
Cash Flows from Investing Activities		
Investment earnings	<u>2,614</u>	<u>3,498</u>
Net cash flows provided by investing activities	<u>2,614</u>	<u>3,498</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,313)	233
Cash and Cash Equivalents, Beginning of Year	<u>154,952</u>	<u>154,719</u>
Cash and Cash Equivalents, End of Year	<u>\$ 147,639</u>	<u>\$ 154,952</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**  
**(IN THOUSANDS)**

	2020	2019
Operating Income (Loss)	\$ <u>(2,126)</u>	\$ <u>17,594</u>
Adjustment to Reconcile Operating Income (Loss) to		
Net Cash Flows provided by Operating Activities		
Change in pension plan related items:		
Net pension liability	55	(17,542)
Deferred inflows of resources	(4,554)	7,651
Deferred outflows of resources	4,707	5,214
Depreciation	24,177	23,957
Change in assets and liabilities		
Accounts receivable	(1,837)	1,479
Accounts payable	345	(1,224)
Salaries and benefits payable	114	(87)
Other compensation benefits and related deferred inflows and outflows	39	160
Unearned revenue	(3,128)	(1,552)
Other	92	(1,282)
Net reconciling items to adjust operating income (loss)	<u>20,010</u>	<u>16,774</u>
Net cash flows provided by operating activities	\$ <u><u>17,884</u></u>	\$ <u><u>34,368</u></u>
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	\$ 975	\$ 623
Food service vendor investment	1,800	1,308
Amortization of bond premium	1,414	1,186
Amortization of bond discount	(4)	(4)
Amortization of deferred loss on refunding	(220)	(191)

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

**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 acquisition value. Estimated historical cost has been used when actual cost is not available. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets.

Estimated useful lives are as follows:

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



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

*Long-Term Liabilities* — 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 2020	Fiscal Year 2019	Maturity Date
Series 2009A	4.2106	\$ 3,225	\$ 20,595	October 1, 2021
Series 2009B	4.3682	—	575	October 1, 2019
Series 2011A	4.2659	56,100	59,770	October 1, 2031
Series 2011B	3.4801	790	1,155	October 1, 2021
Series 2011C	3.4492	8,670	9,180	October 1, 2032
Series 2012A	1.8379	4,035	5,275	October 1, 2022
Series 2012B	2.0279	2,670	3,515	October 1, 2022
Series 2013A	2.7835	44,605	46,905	October 1, 2033
Series 2013B	1.9142	1,625	2,010	October 1, 2023
Series 2015A	3.0770	26,775	28,595	October 1, 2035
Series 2015B	3.4444	35,245	37,145	October 1, 2035
Series 2017A	2.4466	41,595	45,245	October 1, 2037
Series 2017B	2.5859	2,310	2,610	October 1, 2026
Series 2019A	1.5689	13,770	—	October 1, 2029
Total		\$ 241,415	\$ 262,575	

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. Annual principal and interest payments on the bonds are expected to require less than 30.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$304,026,916. Revenue bond principal and interest paid for the current fiscal year was \$27,576,598 and total customer net revenues were \$98,151,204. 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 coming years. The unearned revenue balances related to these capital improvements were \$11,945,915 and \$12,913,939 for fiscal years ended June 30, 2020 and 2019, respectively. The amount of revenue recognized from these vendor improvements was \$2,793,498 and \$2,563,187 for fiscal years ended June 30, 2020 and 2019, respectively.

*Room and Board, Fees, Sales and Services* — Fees and room and board are presented before scholarship allowances. Scholarship allowances of \$3,318,350 and \$3,291,396 for fiscal years ended June 30, 2020 and 2019, respectively, are reported in Minnesota State system financial statements, but are not reflected in these statements.

*Federal Grant (CARES Act)* — New for fiscal year 2020 was federal CARES Act funds due to the pandemic. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the system will record such disallowance at the time the determination is made.

