

Minnesota State Colleges & Universities

Revenue Fund Annual Financial Report

For the years ended June 30, 2014 and 2013



Minnesota
STATE COLLEGES
& UNIVERSITIES

REVENUE FUND

MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 and 2013

Prepared by:

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

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REVENUE FUND
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

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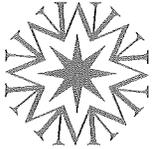
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INTRODUCTION



Minnesota
STATE COLLEGES
& UNIVERSITIES

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November 14, 2014

Members of the Board of Trustees
Chancellor Steven J. Rosenstone

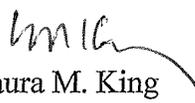
I am pleased to submit to you the audited financial statements for the Minnesota State Colleges and Universities Revenue Fund for the fiscal years ended June 30, 2014 and 2013. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for each respective year. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The Finance Division and the finance staff at the colleges and universities participating in the Revenue Fund are responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. For a summary review and explanation of the financial statements, please review the Management Discussion and Analysis section of this report.

The Revenue Fund is administered under the direction of the Board of Trustees of the Minnesota State Colleges and Universities. The Fund was established as a self-supporting, independent enterprise fund by the Minnesota legislature for the management of the residence halls, dining services, student unions, wellness centers and parking ramps at colleges and universities and currently operates on fourteen 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 2014 with total net position of \$217.6 million. Reserve balances, including requirements mandated by bond covenants, are invested with the Minnesota State Board of Investment or a Trustee.

Revenue fund program directors are responsible for designing programs and services that meet the needs of students at their individual colleges or universities. All revenues and expenses are managed at each of the colleges and universities. The Revenue Fund provides about 10,700 students with comfortable living accommodations and meals close to their academic setting at a reasonable cost.

Sincerely,


Laura M. King
Vice Chancellor - Chief Financial Officer

Minnesota State Colleges and Universities Board of Trustees

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Margaret Anderson Kelliher, Vice Chair

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Louise Sundin

Michael Vekich, Treasurer

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John O'Brien, Senior Vice Chancellor
Academic and Student Affairs

Laura M. King, Vice Chancellor
Chief Financial Officer

Mark Carlson, Vice Chancellor
Human Resources

Ramon Padilla, Jr., Vice Chancellor
Chief Information Officer

Gail Olson, General Counsel

Kim Olson, Chief Marketing and Communications Officer
Advancement

Leon Rodrigues
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 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), as of and for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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.

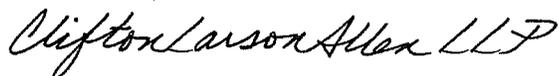
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Revenue Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Revenue Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Revenue Fund, a fund of Minnesota State Colleges and Universities, for the fiscal years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which follow this section. For a more detailed narrative of the Revenue Fund's history, purpose and governance, users of this report should read the transmittal letter contained in the introduction.

Minnesota State Colleges and Universities, a state supported system, is the largest single provider of higher education in the state of Minnesota and is comprised of 31 state-supported technical, community, and consolidated colleges, and universities. Historically, the Revenue Fund operated on only the seven state universities. Effective July 2008, the Revenue Fund was made available to all colleges in the system. It was created for purposes of financing residence halls, dining halls, student union buildings, parking facilities, wellness facilities and other revenue-producing buildings as deemed necessary for the benefit of the students.

FINANCIAL HIGHLIGHTS

The Revenue Fund's financial position remained essentially unchanged at the end of fiscal year 2014 compared to fiscal year 2013. This follows an increase of \$7.8 million totaling \$217.6 million, a 3.7 percent increase over fiscal year 2012. Cash and cash equivalents at year-end totaled \$164.0 million, a decrease of \$27.9 million from fiscal year 2013 at year-end. Capital assets, net, excluding restricted construction in progress, increased \$22.9 million due to the completion of construction projects started in prior fiscal years. In July 2012, the Revenue Fund refunded both the 2002 Series A & B bonds saving approximately \$315 thousand in interest costs per year over the remaining 10 years of the bonds. In March 2013, the Revenue Fund issued bonds totaling \$58.8 million, with maturity dates of 10 and 20 years.

USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the Revenue Fund at the end of the fiscal year and include all assets and liabilities of the Revenue Fund. The difference between total assets and total liabilities (i.e., the point-in-time difference in value of what is owned compared to the value of what is owed) is net position, one indicator of the current financial condition of the Revenue Fund. The change in net position is an indicator of whether the overall financial condition has improved or declined during the fiscal year (i.e., has the value of the difference between what is owned and owed increased or decreased over the past fiscal year). Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Condensed statements of net position for fiscal years ended June 30, 2014, 2013, and 2012 follows:

