MINNESOTA STATE

Annual Financial Report

For the years ended June 30, 2016 and 2015

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

MINNESOTA STATE
COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Prepared by:

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

Upon request, this publication is available in alternate formats by calling one of the following:
General number: (651) 201-1800
Toll free: 1-888-667-2848
TTY: (651) 282-2660

MINNESOTA STATE COLLEGES AND UNIVERSITIES

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

INTRODUCTION

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SUPPLEMENTARY SECTION

This page intentionally left blank

INTRODUCTION

MINNESOTA STATE

November 16, 2016

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

Dear Board of Trustees and Chancellor Rosenstone:

I am pleased to submit to you the audited financial report for Minnesota State Colleges and Universities (Minnesota State) for the fiscal years ended June 30, 2016 and 2015. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

We are also providing separately audited financial statements for the Revenue Fund, and four of our state universities. The completion of separately audited financial statements for four of the 37 colleges and universities places 27 percent of the expenses of Minnesota State under separate stand-alone audits. It is worth noting that the systemwide audit opinion, the Revenue Fund opinion and the opinions for the four separate audits are each without modification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the system office.

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

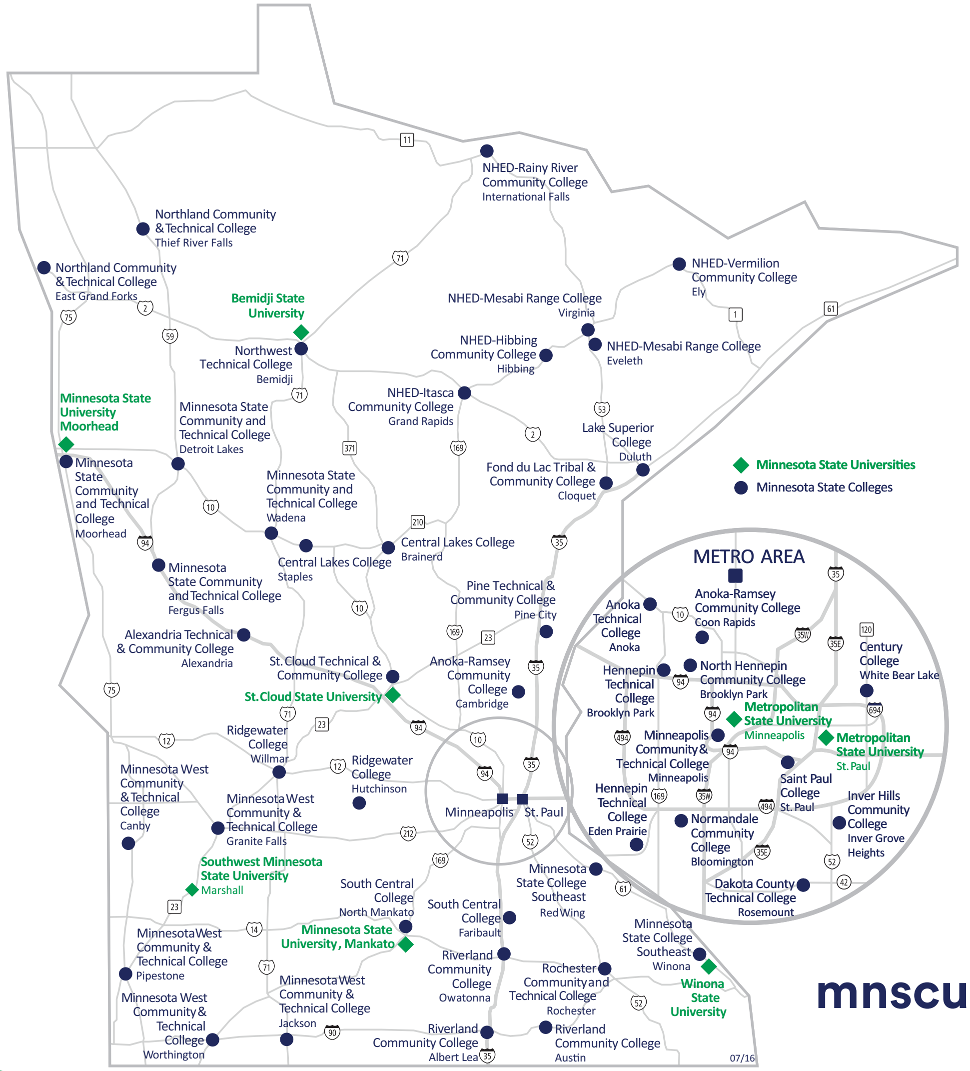
Sincerely,

LMK

Laura M. King
Vice Chancellor – Chief Financial Officer

MINNESOTA STATE

Extraordinary Education. Exceptional Value.



mnscu.edu

MINNESOTA STATE UNIVERSITIES

Bemidji State University*

Metropolitan State University

Minnesota State University, Mankato

Minnesota State University Moorhead

Southwest Minnesota State University

St. Cloud State University

Winona State University

**Bemidji State University and Northwest Technical College are aligned*

***Anoka-Ramsey Community College and Anoka Technical College are aligned*

****Part of the Northeast Higher Education District*

MINNESOTA STATE COLLEGES

Alexandria Technical & Community College

Anoka Technical College**

Anoka-Ramsey Community College**

Central Lakes College

Century College

Dakota County Technical College

Fond du Lac Tribal & Community College

Hennepin Technical College

Hibbing Community College***

Inver Hills Community College

Itasca Community College***

Lake Superior College

Mesabi Range College***

Minneapolis Community & Technical College

Minnesota State College Southeast

Minnesota State Community and Technical College

Minnesota West Community & Technical College

Normandale Community College

North Hennepin Community College

Northland Community & Technical College

Northwest Technical College*

Pine Technical & Community College

Rainy River Community College***

Ridgewater College

Riverland Community College

Rochester Community and Technical College

St. Cloud Technical & Community College

Saint Paul College

South Central College

Vermilion Community College***

Minnesota State Colleges and Universities

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

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

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

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

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

CENTURY COLLEGE
White Bear Lake
Pat Opatz, Interim President
1-800-228-1978
www.century.edu

DAKOTA COUNTY TECHNICAL COLLEGE
Rosemount
Tim Wynes
1-877-937-3282
www.dctc.edu

FOND DU LAC TRIBAL & COMMUNITY COLLEGE
Cloquet
Larry Anderson, President
1-800-657-3712
www.fdltcc.edu

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

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

INVER HILLS COMMUNITY COLLEGE
Inver Grove Heights
Tim Wynes, President
(651) 450-3000
www.inverhills.edu

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

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

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

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

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

MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL
Red Wing, Winona
Dorothy Duran, President
1-877-853-8324
www.southeastmn.edu

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

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

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

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

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

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

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

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

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

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

RIDGEWATER COLLEGE
Hutchinson, Willmar
Douglas Allen, President
1-800-722-1151
www.ridgewater.edu

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

ROCHESTER COMMUNITY AND TECHNICAL COLLEGE
Rochester
Mary Davenport, Interim President
1-800-247-1296
www.rctc.edu

ST. CLOUD STATE UNIVERSITY
St. Cloud
Ashish Vaidya, Interim President
1-877-654-7278
www.stcloudstate.edu

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

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

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

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

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

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

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

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

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

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of the state of Minnesota, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (Minnesota State) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Minnesota State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represent 81% of the total assets and 83% of the revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not audit the Foundations as listed above in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting and instances of reportable noncompliance associated with the Foundations.