*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, Series 2008A and 2009A 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)	
	2020	2019
<b><u>Related to Pensions:</u></b>		
Changes in actuarial assumptions	\$ 5,947	\$ 10,659
Contributions paid to pension subsequent to the measurement date	600	516
Differences between expected and actual experience	128	98
Changes in proportion	-	107
Total related to pensions	<u>6,675</u>	<u>11,380</u>
<b><u>Related to OPEB:</u></b>		
Changes in actuarial assumptions	81	99
Contributions paid to plan subsequent to the measurement date	78	69
Total related to OPEB	<u>159</u>	<u>168</u>
<b><u>Related to Refunding:</u></b>		
Economic loss on refunding of revenue bonds	2,043	1,942
Total	<u>\$ 8,877</u>	<u>\$ 13,490</u>

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
<b><u>Related to Pensions:</u></b>		
Differences between projected and actual investment earnings	\$ 907	\$ 831
Changes in actuarial assumptions	11,636	15,734
Differences between expected and actual experience	13	242
Changes in proportion	587	891
Total related to pensions	<u>13,143</u>	<u>17,698</u>
<b><u>Related to OPEB:</u></b>		
Changes in actuarial assumptions	52	26
Differences between expected and actual experience	82	38
Total related to OPEB	<u>134</u>	<u>64</u>
Total	<u>\$ 13,277</u>	<u>\$ 17,762</u>

*Other Postemployment Benefits (OPEB)* — For purposes of measuring the total OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to and deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The plan is not funded.

*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)		
	2020	2019
Debt service	\$ 19,886	\$ 19,785
Capital projects	335	863
Total restricted expendable	<u>\$ 20,221</u>	<u>\$ 20,648</u>

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

*New Accounting Standards* — In 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, 2020. The effect GASB Statement No. 84 will have on the fiscal year 2021 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, 2021. The effect GASB Statement No. 87 will have on the fiscal year 2022 financial statements has not yet been determined.

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 the year beginning after December 15, 2019. The effect GASB Statement No. 90 will have on the fiscal year 2021 financial statements has not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers. It also eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB No. 91 is effective for the year beginning after December 15, 2021. The effect GASB Statement No. 91 will have on the fiscal year 2023 financial statements has not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. Minnesota State has implemented GASB No. 92 in fiscal year 2020.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses the accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate. GASB Statement No. 93 is effective for the year beginning after June 15, 2021. The effect GASB Statement No. 93 will have on the fiscal year 2022 financial statements has not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. The statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 is effective for the year beginning after June 15, 2022. The effect GASB Statement No. 94 will have on the fiscal year 2023 financial statements has not yet been determined.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of certain provisions and in Statements and Implementation Guides that first became effective or scheduled to become effective for the periods beginning after June 15, 2018, and later. Minnesota State has adjusted the effective dates for all new accounting pronouncements described in these statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The statement defines subscription-based technology arrangements, established that they are a right to use asset with a corresponding liability, provides capitalization for criteria other for outlays other than subscription payments including implementation costs, and requires footnote disclosure regarding the arrangements. GASB Statement No. 96 is effective for fiscal years beginning after June 15, 2022. The effect GASB Statement No. 96 will have on the fiscal year 2023 financial statements has not yet been determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No 32*. The primary objectives of this Statement are to increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform, to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statement, and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 is effective for fiscal years beginning after June 15, 2021. The effect GASB Statement No. 96 will have on the fiscal year 2022 financial statements has not yet been determined.

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

*Risks and Uncertainties* — During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to Minnesota State, COVID-19 may impact various parts of its fiscal year 2021 operations and financial results, including, but not limited to, declines in enrollment, loss of auxiliary revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes Minnesota State is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

## 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	2020	2019
Cash, treasury account	\$ 119,203	\$ 126,338
Cash, trustee account (US Bank)	28,436	28,614
Total	<u>\$ 147,639</u>	<u>\$ 154,952</u>

Restricted cash of \$57,996,193 and \$61,564,899 as of June 30, 2020 and 2019, 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.

*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.04. This statute limits investments to the top-quality rating categories of a nationally recognized rating agency.