	(In Thousands)		
	2014	2013	2012
Current assets	\$ 84,111	\$ 81,700	\$ 80,419
Current restricted assets	83,006	112,913	84,240
Noncurrent restricted assets	21,484	26,945	65,328
Noncurrent assets	-	-	1,200
Capital assets, net	<u>357,921</u>	<u>334,980</u>	<u>277,628</u>
Total assets	<u>546,522</u>	<u>556,538</u>	<u>508,815</u>
Current liabilities	30,874	25,886	33,979
Noncurrent liabilities	<u>298,092</u>	<u>313,069</u>	<u>265,093</u>
Total liabilities	<u>328,966</u>	<u>338,955</u>	<u>299,072</u>
Net position	<u>\$ 217,556</u>	<u>\$ 217,583</u>	<u>\$ 209,743</u>

Current assets — consist primarily of cash and cash equivalents, and accounts receivables. Unrestricted cash and cash equivalents increased by \$2.0 million to total \$81.0 million at June 30, 2014. This is compared to the increase of \$3.1 million to total \$78.9 million at June 30, 2013.

Current restricted assets — consist of unspent bond proceeds and debt service monies at June 30, 2014, which decreased \$29.9 million from June 30, 2013. The decrease is primarily due to the spending of bond proceeds for construction projects related to \$58.8 million of revenue bonds sold during fiscal year 2013. This is compared to the fiscal year 2013 increase of \$28.7 million from June 30, 2012.

Noncurrent restricted assets — consist primarily of construction in progress which decreased \$5.5 million at June 30, 2014 as construction on bond projects completed. This is compared to a decrease of \$38.3 million from June 30, 2012.

Noncurrent assets — \$1.2 million of a note receivable at June 30, 2012 was paid in full during fiscal year 2013.

Capital assets, net — increased \$21.7 million to total \$350.6 million at June 30, 2014. This is compared to an increase of \$58.9 million to total \$328.9 million at June 30, 2013. This activity represents the portion of bonding projects completed and repairs and renovations of facilities within current operations.

Current liabilities — consist primarily of accounts payable, interest payable, current portion of long-term debt and unearned revenue. Total accounts payable, including restricted accounts payable, increased by \$3.3 million to total \$9.4 million at June 30, 2014. The increase is primarily due to an estimated \$2.3 million payable accrued for future pollution remediation costs at Metropolitan State University. This is compared to the decrease in total accounts payable of \$9.5 million to total \$6.1 million at June 30, 2013.

Noncurrent liabilities — consist primarily of revenue bonds payable and capital leases. Noncurrent revenue bonds payable decreased by \$14.1 million to total \$281.2 million at June 30, 2014. This was due to \$14.1 million in revenue bond principal repaid along with no new revenue bond debt issued during fiscal year 2014. This is compared to the increase of \$58.8 million to total \$295.2 million at June 30, 2013 due to revenue bonds issued during fiscal year 2013.

Net position — represent the residual interest in the Revenue Fund’s assets after deducting liabilities. The Revenue Fund’s net position at June 30, 2014, 2013, and 2012 are summarized as follows:

(In Thousands)			
	2014	2013	2012
Net investment in capital assets	\$ 125,495	\$ 121,093	\$ 108,632
Restricted expendable	23,199	25,992	28,859
Unrestricted	68,862	70,498	72,252
Total net position	<u>\$ 217,556</u>	<u>\$ 217,583</u>	<u>\$ 209,743</u>

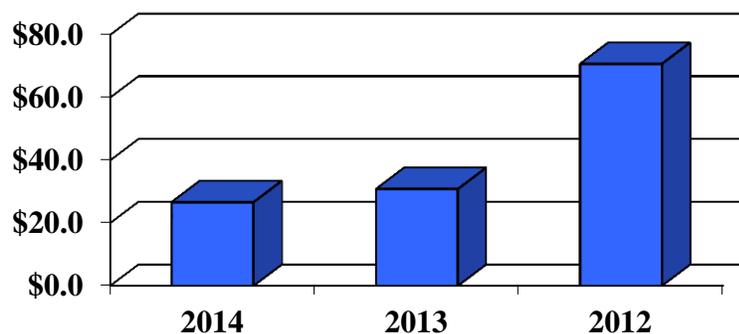
Net investment in capital assets — represents the Revenue Fund’s capital assets, net of both accumulated depreciation and the Revenue Fund’s outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

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

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in improving the quality of services provided at the colleges and universities is the development and renewal of the physical assets used to provide housing, dining, parking 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 2014 by \$4.2 million as a result of construction projects completed that were started in prior fiscal years. These completed construction projects were for major repair and replacement projects financed through fiscal year 2011, 2012 and 2013 bond proceeds and operating revenues. See comments in the section titled “Economic Factors That Will Affect the Future.”