The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

A member of Nexia International

Auditors' Responsibility (Continued)

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Minnesota State Colleges and Universities and do not purport to, and do not, present fairly the financial position of the state of Minnesota as of June 30, 2016 and 2015, 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 Funding Progress – Net Other Postemployment Benefits, and the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Continued)

Other Information

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of Minnesota State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Minnesota State's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 16, 2016

This page intentionally left blank

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the Minnesota State Colleges and Universities (Minnesota State) for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

Minnesota State, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 37 state universities, technical, and community colleges. Offering more than 3,786 educational programs, the system serves approximately 254,206 students annually in credit-based courses, as measured by unduplicated headcount enrollment. The system serves over 63,000 students of color and American Indian students across the state. An additional 121,970 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs approximately 16,500 full time and part time faculty and staff. Minnesota State is governed by a fifteen member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees: one from a state university, one from a community college and one from a technical college, serve two-year terms. The board of trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

FINANCIAL HIGHLIGHTS

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by $556.9 million, with an offsetting reduction to fiscal year 2015 salaries and benefits expense of $37.7 million, resulting in net position decrease of $519.2 million in fiscal year 2015, related to the GASB Statement No. 68 implementation. An additional reduction to fiscal year 2016 salaries and benefits expense of $44.7 million resulted in a net position decrease of $474.4 million in fiscal year 2016, related to the GASB No. 68 implementation. The reduction to net position related to GASB Statement No. 68 was offset on the system's statement of net position by a net pension liability, deferred outflows and deferred inflows of resources. Fiscal year 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows and inflows of resources, and net position, were not restated because sufficient information was not available. It is worth noting, that the impact on fiscal years 2016 and 2015 salaries and benefits expense is a result of a more comprehensive approach to pension expense, which reflects estimates of the amounts employees earned during the year, rather than actual contributions to the pension plans. The actuarially derived net pension liability, deferred outflows, and deferred inflows of resources, can vary between years due to actuarial assumption changes, thus affecting financial statements comparability between years.

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

(In Thousands)

	2016	2015
Balance at June 30	$ 69,679	$ (9,882)
Prior year effect of GASB Statement No. 68	519,160	556,900
Current year effect of GASB Statement No. 68	(44,722)	(37,740)
Balance at June 30, withough effect of GASB Statement No. 68	$ 544,117	$ 509,278

The system's financial position improved during fiscal year 2016 with net position increasing by $118.0 million, or 7.3 percent, on total revenues of $2.0 billion. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position increased by $73.3 million, or 3.4 percent, and $29.8 million or 1.4 percent, respectively. Of that increase, $33.7 million for fiscal year 2016 and $22.0 million for fiscal year 2015, were due to an increase in net investment in capital assets. Unrestricted net position increased by $34.8 million, or 6.8 percent, and increased $14.9 million, or 3.0 percent, in fiscal years 2016 and 2015 respectively.

- Income (loss) before other revenues, expenses, gains or losses, described further below as the system's net operating revenue, experienced a gain of $48.4 million in fiscal year 2016. This compares to a gain of $4.9 million and a loss of $43.7 million in fiscal years 2015 and 2014, respectively. Excluding the effects of GASB Statement No. 68 implementation, the system experienced a net operating gain of $3.6 million in fiscal year 2016 and net operating loss of $32.8 million in fiscal year 2015.

- Compensation, the largest cost category in the system, increased $8.3 million, or 0.7 percent, in fiscal year 2016 and decreased $28.4 million, or 2.2 percent, in fiscal year 2015. This cost constitutes 68.1 percent of the system's fiscal year 2016 total operating expenses, compared to 67.8 percent for fiscal year 2015. Excluding the GASB Statement No. 68 effect, the net increase in compensation was $15.3 million or 1.2 percent and $9.3 million, or 0.7 percent in fiscal years 2016 and 2015, respectively.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation increased in fiscal year 2016 by 8.3 percent compared to a 5.7 percent increase in fiscal year 2015. Gross tuition revenue decreased $9.7 million, or 1.2 percent, in fiscal year 2016. This is compared to the decrease of $23.9 million, or 2.9 percent, and $27.7 million, or 3.3 percent, in fiscal years 2015 and 2014, respectively. Undergraduate tuition rates were not increased in fiscal years 2015 or 2014, while in fiscal year 2016, average rates at the universities increased by 3.4 percent, while average rates at the colleges remained unchanged.

- The number of students is the primary factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2016, 2015 and 2014 totaled 135,089, 138,973, and 144,524, respectively. Enrollment in 2016 decreased 2.8 percent from fiscal year 2015 and decreased 6.5 percent from fiscal year 2014.

- Federal grants decreased by 6.3 percent, or $21.3 million, in fiscal year 2016 compared to fiscal year 2015, following a decrease of $15.8 million, or 4.5 percent, in fiscal year 2015 compared to fiscal year 2014. The decrease in fiscal years 2016 and 2015 is primarily attributable to the decrease in enrollments and related financial aid.

- Total debt supporting the system's capital asset investment programs decreased in fiscal year 2016 by $24.8 million to a total of $601.2 million, a 4.0 percent decrease. This decrease was primarily due to the fact that the system had no revenue bonds issued in fiscal year 2016 compared to fiscal year 2015.

USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

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

A summary of the system's statements of net position as of June 30, 2016, 2015 and 2014 follows:

(In Thousands)

	2016	2015	2014
Current assets	$ 1,147,129	$ 1,156,756	$ 1,101,178
Noncurrent assets	26,438	27,096	26,217
Capital assets, net	2,072,844	2,033,210	2,015,512
Deferred outflows of resources	66,923	51,001	-
Total assets and deferred outflows of resources	3,313,334	3,268,063	3,142,907
Current liabilities	289,523	313,931	305,064
Noncurrent liabilities	1,117,950	1,105,493	739,132
Deferred inflows of resources	178,524	239,274	-
Total liabilities and deferred inflows of resources	1,585,997	1,658,698	1,044,196
Net position	$ 1,727,337	$ 1,609,365	$ 2,098,711

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by $55.4 million to total $907.0 million at June 30, 2016. This $907.0 million of cash and cash equivalents plus investments of $24.3 million represent approximately 6.4 months of fiscal year 2016 operating expenses (excluding depreciation), an increase of 0.4 months over fiscal year 2015. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues. Deferred outflows of $66.9 million and $51.0 million were reported in fiscal years 2016 and 2015, respectively, which represent the consumption of net position in one period that is applicable to future periods, and is primarily due to GASB Statement No. 68.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2016 increased from the prior year by $10.0 million, or 9.5 percent, to a total of $115.5 million, primarily due to employee separation settlements and two extra days being accrued after June 30, 2016 compared to fiscal year 2015. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year. Accounts payable and other liabilities, including payables from restricted assets, decreased $8.0 million or 11.3 percent, primarily due to less construction activity during fiscal 2016 compared to fiscal year 2015.

The noncurrent liabilities increased by $12.5 million or 1.1 percent in fiscal year 2016 compared to fiscal year 2015. This was due primarily to a $34.1 million increase in the net pension liability, offset by a decrease in the noncurrent portion of long-term debt in fiscal year 2016 compared to fiscal year 2015.