At June 30, 2020 and June 30, 2019 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, 2020 and June 30, 2019 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)

	2020	2019
Room and board	\$ 3,829	\$ 4,277
Fees	1,805	1,536
Sales and service	613	782
Other income	2,318	218
Total accounts receivable	8,565	6,813
Allowance for uncollectible	(2,543)	(2,585)
Net accounts receivable	<u>\$ 6,022</u>	<u>\$ 4,228</u>

The allowance for uncollectible accounts for fiscal year 2020 and 2019 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 2020 and 2019 follow:

Year Ended June 30, 2020 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 2,203	\$ —	\$ —	\$ —	\$ 2,203
Construction in progress	3,166	5,140	—	(5,559)	2,747
Total capital assets, not depreciated	5,369	5,140	—	(5,559)	4,950
Capital assets, depreciated:					
Buildings	388,187	—	—	—	388,187
Building improvements	334,372	1,800	139	5,559	341,592
Equipment	2,030	98	21	—	2,107
Total capital assets, depreciated	724,589	1,898	160	5,559	731,886
Less accumulated depreciation:					
Buildings	150,924	8,136	—	—	159,060
Building improvements	176,723	15,860	31	—	192,552
Equipment	1,371	181	21	—	1,531
Total accumulated depreciation	329,018	24,177	52	—	353,143
Total capital assets depreciated, net	395,571	(22,279)	108	5,559	378,743
Total capital assets, net	<u>\$ 400,940</u>	<u>\$ (17,139)</u>	<u>\$ 108</u>	<u>\$ —</u>	<u>\$ 383,693</u>

Year Ended June 30, 2019 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 2,203	\$ —	\$ —	\$ —	\$ 2,203
Construction in progress	11,353	7,447	—	(15,634)	3,166
Total capital assets, not depreciated	13,556	7,447	—	(15,634)	5,369
Capital assets, depreciated:					
Buildings	388,187	—	—	—	388,187
Building improvements	317,288	1,450	—	15,634	334,372
Equipment	1,957	166	93	—	2,030
Total capital assets, depreciated	707,432	1,616	93	15,634	724,589
Less accumulated depreciation:					
Buildings	142,788	8,136	—	—	150,924
Building improvements	162,178	15,644	1,099	—	176,723
Equipment	1,276	177	82	—	1,371
Total accumulated depreciation	306,242	23,957	1,181	—	329,018
Total capital assets depreciated, net	401,190	(22,341)	(1,088)	15,634	395,571
Total capital assets, net	\$ 414,746	\$ (14,894)	\$ (1,088)	\$ —	\$ 400,940

## 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)		
	2020	2019
Capital projects	\$ 1,077	\$ 647
Purchased services and other payables	1,048	750
Repairs and maintenance	344	298
Supplies	267	446
Total accounts payable	2,736	2,141
Payable from restricted assets	103	—
Total accounts payable and payable from restricted assets	\$ 2,839	\$ 2,141



## 6. LONG-TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2020 and 2019 follow:

Year Ended June 30, 2020 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 262,575	\$ 13,770	\$ 34,930	\$ 241,415	\$ 20,145
Revenue bond premium/discount	11,071	2,645	1,523	12,193	—
Capital leases	3,332	—	474	2,858	486
Notes payable	482	—	15	467	17
Totals	<u>\$ 277,460</u>	<u>\$ 16,415</u>	<u>\$ 36,942</u>	<u>\$ 256,933</u>	<u>\$ 20,648</u>

Year Ended June 30, 2019 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 281,240	\$ —	\$ 18,665	\$ 262,575	\$ 19,110
Revenue bond premium/discount	12,253	—	1,182	11,071	—
Capital leases	3,792	—	460	3,332	474
Notes payable	497	—	15	482	16
Totals	<u>\$ 297,782</u>	<u>\$ —</u>	<u>\$ 20,322</u>	<u>\$ 277,460</u>	<u>\$ 19,600</u>

The changes in other compensation benefits for fiscal years 2020 and 2019 follow:

Year Ended June 30, 2020 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 2,225	\$ 296	\$ 321	\$ 2,200	\$ 304
Early termination benefits	—	17	—	17	17
Other postemployment benefits	1,131	133	164	1,100	—
Totals	<u>\$ 3,356</u>	<u>\$ 446</u>	<u>\$ 485</u>	<u>\$ 3,317</u>	<u>\$ 321</u>

Year Ended June 30, 2019 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 2,119	\$ 435	\$ 329	\$ 2,225	\$ 319
Other postemployment benefits	1,054	156	79	1,131	—
Totals	<u>\$ 3,173</u>	<u>\$ 591</u>	<u>\$ 408</u>	<u>\$ 3,356</u>	<u>\$ 319</u>

*Revenue Bonds* — The board of trustees for Minnesota State is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and renovation of buildings for residence hall, food service, student union, and other revenue-producing and related facilities at the institutions who participate in the Revenue Fund. Revenue bonds currently outstanding have interest rates of 1.9 to 5.0 percent.

*Refunding Bonds* — On July 7, 2019, Minnesota State board of trustees issued \$13,770,000 in Series 2019A revenue refunding bonds with an average interest rate of 1.57 percent to redeem \$17,370,000 of outstanding Series 2009A revenue bonds issued with an average interest rate of 4.18 percent. The cash savings from the refunding was \$3,270,575 with a net present value of \$2,777,892.

*Revenue Bond Premium/Discount* — 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 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, 2020 that is guaranteed by the Revenue Fund is \$2,214,613.

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, 2020, \$642,961 is attributable to the Revenue Fund. The principal portion outstanding that is guaranteed by the Revenue Fund is an additional \$2,387,039 at June 30, 2020.

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, 2020 and 2019, was \$6,227,653 and \$5,852,968 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, 2020 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 2020 had a liability of \$16,932 and fiscal year 2019 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 \$5,403,007 and \$5,347,697 at June 30, 2020 and 2019, 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)						
Fiscal Years	Revenue Bonds		Capital Leases		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 20,145	\$ 9,256	\$ 486	\$ 103	\$ 17	\$ 11
2022	20,910	8,514	493	85	19	11
2023	19,540	7,719	175	54	20	10
2024	17,880	6,970	181	49	22	10
2025	18,135	6,236	186	43	23	9
2026-2030	89,175	19,422	1,019	127	144	37
2031-2035	50,775	4,340	318	7	199	17
2036-2038	4,855	155	—	—	23	1
Total	<u>\$ 241,415</u>	<u>\$ 62,612</u>	<u>\$ 2,858</u>	<u>\$ 468</u>	<u>\$ 467</u>	<u>\$ 106</u>

## 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, 2018 actuarial valuation, the following current and former employees were covered by benefit terms under the plan:

Active Employees	201
Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	-
	<u>211</u>

*Actuarial Methods and Assumptions* — The total OPEB liability for Minnesota State was measured as of June 30, 2019 and the total OPEB liability was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to determine the June 30, 2020 total OPEB liability. The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of July 1, 2018. The total OPEB liability was measured based on the following actuarial assumptions:

Measurement Date	June 30, 2019	June 30, 2018
Payroll Growth	3.0 percent	3.25 percent
Inflation	2.25 percent per year	2.5 percent per year
Initial Medical Trend Rate	6.6 percent	6.5 percent
Ultimate Medical Trend Rate	3.8 percent	3.8 percent
Year Ultimate Trend Rate Reached	2068	2070

*Discount Rate* — The discount rate used to measure the total OPEB liability at June 30, 2020 and 2019 was 3.5 percent and 3.87 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 June 2019 and 2018. 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)			
	2020	2019	
Balance, Beginning of Year	\$ 1,131	\$ 1,054	
Changes for the Year			
Service Cost	88	83	
Interest	45	39	
Changes in Assumptions	(37)	34	
Difference Between Expected and Actual Experience	(58)	(1)	
Benefit Payments	(69)	(78)	
Net Changes	(31)	77	
Balance, End of Year	\$ 1,100	\$ 1,131	