Construction in Progress (In Millions)



Capital outlays, including \$35.1 million in expenditures for construction in progress, totaled \$35.2 million in fiscal year 2014, compared to \$35.7 million in fiscal year 2013. Capital expenses are primarily composed of replacement and renovation of residence halls, student unions, wellness centers, and parking facilities. Additional information on capital and debt activities and Revenue Fund debt service responsibilities can be found in Notes 4 and 6 of the financial statements. Note 4 to the financial statements shows that buildings and improvements increased by \$39.3 million due to the completion of prior years’ construction in progress.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statements of revenues, expenses, and changes in net position presents the Revenue Fund's results of operations and the overall decrease 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, statements of net position).

A summarized statement for the fiscal years ended June 30, 2014, 2013, and 2012 follows:

(In Thousands)			
	2014	2013	2012
Operating revenues:			
Room and board	\$ 78,125	\$ 77,468	\$ 79,854
Fees	21,233	21,728	20,921
Sales and services	7,609	7,329	6,593
Other	2,890	2,843	2,093
Total operating revenues	<u>109,857</u>	<u>109,368</u>	<u>109,461</u>
Nonoperating and other revenues:			
Interest and other nonoperating revenues	764	4,005	9,823
Total revenues	<u>110,621</u>	<u>113,373</u>	<u>119,284</u>
Operating expenses:			
Salaries and benefits	26,832	25,350	24,440
Supplies and services	43,032	42,751	40,253
Repairs and maintenance	4,601	4,199	3,616
Depreciation and amortization	17,750	16,196	13,925
Other	7,159	6,110	4,416
Total operating expenses	<u>99,374</u>	<u>94,606</u>	<u>86,650</u>
Nonoperating expenses:			
Interest and other nonoperating expenses	11,274	10,927	10,490
Total expenses	<u>110,648</u>	<u>105,533</u>	<u>97,140</u>
Change in net position	(27)	7,840	22,144
Net position, beginning of year	217,583	209,743	189,506
Change in accounting principle	-	-	(1,907)
Net position, beginning of year, as restated	<u>217,583</u>	<u>209,743</u>	<u>187,599</u>
Net position, end of year	<u>\$ 217,556</u>	<u>\$ 217,583</u>	<u>\$ 209,743</u>

Room and board revenue increased by \$657 thousand in fiscal year 2014 compared to fiscal year 2013. This increase is due to an increase in room and board rates charged coupled with a slight decrease in overall occupancy in the residence hall program. Interest and other nonoperating revenues decreased in fiscal 2014 compared to fiscal year 2013. This is due to a decrease in one time monies received in the revenue fund in fiscal year 2014 compared to previous fiscal years. Fiscal year 2013 and fiscal year 2012 had substantial contributions from outside sources for specific construction projects. This is most evident at St. Cloud State University which received \$8.2 million during fiscal 2012 from their Foundation to help fund the renovation to the National Hockey Center that was completed in fiscal year 2014. Repairs and maintenance expense increased by \$402 thousand in fiscal year 2014 compared to fiscal year 2013. This increase was primarily due to \$657 thousand in pollution remediation costs at Metropolitan State University due to soil contamination cleanup efforts. The pollution remediation also affected fiscal year 2014 other expense due to an accrual of \$2.3 million of estimated future pollution remediation costs. Note 11 to the financial statements addresses further this pollution remediation.

CASH AND CASH EQUIVALENTS

The 2012 and 2013 Series bond proceeds, along with all debt service reserve accounts are deposited with a Trustee (US Bank) which is managing the cash. The debt service accounts for all bond sales, along with all operating funds, are on interest bearing deposit in the State Treasury.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

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

The Minnesota State Colleges and Universities obtained an increase in bonding authority from \$300,000,000 to \$405,000,000 from the state legislature during the 2012 session. The current bonding debt outstanding is \$307,700,000 after a \$58,795,000 bond sale in March 2013.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Revenue Fund's fiscal year 2014 financial position and results for all those with an interest in the Revenue Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