Deferred inflows of $178.5 million and $239.3 million were reported in fiscal years 2016 and 2015, respectively, which represent the acquisition of net position in one period that is applicable to future periods, and is primarily due to GASB Statement No. 68. Additionally, GASB Statement No. 68 resulted in a net pension liability for fiscal years 2016 and 2015 in the amounts of $364.8 million and $330.6 million respectively.

Net position represents the system's residual interest in total assets and deferred outflows after deducting total liabilities and deferred inflows. Net investment in capital assets, represents by far the largest portion of net position. Capital assets are carried at historical cost, not replacement cost. Restricted net position has constraints placed on its use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for debt service of $48.8 million, and restrictions imposed by bond covenants of $73.5 million, a $7.0 million increase over fiscal year 2015.

The system's net position as of June 30, 2016, 2015 and 2014 follows:

(In Thousands)	2016	2015	2014
Net investment in capital assets	$ 1,520,085	$ 1,486,372	$ 1,464,361
Restricted expendable, bond covenants	73,457	66,484	72,499
Restricted expendable, other	64,116	66,391	67,457
Unrestricted	69,679	(9,882)	494,394
Total Net Position	$ 1,727,337	$ 1,609,365	$ 2,098,711

CAPITAL AND DEBT ACTIVITIES

With over 27 million managed square feet, the quality of the system's academic and residential life programs is closely linked to the development and renewal of its capital assets. The system continues to update and implement a long range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Note 16 to the financial statements.

Fiscal year 2016 capital outlays totaled $161.5 million, including $140.0 million of new construction in progress, compared to fiscal year 2015 capital outlays which totaled $133.6 million, including $111.4 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long-term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the system is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The system recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the system has no debt service responsibility. Total state appropriation in fiscal year 2016 was $676.9 million of which $3.1 million is included for asset repairs and improvements that are not capitalized. General obligation bonds payable totaled $235.5 million at June 30, 2016, a net decrease of $6.3 million during the fiscal year. Revenue bonds payable at June 30, 2016 totaled $313.1 million, a net decrease of $14.5 million from June 30, 2015.

The percentage of total revenue expended to cover debt service (principal and interest payments on general obligation and revenue bonds, capital leases and notes payable) has increased from 2.5 percent or $52.1 million in fiscal year 2011, to 3.2 percent, or $65.7 million in fiscal year 2016. This compares to 1.7 percent of total revenue to cover debt service (principal and interest payments) on general obligation bonds only for fiscal year 2016.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

A summary of the system's statement of revenues, expenses and changes in net position as of June 30, 2016, 2015 and 2014 follows:

(In Thousands)

	2016	2015	2014
Operating revenues:			
Tuition, fees and sales net	$ 709,858	$ 693,840	$ 704,798
Restricted student payments, net	113,964	107,067	105,294
Other income	11,625	13,523	14,098
Total operating revenues	835,447	814,430	824,190
Nonoperating revenues and other revenues:			
State appropriations	676,850	624,988	591,242
Capital appropriations	59,367	52,283	54,729
Grants	446,250	468,682	469,987
Other	10,493	11,938	11,946
Total nonoperating and other revenues	1,192,960	1,157,891	1,127,904
Total revenues	2,028,407	1,972,321	1,952,094
Operating expenses:			
Salaries and benefits	1,276,821	1,268,526	1,296,889
Depreciation	119,557	115,814	113,497
Financial aid, net	38,451	42,088	38,446
Other	440,111	444,284	453,529
Total operating expenses	1,874,940	1,870,712	1,902,361
Nonoperating and other expenses:			
Interest expense	23,618	22,619	23,464
Other	11,877	11,436	10,236
Total nonoperating and other expenses	35,495	34,055	33,700
Total expenses	1,910,435	1,904,767	1,936,061
Change in net position	117,972	67,554	16,033
Net position, beginning of year	1,609,365	2,098,711	2,082,678
Cumulative effect of change in accounting principle	-	(556,900)	-
Net position, beginning of year, as restated	1,609,365	1,541,811	2,082,678
Net position, end of year	$ 1,727,337	$ 1,609,365	$ 2,098,711

The fiscal year 2016 total revenues increased by 2.8 percent which was due primarily to an increase in state appropriation.

Compensation is the system's single largest expense component. Compensation expense increased $8.3 million, or 0.7 percent, in fiscal year 2016 and represented 68.1 percent of total operating expense. The fiscal year 2015 decrease of $28.4 million, or 2.2 percent, represented 67.8 percent of total operating expense. Total compensation expense included fringe benefit costs of $281.9 million and $278.4 million in fiscal years 2016 and 2015, respectively. The small increase in compensation in fiscal year 2016 is due primarily to bargaining unit contracts increases, offset by a 2.5 percent reduction in employee headcount.

All other operating expenses for fiscal year 2016 decreased by 0.7 percent compared to fiscal year 2015. A 0.4 percent decrease in operating expenses occurred in fiscal year 2015 compared to fiscal year 2014. The most significant decrease by percentage from fiscal year 2015 to fiscal year 2016 was 8.6 percent or $3.6 million in financial aid that was disbursed to students, due to decreased enrollment.

INVESTMENTS

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

FOUNDATIONS

The system's annual financial report for the years ended June 30, 2016 and 2015 includes financial statements for the foundations of all seven state universities, based on an assessment of the foundations' significance to the system's financial statements. The accompanying financial report includes the foundations' statements of financial position, and the foundations' statements of activities, analogous to the systems' statements of revenues, expenses, and changes in net position. It should be noted that the foundations' financial statements are not consolidated but are reported separately within the system's financial statements. The relationships between the foundations and the related universities are described in Note 19.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Minnesota State maintained a sound financial position in fiscal year 2016. The state of Minnesota's improved financial condition allowed the legislature to increase appropriations by $51.9 million in fiscal year 2016, following a $33.8 million increase in fiscal year 2015. This enabled the system to continue to fund a freeze on fiscal year 2016 undergraduate tuition at two year colleges while maintaining ongoing operations, implementing new programs tailored to meet the state's workforce needs, and implementing innovative strategies for managing the challenges and opportunities faced by higher education. Undergraduate tuition at two year colleges will decrease by 1.0 percent in fiscal year 2017 and remain frozen at the universities. This continued a trend we have seen over recent sessions, both in direct appropriations as well as through other support such as the Leveraged Equipment Program, as the state has increased its investment in Minnesota State in order to meet pressing workforce needs.

With tuition rates frozen, fluctuation in enrollment plays a bigger and more immediate impact; it will be critical to manage expenses at a rate that is less than the growth of revenue from state appropriations and tuition. Consistent with national trends, enrollment at Minnesota State is decreasing, fueled largely by demographic trends and the economic recovery, as it returns to pre-recession levels. The system has in place a number of strategic initiatives for managing enrollment, including programs to increase the retention and success of existing students and programs to address the needs of diverse populations traditionally underserved by higher education.

The system completed the first stage of a significant strategic positioning effort in fiscal year 2015 and has developed implementation plans in conjunction with presidential work plan efforts for fiscal year 2016. The work is a multiyear effort and designed to engage faculty, students and staff on every campus in strong, collaborative leadership. The system will also continue its management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include developing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services. In a comparison of similar institutions, Minnesota State ranks 33 out of 51 states and the District of Columbia in overall administrative spending per student. The system is committed to realizing further efficiencies over the next biennium.