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 3.87 percent to 3.5 percent. Mortality assumptions, salary increase assumptions, and medical trend rates were updated. The inflation rate and payroll growth rate decreased 0.25 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)				
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	2.50	\$ 1,155	2.87	\$ 1,190
Current Discount Rate	3.00	1,100	3.87	1,131
1 Percent Higher	4.50	1,046	4.87	1,072

*Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* — The following presents the total OPEB liability, calculated using the healthcare cost trend rates, that is one percentage lower (5.6 percent decreasing to 2.8 percent and 5.5 percent decreasing to 2.8 percent) or one percentage higher (7.6 percent decreasing to 4.8 and 7.5 percent decreasing to 4.8 percent) than the current healthcare cost trend rate (6.6 percent decreasing to 3.5 percent and 6.5 percent decreasing to 3.5 percent):

Sensitivity of Total OPEB Liability to Changes in the Health Care Trend Rate (In Thousands)		
	2020	2019
1 Percent Lower	\$ 992	\$ 1,028
Current Trend Rate	1,100	1,131
1 Percent Higher	1,226	1,251

*OPEB Expense and Deferred Outflows and Deferred Inflows of Resources* — For the years ended June 30, 2020 and 2019, the Revenue Fund recognized an increase in benefit expense of \$126,289 and \$124,645, respectively, related to OPEB.

At June 30, 2020 and 2019, 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)	
		2020	2019
Changes in actuarial assumptions	\$	81	\$ 99
Contributions made subsequent to the measurement date		78	69
Total	\$	<u>159</u>	<u>168</u>

  

		Deferred Inflows of Resources	
		Year Ended June 30	
		(In Thousands)	
		2020	2019
Changes in actuarial assumptions	\$	52	\$ 26
Differences between expected and actual economic experience		82	38
Total	\$	<u>134</u>	<u>64</u>

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
2021	\$ (7)
2022	(7)
2023	(7)
2024	(13)
2025	(8)
Thereafter	(11)
Total	<u>\$ (53)</u>

## 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, administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund.

### *State Employees Retirement Fund*

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

Benefits Provided - MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January. Annuitants receive annual benefit increases of 1.0 percent through 2023, and 1.5 percent thereafter.

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 were required to contribute 6.0 and 5.75 percent of their annual covered salary in fiscal years 2020 and 2019, respectively. Participating employers were required to contribute 6.25 percent and 5.875 percent, respectively, of employee annual covered salary in fiscal years 2020 and 2019. The Minnesota State Revenue Fund contributions to the General Plan for the fiscal years ending June 30, 2020 and 2019 were \$554,134 and \$517,143, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions - The Minnesota State Revenue Fund net pension liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. Prior year salary is annualized for members with less than one year of service. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality tables projected with mortality improvement Scale MP-2015 from base year of 2014 for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees were assumed to be 1.0 percent from January 1, 2019 through December 31, 2023 and 1.5 percent from January 1, 2024 and onward.

Actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the last experience study dated June 30, 2015, and a review of inflation and investment return assumptions, dated June 27, 2019 and September 11, 2017, respectively. The Allowance for Combined Service Annuity assumptions are based on an analysis completed by the LCPR actuary and a documented in a report dated October 2016.

The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.5 percent. The expected rate of return was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce geometric, long-term expected rate of return for the portfolio.

For each major asset class that is included in the pension fund target asset allocation as of the June 30, 2019 measurement date, these best estimates are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Geometric Mean) Percentage
Domestic equity	36	5.10
International equity	17	5.30
Private markets	25	5.90
Fixed income	20	0.75
Cash	2	0.00
Total	100	

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2019 and 2018, was 7.5 percent.

As of June 30, 2019 and 2018, 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 was available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Net Pension Liability - At June 30, 2020 and 2019, the Minnesota State Revenue Fund reported a liability of \$5,403,007 and \$5,347,697, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2018 through June 30, 2019 and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2020 and 2019, the Minnesota State Revenue Fund proportion was 0.38 percent.

There have been no changes in plan provisions since the prior measurement date.