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MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 80,967	\$ 78,934
Accounts receivable, net	<u>3,144</u>	<u>2,766</u>
Total current assets	<u>84,111</u>	<u>81,700</u>
Current Restricted Assets		
Cash and cash equivalents	<u>83,006</u>	<u>112,913</u>
Total current restricted assets	<u>83,006</u>	<u>112,913</u>
Noncurrent Restricted Assets		
Construction in progress	<u>21,484</u>	<u>26,945</u>
Total noncurrent restricted assets	<u>21,484</u>	<u>26,945</u>
Total restricted assets	<u>104,490</u>	<u>139,858</u>
Noncurrent Assets		
Land and construction in progress	7,307	6,032
Capital assets, net	<u>350,614</u>	<u>328,948</u>
Total noncurrent assets	<u>357,921</u>	<u>334,980</u>
Total Assets	<u>546,522</u>	<u>556,538</u>
Liabilities		
Current Liabilities		
Salaries and benefits payable	1,159	889
Accounts payable	4,226	2,125
Unearned revenue	2,543	2,613
Payable from restricted assets	5,152	3,959
Interest payable	3,049	3,236
Current portion of long-term debt	14,447	12,799
Other compensation benefits	<u>298</u>	<u>265</u>
Total current liabilities	<u>30,874</u>	<u>25,886</u>
Noncurrent Liabilities		
Other liabilities	160	178
Noncurrent portion of long-term debt	295,834	310,933
Other compensation benefits	<u>2,098</u>	<u>1,958</u>
Total noncurrent liabilities	<u>298,092</u>	<u>313,069</u>
Total Liabilities	<u>328,966</u>	<u>338,955</u>
Net Position		
Net investment in capital assets	125,495	121,093
Restricted expendable	23,199	25,992
Unrestricted	<u>68,862</u>	<u>70,498</u>
Total Net Position	<u>\$ 217,556</u>	<u>\$ 217,583</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, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Operating Revenues		
Room and board	\$ 78,125	\$ 77,468
Fees	21,233	21,728
Sales and services	7,609	7,329
Other income	2,890	2,843
Total operating revenues	<u>109,857</u>	<u>109,368</u>
Operating Expenses		
Salaries and benefits	26,832	25,350
Food service	25,179	24,697
Other purchased services	13,299	13,578
Supplies	4,554	4,476
Repairs and maintenance	4,601	4,199
Depreciation	17,750	16,196
Other expense	7,159	6,110
Total operating expenses	<u>99,374</u>	<u>94,606</u>
Operating income	<u>10,483</u>	<u>14,762</u>
Nonoperating Revenues (Expenses)		
Private grants	181	-
Interest income	582	674
Interest expense	(11,274)	(10,615)
Total nonoperating revenues (expenses)	<u>(10,511)</u>	<u>(9,941)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	(28)	4,821
Capital contributions	-	3,331
Gain/(Loss) on disposal of capital assets	1	(312)
Change in net position	<u>(27)</u>	<u>7,840</u>
Total Net Position, Beginning of Year	<u>217,583</u>	<u>209,743</u>
Total Net Position, End of Year	<u>\$ 217,556</u>	<u>\$ 217,583</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, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 109,496	\$ 112,253
Cash paid to suppliers for goods or services	(51,578)	(52,203)
Cash payments to employees	(26,389)	(24,839)
Net cash flows provided by operating activities	<u>31,529</u>	<u>35,211</u>
Cash Flows from Noncapital and Related Financing Activities		
Private grants	181	-
Net cash flows provided by noncapital financing activities	<u>181</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(35,257)	(45,926)
Capital contributions	-	3,331
Proceeds from borrowing	-	79,180
Proceeds from bond premium	-	6,846
Interest paid	(11,461)	(10,251)
Repayment of lease principal	(374)	(356)
Repayment of bond principal	(12,425)	(36,465)
Net cash flows used in capital and related financing activities	<u>(59,517)</u>	<u>(3,641)</u>
Cash Flows from Investing Activities		
Investment earnings	(67)	213
Net cash flows provided by (used in) investing activities	<u>(67)</u>	<u>213</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(27,874)	31,783
Cash and Cash Equivalents, Beginning of Year	191,847	160,064
Cash and Cash Equivalents, End of Year	<u>\$ 163,973</u>	<u>\$ 191,847</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, 2014 AND 2013
(IN THOUSANDS)

Operating Income	\$ 10,483	\$ 14,762
Adjustment to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation	17,750	16,196
Change in assets and liabilities		
Accounts receivable	(292)	3,052
Accounts payable	3,300	353
Salaries payable	270	379
Compensated absences payable	173	133
Unearned revenue	(70)	(169)
Other	(85)	505
Net reconciling items to be added to operating income	<u>21,046</u>	<u>20,449</u>
Net cash flows provided by operating activities	<u>\$ 31,529</u>	<u>\$ 35,211</u>
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	\$ 4,632	\$ 4,725
Loss on retirement of capital assets	-	(12)
Investment earnings on account	196	199
Amortization of bond premium	657	542
Amortization of bond discount	(6)	(25)

**MINNESOTA STATE COLLEGES AND UNIVERSITIES REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013**

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

<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 for items purchased since July 1, 2008, \$5,000 and over for items purchased between July 1, 2003 and June 30, 2008, and \$2,000 and over for items purchased prior to July 1, 2003. Buildings and building improvements include all projects with a cost of \$250,000 and over for projects started since July 1, 2008, and \$100,000 and over for projects started prior to July 1, 2008. All land purchases are capitalized regardless of amount spent.

Long-Term Liabilities — Include bonds payable which are due in varying amounts through fiscal year 2034.