The continuing success of the system depends in part on its partnership with the state of Minnesota and its citizens. Preserving the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The system leadership is committed to a statewide partnership with government, industry, and communities to add to the prosperity of Minnesota. The partnership enables the provision of accessible, high value, affordable higher education in accord with the economic and intellectual needs of the state. The state's continued support is critical to maintaining both affordability and access for students.

REQUESTS FOR INFORMATION

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

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

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

Assets	2016	2015
Current Assets		
Cash and cash equivalents	$ 907,022	$ 851,592
Investments	24,348	26,824
Grants receivable	18,271	17,752
Accounts receivable, net	63,639	57,263
Prepaid expense	31,079	29,878
Inventory and other assets	16,653	15,178
Student loans, net	4,473	4,831
Total current assets	1,065,485	1,003,318
Current Restricted Cash and Cash Equivalents	81,644	153,438
Noncurrent Restricted Assets		
Other assets	296	296
Construction in progress	21,970	31,706
Total noncurrent restricted assets	22,266	32,002
Total restricted assets	103,910	185,440
Noncurrent Assets		
Notes receivable	2,114	2,238
Student loans, net	24,028	24,562
Capital assets, net	2,050,874	2,001,504
Total noncurrent assets	2,077,016	2,028,304
Total Assets	3,246,411	3,217,062
Deferred Outflows of Resources	66,923	51,001
Total Assets and Deferred Outflows of Resources	3,313,334	3,268,063
Liabilities		
Current Liabilities		
Salaries and benefits payable	115,452	105,457
Accounts payable and other liabilities	47,909	45,017
Unearned revenue	37,173	65,876
Payable from restricted assets	14,598	25,468
Interest payable	3,000	3,225
Funds held for others	8,149	8,386
Current portion of long-term debt	42,212	39,975
Other compensation benefits	21,030	20,527
Total current liabilities	289,523	313,931
Noncurrent Liabilities		
Noncurrent portion of long-term debt	558,945	585,955
Other compensation benefits	166,328	159,794
Net pension liability	364,763	330,626
Capital contributions payable	27,914	29,118
Total noncurrent liabilities	1,117,950	1,105,493
Total Liabilities	1,407,473	1,419,424
Deferred Inflows of Resources	178,524	239,274
Total Liabilities and Deferred Inflows of Resources	1,585,997	1,658,698
Net Position		
Net investment in capital assets	1,520,085	1,486,372
Restricted expendable, bond covenants	73,457	66,484
Restricted expendable, other	64,116	66,391
Unrestricted	69,679	(9,882)
Total Net Position	$ 1,727,337	$ 1,609,365

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

Assets	2016	2015
Current Assets		
Cash and cash equivalents	$ 7,265	$ 6,719
Investments	66,710	67,828
Restricted cash and cash equivalents	1,682	1,022
Pledges and contributions receivable, net	4,681	7,460
Other receivables and Other assets	299	452
Annuities/Remainder interests/Trusts	335	326
Finance lease receivable	910	885
Total current assets	81,882	84,692
Noncurrent Assets		
Annuities/Remainder interests/Trusts	414	416
Long-term pledges receivable	12,962	13,265
Finance lease receivable, net	4,883	5,793
Investments	101,379	99,623
Restricted investments	6,228	6,175
Buildings, property and equipment, net	18,247	18,975
Other assets	3,022	1,840
Total noncurrent assets	147,135	146,087
Total Assets	$ 229,017	$ 230,779
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,080	$ 805
Interest payable	163	163
Unearned revenue	464	379
Annuities payable	1,190	478
Notes payable	1,201	630
Bonds payable	2,035	2,024
Scholarships payable and Other liabilities	145	158
Total current liabilities	6,278	4,637
Noncurrent Liabilities		
Annuities payable and Unitrust liabilities	1,895	2,773
Notes payable	1,167	1,477
Bonds payable	18,298	20,381
Total noncurrent liabilities	21,360	24,631
Total Liabilities	27,638	29,268
Net Assets		
Unrestricted	15,596	8,935
Temporarily restricted	62,422	74,874
Permanently restricted	123,361	117,702
Total Net Assets	201,379	201,511
Total Liabilities and Net Assets	$ 229,017	$ 230,779

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Operating Revenues		
Tuition, net	$ 524,301	$ 509,462
Fees, net	69,660	67,853
Sales and room and board, net	115,897	116,525
Restricted student payments, net	113,964	107,067
Other income	11,625	13,523
Total operating revenues	835,447	814,430
Operating Expenses		
Salaries and benefits	1,276,821	1,268,526
Purchased services	231,564	231,533
Supplies	138,000	142,156
Repairs and maintenance	26,853	27,056
Depreciation	119,557	115,814
Financial aid, net	38,451	42,088
Other expense	43,694	43,539
Total operating expenses	1,874,940	1,870,712
Operating loss	(1,039,493)	(1,056,282)
Nonoperating Revenues (Expenses)		
Appropriations	676,850	624,988
Federal grants	317,606	338,865
State grants	92,802	100,146
Private grants	28,353	24,891
Interest income	7,735	6,304
Interest expense	(23,618)	(22,619)
Grants to other organizations	(11,877)	(11,436)
Total nonoperating revenues (expenses)	1,087,851	1,061,139
Income Before Other Revenues, Expenses, Gains, or Losses	48,358	4,857
Capital appropriations	59,367	52,283
Capital grants	7,489	4,780
Donated assets	1,723	5,486
Gain on disposal of capital assets	1,035	148
Change in net position	117,972	67,554
Total Net Position, Beginning of Year	1,609,365	2,098,711
Cumulative Effect of Change in Accounting Principle	-	(556,900)
Total Net Position, Beginning of Year, as Restated	1,609,365	1,541,811
Total Net Position, End of Year	$ 1,727,337	$ 1,609,365

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Support and Revenue				
Contributions	$ 8,173	$ 8,866	$ 4,584	$ 21,623
Endowment gifts	-	-	184	184
In-kind contributions	5,457	25	-	5,482
Investment income	293	1,541	6	1,840
Realized loss	(39)	(1,163)	(23)	(1,225)
Unrealized gain (loss)	(2)	(1,327)	78	(1,251)
Program income	1,151	457	-	1,608
Special events	-	98	-	98
Fundraising income	-	121	-	121
Other income	895	125	6	1,026
Reclassification of net assets	300	(294)	(6)	-
Net assets released from restrictions	17,177	(18,007)	830	-
Total support and revenue	33,405	(9,558)	5,659	29,506
Expenses				
Program services				
Program services	4,360	-	-	4,360
Scholarships	12,707	-	-	12,707
Institutional activities	1,158	-	-	1,158
Special projects	1,724	-	-	1,724
Total program services	19,949	-	-	19,949
Supporting services				
Interest expense	239	-	-	239
Management and general	3,825	-	-	3,825
Fundraising	5,461	-	-	5,461
Other expense	223	-	-	223
Total supporting services	9,748	-	-	9,748
Total expenses	29,697	-	-	29,697
Change in Net Assets	3,708	(9,558)	5,659	(191)
Net Assets, Beginning of Year	11,826	71,983	117,702	201,511
Transfer in of Alumni Net Fixed Assets	59	-	-	59
Net Asset Transfer Related to Application of UPMIFA	3	(3)	-	-
Net Assets, End of Year	$ 15,596	$ 62,422	$ 123,361	$ 201,379