There have been no changes in assumptions that affect the measurement of the total pension liability since the prior measurement date.

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)				
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	\$ 12,548	6.50	\$ 12,361
Current Discount Rate	7.50	5,403	7.50	5,348
1 Percent Higher	8.50	(558)	8.50	(473)

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/annual-reports](http://www.msrs.state.mn.us/annual-reports).



Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2020 and 2019 Minnesota State Revenue Fund recognized an increase in expense of \$762,426 and \$4,160,010, respectively, related to pensions. At June 30, 2020 and 2019, Minnesota State Revenue Fund 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)	
	2020	2019
Changes in actuarial assumptions	\$ 5,947	\$ 10,659
Contributions paid to MSRS subsequent to the measurement date	600	516
Differences between expected and actual economic experience	128	98
Changes in proportion	-	107
Total	<u>\$ 6,675</u>	<u>\$ 11,380</u>

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Differences between projected and actual investment earnings	\$ 907	\$ 831
Changes in actuarial assumptions	11,636	15,734
Differences between expected and actual economic experience	13	242
Changes in proportion	587	891
Total	<u>\$ 13,143</u>	<u>\$ 17,698</u>

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
2021	\$ 180
2022	(4,982)
2023	(2,263)
2024	(3)
Total	<u>\$ (7,068)</u>

#### *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 administrator group. As of June 30, 2020 and 2019, for both faculty and administrators, the employer and employee statutory contribution rates are 6.0 percent and 5.15 percent, and 6.0 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, 2020, 2019, and 2018 were equal to the required contributions for each year, which were \$1,208,625, \$1,234,430, and \$1,157,598, 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)		
	2020	2019
Maintenance and operations	\$ 47,064	\$ 50,828
Repairs and replacements	25,972	24,325
Total	<u>\$ 73,036</u>	<u>\$ 75,153</u>

## 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 \$6,410,073 and \$6,397,597 for the years ended June 30, 2020 and 2019, respectively.

Within the accounts receivable balance, \$1,566,113 and \$1,775,967 is due from other funds as of June 30, 2020 and 2019, 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 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 2020 and 2019.

Coverage Type	Amount
Property and contents 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 2020 the Revenue Fund activities included a commitment for the following projects:

- Minnesota State University, Mankato expended \$342,481 to date for renovations to Centennial Student Union. Total project cost is estimated at \$1,070,000 with completion expected in August 2020.

## REQUIRED SUPPLEMENTARY 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)				
	2020	2019	2018	2017
Balance, Beginning of Year	\$ 1,131	\$ 1,054	\$ 1,219	\$ 1,144
Changes for the Year				
Service Cost	88	83	84	83
Interest	45	39	31	45
Changes in Assumptions	(37)	34	(207)	53
Differences between Expected and Actual Economic Experience	(58)	(1)	-	-
Benefit Payments	(69)	(78)	(73)	(106)
Net Changes	(31)	77	(165)	75
Balance, End of Year	\$ 1,100	\$ 1,131	\$ 1,054	\$ 1,219
Covered Employee Payroll	\$ 16,380	\$ 15,949	\$ 16,122	\$ 18,246
Total OPEB Liability as a Percentage of Covered Employee Payroll	6.72	7.09	6.54	6.68

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2020 and 2019**

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 3.87 percent to 3.5 percent.
- Mortality assumptions, salary increase assumptions, and medical trend rates were updated.
- The inflation rate and payroll growth rate decreased 0.25 percent.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered 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
June 30, 2018	0.39	5,348	8,839	60.50	90.56
June 30, 2019	0.38	5,403	8,802	61.38	90.73

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
June 30, 2019	517	517	—	8,802	5.875
June 30, 2020	554	554	—	8,866	6.25

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, 2020 AND 2019**

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

There have been no changes in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation.

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## SUPPLEMENTARY SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund), a department of the Minnesota State Colleges and University Fund and a proprietary fund of the state of Minnesota as of and for the year ended June 30, 2020, 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 18, 2020.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 18, 2020

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