Bonds Payable (In Thousands)				
Bond Series	Average Interest Rate	Fiscal Year 2014	Fiscal Year 2013	Maturity Date
Series 2005A	4.9233 %	\$33,435	\$34,860	October 1, 2032
Series 2005B	5.0000 %	800	1,175	October 1, 2015
Series 2007A	4.1566 %	26,575	28,120	October 1, 2026
Series 2007C	5.6409 %	2,595	2,730	October 1, 2026
Series 2008A	4.5338 %	32,560	34,115	October 1, 2028
Series 2008B	5.1057 %	635	745	October 1, 2018
Series 2009A	4.2106 %	27,560	28,825	October 1, 2029
Series 2009B	4.3682 %	3,015	3,440	October 1, 2019
Series 2011A	4.2659 %	76,370	79,410	October 1, 2031
Series 2011B	3.4801 %	2,795	3,100	October 1, 2021
Series 2011C	3.4492 %	11,560	12,000	October 1, 2032
Series 2012A	1.8379 %	11,110	12,190	October 1, 2022
Series 2012B	2.0279 %	7,470	8,195	October 1, 2022
Series 2013A	2.7835 %	55,315	55,315	October 1, 2033
Series 2013B	1.9142 %	3,480	3,480	October 1, 2023
	Total	<u>\$295,275</u>	<u>\$307,700</u>	

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2034. Annual principal and interest payments on the bonds are expected to require less than 23.8 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$411,365,157. Revenue bond principal and interest paid for the current fiscal year was \$24,877,293 and total customer net revenues were \$110,621,174. See Note 6 for additional information.

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

Unearned Revenue — Unearned revenue consists primarily of room deposits on account for fall semester in addition to room and board fees received but not earned for summer session.

Room and Board, Fees, Sales and Services — Fees and room and board are presented before scholarship allowances. Scholarship allowances of \$1,765,029 and \$1,881,453 for fiscal years ended June 30, 2014 and 2013, respectively, are reported on the Minnesota State Colleges and Universities' system financial statements, but are not reflected in these statements.

Use of Estimates — To prepare the basic financial statements in conformity with GAAP, 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 allowances for uncollectible accounts and compensated absences.

Net Position — The difference between assets and liabilities 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)		
	2014	2013
Debt service	\$ 22,379	\$ 21,389
Capital projects	820	4,603
Total restricted expendable	\$ 23,199	\$ 25,992

- *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 Pronouncements – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement requires that an employer recognize its obligation for pension net of the amount of the pensions plan’s fiduciary net position that is available to satisfy that obligation as well as additional note disclosures regarding the obligation. The new standard is effective retrospectively for the fiscal year beginning July 1, 2014. The effect GASB Statement No. 68 will have on the fiscal year 2015 financial statements has not been determined.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also specifies the information to be disclosed by governments that extend financial guarantees. There was no impact on the financial statements as a result of this adoption.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to room and board and most fees are held in the state treasury. Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state’s name by an agent of the state. The statutes further require that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

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

As of June 30 (In Thousands)		
Carrying Amount	2014	2013
Cash, treasury account	\$ 108,662	\$ 111,594
Cash, trustee account (US Bank)	55,311	80,253
Total	\$ 163,973	\$ 191,847

Restricted cash of \$83,006,247 and \$112,913,255 as of June 30, 2014 and 2013, respectively, represents unexpended bond proceeds, debt service monies and debt service reserve balances. Bond covenants restrict the use of this cash to capital construction or reduction of bonds payable.

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

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

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

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

At June 30, 2014 and June 30, 2013, 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, 2014 and June 30, 2013 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)

	2014	2013
Room and board	\$ 3,743	\$ 3,153
Fees	1,397	1,509
Sales and service	242	269
Other income	186	82
Total accounts receivable	5,568	5,013
Allowance for uncollectible	(2,424)	(2,247)
Total	<u>\$ 3,144</u>	<u>\$ 2,766</u>

The allowance for uncollectible accounts for fiscal year 2014 and 2013 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 2014 and 2013 follow:

	Year Ended June 30, 2014 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	\$ 2,173	\$ —	\$ —	\$ —	\$ 2,173
Construction in progress	30,804	35,128	—	(39,314)	26,618
Total capital assets, not depreciated	<u>32,977</u>	<u>35,128</u>	<u>—</u>	<u>(39,314)</u>	<u>28,791</u>
Capital assets, depreciated:					
Buildings	308,608	—	821	12,999	320,786
Building improvements	222,521	72	—	26,315	248,908
Equipment	3,117	34	57	—	3,094
Total capital assets, depreciated	<u>534,246</u>	<u>106</u>	<u>878</u>	<u>39,314</u>	<u>572,788</u>
Less accumulated depreciation:					
Buildings	106,087	6,433	822	—	111,698
Building improvements	97,143	11,165	(4)	—	108,312
Equipment	2,068	152	56	—	2,164
Total accumulated depreciation	<u>205,298</u>	<u>17,750</u>	<u>874</u>	<u>—</u>	<u>222,174</u>
Total capital assets depreciated, net	<u>328,948</u>	<u>(17,644)</u>	<u>4</u>	<u>39,314</u>	<u>350,614</u>
Total capital assets, net	<u>\$ 361,925</u>	<u>\$ 17,484</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 379,405</u>