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Support and Revenue				
Contributions	$ 7,948	$ 7,958	$ 8,839	$ 24,745
Endowment gifts	-	-	1,298	1,298
In-kind contributions	3,902	448	-	4,350
Investment income (loss)	696	3,758	(32)	4,422
Realized gain (loss)	2,560	10,024	(377)	12,207
Unrealized gain (loss)	(2,986)	(11,722)	394	(14,314)
Program income	1,189	214	-	1,403
Special events	-	-	-	-
Fundraising income	-	277	-	277
Other income	819	131	48	998
Reclassification of net assets	699	(679)	(20)	-
Net assets released from restrictions	14,839	(15,457)	618	-
Total support and revenue	29,666	(5,048)	10,768	35,386
Expenses				
Program services				
Program services	5,102	-	-	5,102
Scholarships	10,468	-	-	10,468
Institutional activities	1,417	-	-	1,417
Special projects	1,513	-	-	1,513
Total program services	18,500	-	-	18,500
Supporting services				
Interest expense	287	-	-	287
Management and general	3,245	-	-	3,245
Fundraising	4,893	-	-	4,893
Other expense	8	-	-	8
Total supporting services	8,433	-	-	8,433
Total expenses	26,933	-	-	26,933
Change in Net Assets	2,733	(5,048)	10,768	8,453
Net Assets, Beginning of Year	6,202	79,922	106,934	193,058
Net Assets, End of Year	$ 8,935	$ 74,874	$ 117,702	$ 201,511

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	$ 827,731	$ 813,435
Cash repayment of program loans	4,696	5,164
Cash paid to suppliers for goods or services	(444,897)	(438,542)
Cash payments for employees	(1,304,038)	(1,315,356)
Financial aid disbursements	(39,654)	(42,571)
Cash payments for program loans	(4,215)	(4,850)
Net cash flows used in operating activities	(960,377)	(982,720)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	676,850	624,988
Federal grants	316,832	336,947
State grants	92,802	100,146
Private grants	28,353	24,891
Agency activity	(237)	(320)
Grants to other organizations	(11,877)	(11,436)
Net cash flows provided by noncapital and related financing activities	1,102,723	1,075,216
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(165,651)	(120,376)
Capital appropriation	32,259	68,686
Capital grants	7,489	2,418
Proceeds from sale of capital assets and insurance proceeds	3,487	217
Proceeds from borrowing	18,142	105,510
Proceeds from bond premiums	2,643	2,571
Interest paid	(23,225)	(22,471)
Repayment of lease principal	(4,295)	(4,396)
Repayment of note principal	(642)	(541)
Repayment of bond principal	(35,398)	(72,283)
Net cash flows used in capital and related financing activities	(165,191)	(40,665)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	9,120	1,804
Purchase of investments	(6,941)	(1,531)
Investment earnings	4,302	2,774
Net cash flows provided by investing activities	6,481	3,047
Net Increase (Decrease) in Cash and Cash Equivalents	(16,364)	54,878
Cash and Cash Equivalents, Beginning of Year	1,005,030	950,152
Cash and Cash Equivalents, End of Year	$ 988,666	$ 1,005,030

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Operating Loss	$ (1,039,493)	$ (1,056,282)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	119,557	115,814
Provision for loan defaults	6	(44)
Loan principal repayments	4,696	5,164
Loans issued	(4,215)	(4,850)
Forgiven loans	406	403
Donated and lease equipment not capitalized	-	5,055
Change in assets and liabilities		
Inventory	(1,078)	1,624
Accounts receivable	(5,956)	624
Accounts payable	(1,241)	(302)
Salaries and benefits payable	9,995	(17,090)
Other compensation benefits	7,037	7,678
Deferred inflows/outflows of resources / Net pension liability	(44,722)	(37,741)
Capital contributions payable	(1,203)	(483)
Unearned revenues	(1,760)	(2,698)
Other	(2,406)	408
Net reconciling items to adjust operating loss	79,116	73,562
Net cash flow used in operating activities	$ (960,377)	$ (982,720)
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	$ 21,207	$ 26,967
Amortization of bond premium	3,342	3,323

MINNESOTA STATE COLLEGES AND UNIVERSITIES
DEFINED CONTRIBUTION RETIREMENT FUND
STATEMENTS OF FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Assets		
Mutual Funds	$ 1,666,258	$ 1,636,405
Total Assets	1,666,258	1,636,405
Liabilities		
Total Liabilities	-	-
Net Position Held in Trust for Pension Benefits	$ 1,666,258	$ 1,636,405

The notes are an integral part of the financial statements.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
DEFINED CONTRIBUTION RETIREMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Additions:		
Contributions		
Employer	$ 43,890	$ 44,083
Member	36,685	36,818
Contributions from roll overs and other sources	3,024	654
Total Contributions	83,599	81,555
Net Investment Gain	21,071	70,000
Total Additions	104,670	151,555
Deductions:		
Benefits and refunds paid to plan members	73,770	74,462
Administrative fees	1,047	350
Total Deductions	74,817	74,812
Net Increase	29,853	76,743
Net Position Held in Trust for Pension Benefits, Beginning of Year	1,636,405	1,559,662
Net Position Held in Trust for Pension Benefits, End of Year	$ 1,666,258	$ 1,636,405

The notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

Joint Ventures and Jointly Governed Organizations — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2016, joint ventures received revenues of $6,338,303 and incurred expenses of $6,978,147. In fiscal year 2015 the amounts for revenues and expenses were $5,905,962 and $5,799,055, respectively.

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

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

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

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

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

State appropriations do not lapse at fiscal year-end. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums. State appropriation included $3,052,325 and $2,843,812 in fiscal years 2016 and 2015 respectively, for asset repairs and improvements that are not capitalized.

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

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

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

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

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

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for unspent bond proceeds, residence hall deposits, and from grants which have not yet been earned under the terms of the agreement.

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

Deferred Outflows and Deferred Inflows of Resources —Deferred outflows of resources represent the consumption of net position by Minnesota State in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows and inflows are related to defined benefit pension plans, and to economic gains/losses related to revenue fund and general obligation bond refunding, which is a result of the difference in the carrying value of the refunded debt and its reacquisition price.

The following tables summarizes Minnesota State deferred outflows and inflows:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ -	$ 46,926
Changes in actuarial assumptions	18,226	72,127
Contributions paid to pension plans subsequent to the measurement date	26,920	-
Differences between expected and actual experience	12,301	35,290
Changes in proportion	9,231	22,011
Total related to pensions	66,678	176,354
Related to Refunding:		
Economic loss on refunding of revenue bonds	245	-
Economic gain on refunding of general obligation bonds	-	2,170
Total	$ 66,923	$ 178,524

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ -	$ 130,277
Changes in actuarial assumptions	1,727	98,684
Contributions paid to pension plans subsequent to the measurement date	26,979	-
Differences between expected and actual experience	15,317	2,981
Changes in proportion	6,717	7,332
Total related to pensions	50,740	239,274
Related to Refunding:		
Economic loss on refunding of revenue bonds	261	-
Total	$ 51,001	$ 239,274

Operating Activities — Operating activities as reported in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

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

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

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

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

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 and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to compensated absences, workers' compensation claims, allowances for uncollectible accounts, and scholarship allowances.