Year Ended June 30, 2013
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	\$ 2,173	\$ —	\$ —	\$ —	\$ 2,173
Construction in progress	70,717	35,333	—	(75,246)	30,804
Total capital assets, not depreciated	<u>72,890</u>	<u>35,333</u>	<u>—</u>	<u>(75,246)</u>	<u>32,977</u>
Capital assets, depreciated:					
Buildings	255,543	—	4,884	57,949	308,608
Building improvements	205,639	—	415	17,297	222,521
Equipment	3,026	369	278	—	3,117
Total capital assets, depreciated	<u>464,208</u>	<u>369</u>	<u>5,577</u>	<u>75,246</u>	<u>534,246</u>
Less accumulated depreciation:					
Buildings	104,832	6,010	4,755	—	106,087
Building improvements	87,186	10,039	82	—	97,143
Equipment	2,186	147	265	—	2,068
Total accumulated depreciation	<u>194,204</u>	<u>16,196</u>	<u>5,102</u>	<u>—</u>	<u>205,298</u>
Total capital assets depreciated, net	<u>270,004</u>	<u>(15,827)</u>	<u>475</u>	<u>75,246</u>	<u>328,948</u>
Total capital assets, net	<u>\$ 342,894</u>	<u>\$ 19,506</u>	<u>\$ 475</u>	<u>\$ —</u>	<u>\$ 361,925</u>

5. ACCOUNTS PAYABLE AND PAYABLE FROM RESTRICTED ASSETS

Accounts payable and payable from restricted assets represent amounts due at year end for goods and services received prior to the end of the fiscal year. Included in the Restricted purchased services payables amount is \$2,314,266 of an estimated accrual for future pollution remediation at Metropolitan State University.

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

	2014	2013
Purchased services and other payables	\$ 1,635	\$ 1,086
Repairs and maintenance	2,161	959
Supplies	430	80
Total accounts payable	<u>4,226</u>	<u>2,125</u>
Restricted purchased services payables	<u>5,152</u>	<u>3,959</u>
Total	<u>\$ 9,378</u>	<u>\$ 6,084</u>

6. LONG-TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2014 and 2013 follow:

	Year Ended June 30, 2014 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 307,700	\$ —	\$ 12,425	\$ 295,275	\$ 14,060
Revenue bond premium/discount	10,225	—	652	9,573	—
Capital leases	5,807	—	374	5,433	387
Totals	<u>\$ 323,732</u>	<u>\$ —</u>	<u>\$ 13,451</u>	<u>\$ 310,281</u>	<u>\$ 14,447</u>

	Year Ended June 30, 2013 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Revenue bonds	\$ 264,985	\$ 79,180	\$ 36,465	\$ 307,700	\$ 12,425
Revenue bond premium/discount	3,843	6,839	457	10,225	—
Capital leases	6,163	—	356	5,807	374
Totals	<u>\$ 274,991</u>	<u>\$ 86,019</u>	<u>\$ 37,278</u>	<u>\$ 323,732</u>	<u>\$ 12,799</u>

The changes in other compensation benefits for fiscal years 2014 and 2013 follow:

	Year Ended June 30, 2014 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 1,857	\$ 403	\$ 274	\$ 1,986	\$ 298
Net other post employment benefits	366	88	44	410	—
Totals	<u>\$ 2,223</u>	<u>\$ 491</u>	<u>\$ 318</u>	<u>\$ 2,396</u>	<u>\$ 298</u>

	Year Ended June 30, 2013 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 1,772	\$ 340	\$ 255	\$ 1,857	\$ 265
Net other post employment benefits	319	112	65	366	—
Totals	<u>\$ 2,091</u>	<u>\$ 452</u>	<u>\$ 320</u>	<u>\$ 2,223</u>	<u>\$ 265</u>

Revenue Bonds — The Minnesota State Colleges and Universities Board of Trustees is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates of 0.45 to 5.75 percent. On March 1, 2013, revenue bonds were issued totaling \$58,795,000.

Refunding Bonds — On July 11, 2012, the Minnesota State Colleges and Universities Board of Trustees issued \$12,190,000 in Series 2012 A Revenue Bonds with an average interest rate of 1.84 percent to redeem \$15,615,000 of outstanding 2002 Series A Revenue Bonds issued with an average interest rate of 4.83 percent. The 2002 Series A Revenue Bonds were defeased on October 1, 2012. The cash savings from the refunding was \$4,201,786 with a net present value of \$3,974,869.

On July 11, 2012 the Minnesota State Colleges and Universities Board of Trustees issued \$8,195,000 in Series 2012 B Revenue Bonds with an average interest rate of 2.03 percent to redeem \$8,890,000 in 2002 Series B Revenue Bonds issued with an average interest rate of 6.45 percent. The 2002 Series A Revenue Bonds were defeased on October 1, 2012. The cash savings from the refunding was \$3,074,534 with a net present value of \$2,881,008.

Redeemed Bonds — On April 1, 2013, \$2,060,000 of 2007 Series B Revenue Bonds were redeemed by using funds granted by the Minnesota State University Moorhead Foundation.

Revenue Bond Premium/Discount — Bonds were issued in fiscal year 2013 resulting in a premium of \$6,845,962. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds. Bond discounts and premiums are combined on the statements of net position.

Capital Leases — In November 2001, the Minnesota State Colleges and Universities Board of Trustees guaranteed a student housing revenue fund note issued by Clay County to the Minnesota State University Moorhead Alumni Foundation in the amount of \$3,940,000. The Foundation used the proceeds to construct John Neumaier Hall Apartments. The Revenue Fund entered into an operating agreement with the Foundation. The lease term is for 30 years and \$3,016,465 of principal was outstanding at June 30, 2014.

In March of 2002, the Minnesota State Colleges and Universities Board of Trustees guaranteed the repayment of the Series 2002 revenue bonds issued by the Housing and Redevelopment Authority of the City of St. Cloud to the St. Cloud State University Foundation, Inc. in the amount of \$16,515,000. The bond proceeds were used to construct and equip a stadium, a fitness center and an addition to the Atwood Memorial Center. The Atwood Memorial Center was completed in the spring of 2004, at which time the Revenue Fund began repayment of \$4,796,524 in bond debt attributed to the Atwood Memorial Center, as specified in the operating agreement. In June of 2012, the Board of Trustees guaranteed the refunding of the Series 2002 revenue bonds. The lease is payable through fiscal year 2023. As of June 30, 2014 \$2,416,869 is attributable to the Revenue Fund. The principal portion outstanding that is guaranteed by the Revenue Fund is an additional \$5,131,130 at June 30, 2014.

Both agreements contain lease terms meeting the criteria of a capital lease, as defined by the GASB Accounting Standard 62, 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, 2014 and 2013, was \$3,979,547 and \$3,604,863, respectively, and is included within buildings and improvements.

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

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

Unless otherwise agreed to by Minnesota State Colleges and Universities, the obligation under each Guarantee shall be to pay the regularly scheduled lease payments due on account of the guaranteed obligation. As of June 30, 2014 the Revenue Fund had not been required to make any lease payments as guaranteed for either the Minnesota State University Moorhead Foundation or the St. Cloud State University Foundation, Inc. In the event the Revenue Fund is called upon to make any lease payments there are default provisions in each lease agreement where they can be terminated and possession of the buildings can be pursued legally by Minnesota State Colleges and Universities.

Compensated Absences — Revenue Fund employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated in cash only at the time of termination from state employment. There are no payment schedules for compensated absences.

Net Other Post Employment Benefits — Net other post employment 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.

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

Fiscal Years	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2015	\$ 14,060	\$ 11,847	\$ 387	\$ 252
2016	14,445	11,369	398	241
2017	15,505	10,856	412	225
2018	15,925	10,298	430	210
2019	16,535	9,685	438	194
2020-2024	86,080	38,134	1,744	654
2025-2029	83,240	19,978	1,024	301
2030-2034	49,485	3,923	600	40
Total	\$ 295,275	\$ 116,090	\$ 5,433	\$ 2,117

7. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from the Minnesota State Retirement System at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal years 2012, 2013 and 2014 the funding requirement was 5 percent for both employer and employee. The contribution rate for both employer and employee will increase to 5.5 percent for fiscal year 2015. Actual contributions were 100 percent of required contributions.

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Supplemental Retirement Plan (SRP)

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

Contributions — Participants contribute 5 percent of the eligible compensation up to a defined maximum annual contribution as specified in the following table.

Member Group	Eligible Compensation	Maximum Annual Contributions
Minnesota State University Association of Administrative and Service Faculty Administrators	\$6,000 to \$50,000	\$2,200
Middle Management Association Unclassified	6,000 to 60,000	2,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
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, 2014, 2013, and 2012 were equal to the required contributions for each year, which were \$1,115,021, \$1,138,149, and \$1,087,255, respectively.

8. UNRESTRICTED NET POSITION

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

Net Position (In Thousands)		
	2014	2013
Maintenance and operations	\$ 46,947	\$ 52,533
Repairs and replacements	21,915	17,965
Total	\$ <u>68,862</u>	\$ <u>70,498</u>

9. RELATED PARTIES

The Revenue Fund is one of the funds comprising the accounting structure of the Minnesota State Colleges and Universities. The funds operate under common management control. Common costs are allocated to the Revenue Fund for utilities and operating expenses. The amounts allocated were \$5,342,230 and \$5,922,894 for the years ended June 30, 2014 and 2013, respectively.

Within the accounts receivable balance, \$2,167,759 and \$2,219,812 is due from other funds as of June 30, 2014 and 2013, respectively, which is cash held in a local account outside of the Revenue Fund.

St. Cloud State University contributed \$3,245,532 to the Revenue Fund from other campus funds during fiscal year 2013 for use in the operations of its National Hockey Center.