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

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

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

  Restricted for bond covenants — revenue bond restrictions.

  Restricted for other — includes restrictions for the following:

    Capital projects — restricted for completion of capital projects.

    Debt service — legally restricted debt repayment.

    Donations — restricted per donor requests.

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

    Loans — college and university capital contributions for Perkins Loans.

Net Position Restricted for Other
(In Thousands)

	2016	2015
Capital projects	$ 431	$ 419
Debt service	48,745	50,394
Donations	3,564	4,447
Faculty contract obligations	7,674	7,512
Loans	3,702	3,619
Total	$ 64,116	$ 66,391

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

New Accounting Standards — In February, 2015 the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for years beginning after June 15, 2015, which provides guidance in applying fair value to certain investments and disclosures related to all fair value measurements. In accordance with the implementation of this Statement, Minnesota State has classified its investments as Level 1, 2, or 3 to indicate the valuation inputs used to measure the fair value.

In June, 2015 the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense. For defined benefit other postemployment benefits (OPEB), the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to the actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Statement No. 75 is effective for the fiscal year beginning July 1, 2017. The effect GASB Statement No. 75 will have on the fiscal year 2018 financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash and cash equivalents are categorized to give an indication of the level of custodial credit risk. Category 1 includes cash and cash equivalents insured or collateralized with securities held by the state or its agent in Minnesota State's name. All cash and cash equivalents are included in Category 1.

At June 30, 2016 and 2015, the local bank balances were $85,514,656 and $87,544,686, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

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

Year Ended June 30 (In Thousands)				
Carrying Amount		2016		2015
Cash, in bank	$	41,339	$	42,643
Money markets		10,706		10,873
Repurchase agreements		28,088		30,206
Cash, trustee account (US Bank)		42,763		71,430
Total local cash and cash equivalents		122,896		155,152
Total treasury cash accounts		865,770		849,878
Grand Total	$	988,666	$	1,005,030

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

The cash accounts are invested in short term, liquid, high quality debt securities.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has foreign checking accounts, denominated entirely in British Pounds. At June 30, 2016 and 2015, the fair value in U.S. Dollars is $128,095 and $138,935, respectively.

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

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

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

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

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Minnesota State policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.03. The statutes limit investments to the top quality rating categories of a nationally recognized rating agency.

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

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Minnesota State complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long term debt investments.

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

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

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

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

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

Year Ended June 30, 2016
(In Thousands)

Investment Type		Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$	4,275	2.91		x	
U.S. agencies		12,931	4.37	x		
Asset backed security		158	4.12		x	
U.S. treasuries		1,191	0.99	x		
Total		18,555				
Portfolio weighted average maturity			3.79			
Certificates of deposit		2,510			x	
Stock		3,283			x	
Total	$	24,348				

Year Ended June 30, 2015
(In Thousands)

Investment Type		Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$	4,713	2.84		x	
U.S. agencies		13,722	5.20	x		
Asset backed security		113	2.32		x	
U.S. treasuries		1,158	2.22	x		
Total		19,706				
Portfolio weighted average maturity			4.36			
Certificates of deposit		2,799			x	
Stock		4,319			x	
Total	$	26,824				

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2016 and 2015. At June 30, 2016 and 2015, the total accounts receivable balances were $99,840,091 and $91,100,044, respectively, less an allowance for uncollectible receivables of $36,201,067 and $33,837,317, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2016	2015
Tuition	$ 45,358	$ 45,403
Fees	11,627	11,951
Sales and service	12,200	11,785
Room and board	4,773	4,401
Third party obligations	5,274	2,716
Inventory	710	482
Capital projects	420	-
Financial aid	6,106	5,439
Direct loans	1,474	1,657
Other	11,898	7,266
Total accounts receivable	99,840	91,100
Allowance for doubtful accounts	(36,201)	(33,837)
Net accounts receivable	$ 63,639	$ 57,263

The allowance for uncollectible accounts has been computed based on the following aging schedule:

Age	Allowance Percentage
Less than 1 year	10-25
1 to 3 years	45-80
3 to 5 years	70-100
Over 5 years	95-100

4. PREPAID EXPENSE

Prepaid expense consists primarily of funds which have been deposited in the state's Debt Service Fund for future general obligation bond payments in the amounts of $28,067,102 and $28,621,557 for fiscal years 2016 and 2015, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. Also, included in prepaid expenses for fiscal years 2016 and 2015 were $3,011,546 and $1,256,466, respectively, stemming from prepaid maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provides the funding for the loans with amounts collected used for new loan advances. The Minnesota State loans collection unit and the colleges and universities are responsible for loans collection. As of June 30, 2016 and 2015, the loans receivable for this program totaled $31,289,130 and $32,175,758, respectively, less an allowance for uncollectible loans of $2,787,527 and $2,782,051, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2016 and 2015 follow:

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 85,989	$ 493	$ 192	$ -	$ 86,290
Construction in progress	211,755	140,016	-	(188,607)	163,164
Total capital assets, not depreciated	297,744	140,509	192	(188,607)	249,454
Capital assets, depreciated:					
Buildings and improvements	3,140,529	360	8,534	188,607	3,320,962
Equipment	238,748	14,557	52,905	-	200,400
Internally developed software	9,770	816	2,163	-	8,423
Library collections	42,519	5,278	6,651	-	41,146
Total capital assets, depreciated	3,431,566	21,011	70,253	188,607	3,570,931
Less accumulated depreciation:					
Buildings and improvements	1,489,310	99,175	7,409	-	1,581,076
Equipment	177,206	13,289	52,018	-	138,477
Internally developed software	4,716	1,215	2,038	-	3,893
Library collections	24,868	5,878	6,651	-	24,095
Total accumulated depreciation	1,696,100	119,557	68,116	-	1,747,541
Total capital assets depreciated, net	1,735,466	(98,546)	2,137	188,607	1,823,390
Total capital assets, net	$ 2,033,210	$ 41,963	$ 2,329	$ -	$ 2,072,844

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 85,078	$ 911	$ -	$ -	$ 85,989
Construction in progress	162,893	111,435	-	(62,573)	211,755
Total capital assets, not depreciated	247,971	112,346	-	(62,573)	297,744
Capital assets, depreciated:					
Buildings and improvements	3,078,475	160	679	62,573	3,140,529
Equipment	236,079	14,315	11,646	-	238,748
Internally developed software	10,714	1,046	1,990	-	9,770
Library collections	43,880	5,712	7,073	-	42,519
Total capital assets, depreciated	3,369,148	21,233	21,388	62,573	3,431,566
Less accumulated depreciation:					
Buildings and improvements	1,395,378	94,611	679	-	1,489,310
Equipment	174,980	13,851	11,625	-	177,206
Internally developed software	5,382	1,278	1,944	-	4,716
Library collections	25,867	6,074	7,073	-	24,868
Total accumulated depreciation	1,601,607	115,814	21,321	-	1,696,100
Total capital assets, depreciated, net	1,767,541	(94,581)	67	62,573	1,735,466
Total capital assets, net	$ 2,015,512	$ 17,765	$ 67	$ -	$ 2,033,210

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable and Other Liabilities at June 30
(In Thousands)