During 2002, the Revenue Fund leased a parcel of land to the Minnesota State University Moorhead Alumni Foundation to construct a student housing apartment building. The duration of the lease is for 30 years. In consideration of the lease agreement, the Foundation is to pay total lease payments of one dollar. The Minnesota State Colleges and Universities Board of Trustees has guaranteed the \$3,940,000 Clay County note payable amount issued to the Foundation. See Note 6 for details.

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. See Note 6 for details.

10. RISK MANAGEMENT

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

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

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2014 and 2013.

Coverage	Amount
Institution deductible	\$2,500 to \$250,000
Fund responsibility	\$1,000,000
Primary reinsurer coverage	\$1,000,001 to \$25,000,000
Multiple reinsurer coverage	\$25,000,001 to \$1,000,000,000
Bodily injury and property damage per person	\$500,000
Bodily injury and property damage per occurrence	\$1,500,000
Annual maximum paid by fund, excess by reinsurer	\$2,500,000
Maintenance deductible for additional claims	\$25,000

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

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

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

11. COMMITMENTS AND CONTINGENCIES

During fiscal year 2014, the Revenue Fund activities included commitments for the following projects:

- Metropolitan State University expended \$3,761,568 to date for a new parking ramp. Total project cost is estimated at \$24,331,718 with completion expected in July 2015.
- Metropolitan State University expended \$809,296 to date for a new student union. Total project cost is estimated at \$12,271,665 with completion expected in July 2015.
- Minnesota State University Moorhead expended \$3,970,197 to date for a renovation to Snarr Residence Hall. Total project cost is estimated at \$4,900,000 with completion expected in January 2017.
- St. Cloud State University expended \$16,341,725 to date for a renovation to Shoemaker Hall. Total project cost is estimated at \$18,097,100 with completion in August 2014.

In April 2014, Metropolitan State University discovered contaminated soil during the construction of their parking ramp and student center. Actual pollution remediation expenses paid during fiscal year 2014 were \$715,932. The remaining estimate of future remediation costs is \$2,314,266. There are no estimated recoveries from insurance or third parties for the remediation

SUPPLEMENTARY SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Minnesota State Colleges and Universities Revenue Fund (the Revenue Fund) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Revenue Fund's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 14, 2014

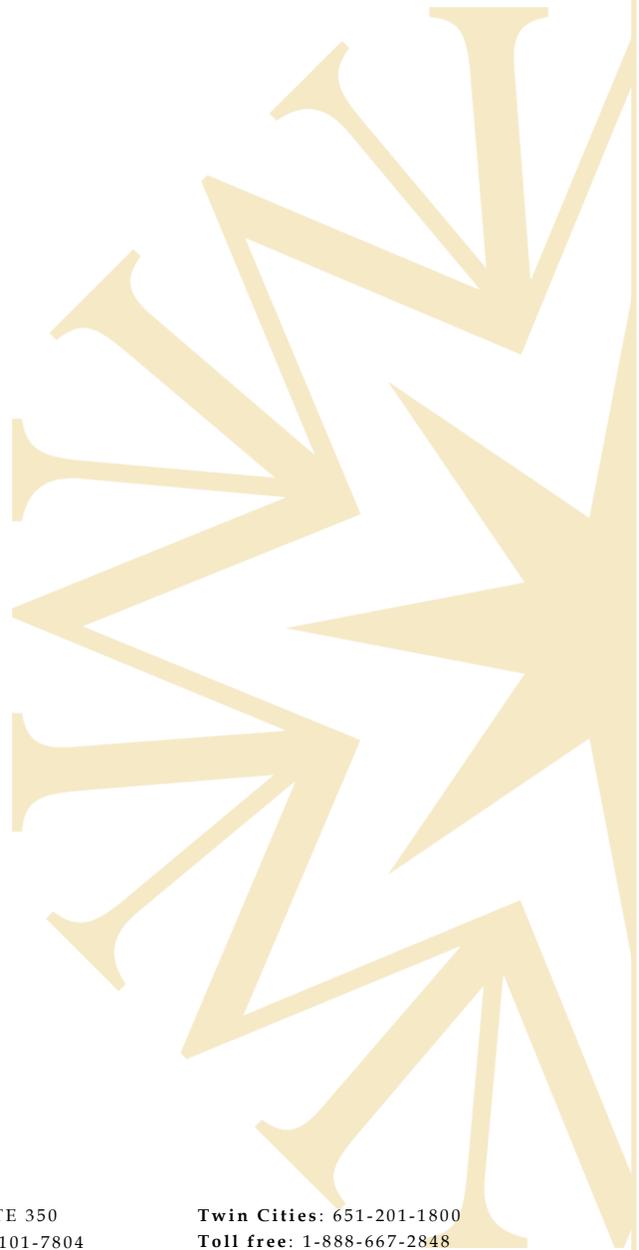
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