	2016	2015
Purchased services	$ 18,216	$ 14,482
Grants to others	1,007	140
Supplies	5,416	6,632
Repairs and maintenance	3,104	5,517
Other payables	7,925	7,506
Employee benefits	3,788	3,317
Inventory	1,242	1,641
Capital projects	6,609	4,599
Total accounts payable	47,307	43,834
Other liabilities	602	1,183
Total accounts payable and other liabilites	$ 47,909	$ 45,017

In addition, as of June 30, 2016 and 2015, Minnesota State had payable from restricted assets in the amounts of $14,598,467 and $25,468,103, respectively, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

The changes in long-term debt for fiscal years 2016 and 2015 follow:

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 26,845	$ 2,546	$ 3,342	$ 26,049	$ -
Capital leases	25,930	-	4,295	21,635	4,275
General obligation bonds	241,751	14,520	20,745	235,526	20,893
Notes payable	3,794	1,690	642	4,842	599
Revenue bonds	327,610	-	14,505	313,105	16,445
Total long-term debt	$ 625,930	$ 18,756	$ 43,529	$ 601,157	$ 42,212

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 27,336	$ 2,832	$ 3,323	$ 26,845	$ -
Capital leases	30,326	-	4,396	25,930	4,295
General obligation bonds	238,012	28,890	25,151	241,751	20,533
Notes payable	3,635	700	541	3,794	642
Revenue bonds	297,115	76,620	46,125	327,610	14,505
Total long-term debt	$ 596,424	$ 109,042	$ 79,536	$ 625,930	$ 39,975

The changes in other compensation benefits for fiscal years 2016 and 2015 follow:

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 137,113	$ 19,422	$ 17,588	$ 138,947	$ 16,657
Early termination benefits	3,583	1,776	2,348	3,011	1,963
Net other postemployment benefits	36,139	10,535	5,736	40,938	-
Workers' compensation	3,486	2,640	1,664	4,462	2,410
Total other compensation benefits	$ 180,321	$ 34,373	$ 27,336	$ 187,358	$ 21,030

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 132,844	$ 21,729	$ 17,460	$ 137,113	$ 16,472
Early termination benefits	3,208	2,236	1,861	3,583	2,347
Net other postemployment benefits	31,014	10,057	4,932	36,139	-
Workers' compensation	5,576	1,282	3,372	3,486	1,708
Total other compensation benefits	$ 172,642	$ 35,304	$ 27,625	$ 180,321	$ 20,527

Bond Premium — Bonds were issued in fiscal years 2016 and 2015, resulting in net premiums of $2,546,315 and $2,832,270 respectively. Amortization is calculated using the straight line method and amortized over the average remaining life of the bonds.

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

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

Notes Payable — Notes payable consist of energy efficiency loans granted by energy companies in order to improve energy efficiency in college and university buildings, and financing agreements on computers and equipment that are under the equipment capitalization threshold. All projects completed under Minnesota Statutes, section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Sections 16C.14 and 16C.144, have an interest component. The interest rate for the energy loans is tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 1.17 percent to 4.92 percent.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at an institution. Revenue bonds currently outstanding have interest rates of 1.0 percent to 5.75 percent.

The revenue bonds are payable solely from and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2036. Annual principal and interest payments on the bonds are expected to require less than 24.48 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $415,618,215. Principal and interest paid for the current year and total customer net revenues were $26,726,858 and $119,181,408, respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 35.49 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,895,160. For the current year, principal and interest paid and total customer net revenues were $166,240 and $495,094, respectively. These revenue bonds have a variable interest rate of 0.75 percent to 3.65 percent.

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

Early Termination Benefits — Early termination benefits are benefits received for discontinuing service earlier than planned. Note 9 to the financial statements provides additional information.

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

Workers' Compensation — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $4,462,321 and $3,486,025 at June 30, 2016 and 2015, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end and is an undiscounted estimate of future payments.

Net Pension Liability — The net pension liability of $364,762,562 and $330,625,559 at June 30, 2016 and 2015, respectively, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 14 to the financial statements provides additional information.

Capital Contributions — The liabilities of $27,914,264 and $29,117,759 at June 30, 2016 and 2015, respectively, represent the amount Minnesota State would owe the federal government if it were to discontinue the Perkins loan program. The net decrease was $1,203,495 and $482,946 for fiscal years 2016 and 2015, respectively.

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

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

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2017	$ 20,893	$ 10,849	$ 16,445	$ 11,678
2018	20,664	9,472	18,225	11,113
2019	19,811	8,495	18,860	10,489
2020	19,301	7,562	19,355	9,829
2021	18,681	6,640	19,385	9,150
2022-2026	78,210	20,978	97,825	34,687
2027-2031	43,113	7,236	86,435	15,232
2032-2036	14,853	1,225	36,575	2,230
Total	$ 235,526	$ 72,457	$ 313,105	$ 104,408

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases Principal	Capital Leases Interest	Notes Payable Principal	Notes Payable Interest
2017	$ 4,275	$ 1,295	$ 599	$ 187
2018	4,264	1,389	579	148
2019	4,226	1,480	448	129
2020	4,122	1,563	349	113
2021	1,619	462	373	110
2022-2026	1,883	531	1,561	267
2027-2031	1,137	187	844	68
2032-2036	109	1	89	1
Total	$ 21,635	$ 6,908	$ 4,842	$ 1,023

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2016 and 2015.

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

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	27	$ 1,019
2015	29	1,051

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

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	49	$ 1,390
2015	75	1,845

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	16	$ 327
2015	18	571

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2016 and 2015 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	9	$ 275
2015	7	116

10. NET OTHER POSTEMPLOYMENT BENEFITS

Minnesota State provides health insurance benefits for certain retired employees under a single employer fully insured plan**,** as required by Minnesota Statute, 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 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. As of July 1, 2014 there were approximately 613 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the annual OPEB cost for fiscal years 2016 and 2015, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2016	2015
Annual required contribution (ARC)	$ 10,377	$ 9,922
Interest on net OPEB obligation	1,482	1,272
Adjustment to ARC	(1,324)	(1,137)
Annual OPEB cost	10,535	10,057
Contributions during the year	(5,736)	(4,932)
Increase in net OPEB obligation	4,799	5,125
Net OPEB obligation, beginning of year	36,139	31,014
Net OPEB obligation, end of year	$ 40,938	$ 36,139

The Minnesota State annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2016 and 2015 were as follows:

Year Ended June 30
(In Thousands)

	2016	2015
Beginning of year net OPEB obligation	$ 36,139	$ 31,014
Annual OPEB cost	10,535	10,057
Employer contribution	(5,736)	(4,932)
End of year net OPEB obligation	$ 40,938	$ 36,139
Percentage contributed	54.45%	49.04%

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2014	$ -	$ 94,297	$ 94,297	0.00	$ 983,145	9.59

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.1 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 6.8 percent initially, reduced incrementally to an ultimate rate of 4 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Operating Leases — Minnesota State is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2016 and 2015, totaled $17,958,410 and $16,991,216, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net position.

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

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

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2017	$ 12,653
2018	9,472
2019	4,825
2020	3,348
2021	3,158
2022-2026	7,756
2027-2031	2,248
Total	$ 43,460

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

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

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

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

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

The total cost of all capital assets acquired with capital leases and corresponding accumulated depreciation at June 30, 2016, are $53,023,604 and $26,255,084 respectively.

Income Leases — Minnesota State has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2016 and 2015 totaled $2,327,492 and $2,524,043, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position.

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

Year Ended June 30 (In Thousands)		
Fiscal Year		Amount
2017	$	1,558
2018		878
2019		715
2020		399
2021		253
2022-2025		476
Total	$	4,279

12. TUITION, FEES, SALES AND ROOM AND BOARD

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

Year Ended June 30
(In Thousands)

	2016			2015		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 803,549	$ (279,248)	$ 524,301	$ 813,247	$ (303,785)	$ 509,462
Fees	89,783	(20,123)	69,660	88,929	(21,076)	67,853
Sales and room and board	127,408	(11,511)	115,897	129,984	(13,459)	116,525
Restricted student payments	116,744	(2,780)	113,964	109,704	(2,637)	107,067
Total	$ 1,137,484	$ (313,662)	$ 823,822	$ 1,141,864	$ (340,957)	$ 800,907

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2016
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 133,386	$ 39,538	$ 77,563	$ 1,413	$ 251,900
Institutional support	127,009	39,949	76,565	1,149	244,672
Instruction	532,943	144,552	158,907	6,451	842,853
Public service	6,624	1,639	7,395	110	15,768
Research	4,264	963	4,013	45	9,285
Student services	149,289	41,679	85,859	1,930	278,757
Auxiliary enterprises	41,389	13,597	149,367	12,520	216,873
Scholarships & fellowships	-	-	38,450	-	38,450
Less interest expense	-	-	-	(23,618)	(23,618)
Total operating expenses	$ 994,904	$ 281,917	$ 598,119	$ -	$ 1,874,940

Year Ended June 30, 2015
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 137,399	$ 41,266	$ 79,944	$ 1,588	$ 260,197
Institutional support	136,859	35,217	79,012	1,569	252,657
Instruction	518,956	143,958	158,431	6,355	827,700
Public service	6,456	1,769	7,035	99	15,359
Research	3,386	816	3,334	35	7,571
Student services	146,677	41,257	79,186	1,922	269,042
Auxiliary enterprises	40,352	14,158	153,156	11,051	218,717
Scholarships & fellowships	-	-	42,088	-	42,088
Less interest expense	-	-	-	(22,619)	(22,619)
Total operating expenses	$ 990,085	$ 278,441	$ 602,186	$ -	$ 1,870,712

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund

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

Benefits Provided — MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions — Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5 percent of their annual covered salary in fiscal years 2016 and 2015. The Minnesota State contributions to the General Plan for the fiscal years ending June 30, 2016 and 2015 were $12,288,000 and $12,166,493, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions— The Minnesota State net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	2.75 percent per year	2.75 percent per year
Active member payroll growth	3.50 percent per year	3.50 percent per year
Investment rate of return	8.00 percent	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees were assumed to be 2.0 percent per annum through 2043 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

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

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

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2015, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 3.80 percent.

Net Pension Liability — At June 30, 2016 and 2015, Minnesota State reported a liability of $126,221,545 and $135,401,666, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement period July 1, 2014, through June 30, 2015, and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015 and 2014, the Minnesota State proportion was 8.19 percent and 8.35 percent, respectively.

A change was made in plan provisions that affected the measurement of the total pension liability since the prior measurement date. Effective July 1, 2015, a provision was added so that if the 2.5 percent post-retirement benefit increase is triggered and the funding ratio subsequently drops below 80 percent or less for the most recent valuation or 85 percent or less for two consecutive years, the post-retirement benefit will change to 2 percent until the plan again reaches a 90 percent funding ration for two consecutive years.

A change was made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The assumed post-retirement benefit increase rate was changed from 2 percent through 2015, and 2.5 percent thereafter, to 2 percent per year through 2043, and 2.5 percent per year thereafter.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	One Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	One Percent Increase in Discount Rate (8.9%)
June 30, 2016	$ 258,375	$ 126,222	$ 16,246
June 30, 2015	273,264	135,402	20,845

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2016 and 2015, Minnesota State recognized a reduction in pension expense of $30,771,692 and $20,845,158, respectively, related to pensions. At June 30, 2016 and 2015, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 25,558
Changes in actuarial assumptions	-	72,127
Contributions paid to MSRS subsequent to the measurement date	12,288	-
Differences between expected and actual economic experience	-	34,501
Changes in proportion	4,501	8,200
Total	$ 16,789	$ 140,386

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 70,232
Changes in actuarial assumptions	-	98,684
Contributions paid to MSRS subsequent to the measurement date	12,166	-
Differences between expected and actual economic experience	-	2,941
Changes in proportion	2,754	-
Total	$ 14,920	$ 171,857

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

(In Thousands)		
Fiscal Year		Amount
2017	$	(44,088)
2018		(44,088)
2019		(44,088)
2020		(3,621)
Total	$	(135,885)

Teachers Retirement Fund

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

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

The Duluth Teacher Retirement Fund Association was merged into TRA, effective June 30, 2015.

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

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

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

With these provisions:

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

Tier II Benefits

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

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

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

Contributions — Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. TRA Basic Plan members and Coordinated Plan members were required to contribute 11.0 percent and 7.50 percent, respectively, of their annual covered salary in fiscal years 2016 and 2015. In fiscal years 2016 and 2015, the employer was required to contribute 11.50 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. Minnesota State contributions to the TRA for the fiscal years ended June 30, 2016 and 2015, were $13,436,000 and $13,485,073, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	3.00 percent per year	3.00 percent per year
Active member payroll growth	3.50 to 12.00 percent per year	3.50 to 12.00 percent per year
Investment rate of return	8.00 percent	8.25 percent

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

Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with the exception of the long-term rate of return. Since the June 30, 2014 report was issued, a comprehensive study was performed and a number of assumption changes were proposed, with an implementation date of July 1, 2016. These proposed changes are not reflected in the June 30, 2015 report. However, at the direction of TRA management, an 8.00 percent discount rate was used to determine the total pension liability as of June 30, 2015.

The long-term expected rate of return on pension plan investments is 8.00 percent. The rate assumption was selected as the result of a 2015 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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

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

<u>Discount Rate</u> — The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 8.0 and 8.25 percent, respectively. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

<u>Net Pension Liability</u> — At June 30, 2016 and 2015, Minnesota State reported a liability of $222,609,000 and $176,741,686, respectively, for its proportionate share of TRF net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by TRF during the measurement period July 1, 2015 through June 30, 2016 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of TRF's participating employers. At June 30, 2015 and 2014, the Minnesota State proportion was 3.60 percent and 3.84 percent, respectively.

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

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. The discount rate was lowered from 8.25 percent to 8.00 percent.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1 Percent Increase in Discount Rate (9.00%)
June 30, 2016	$ 338,840	$ 222,609	$ 125,611

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (7.25%)	Discount Rate (8.25%)	1 Percent Increase in Discount Rate (9.25%)
June 30, 2015	$ 292,093	$ 176,742	$ 80,578

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2016 and 2015, Minnesota State recognized pension expense of $12,824,839 and $8,745,176, respectively, related to pensions. At June 30, 2015 and 2014, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 19,600
Changes in actuarial assumptions	17,113	-
Contributions paid to TRA subsequent to the measurement date	13,436	-
Differences between expected and actual economic experience	12,144	-
Changes in proportion	4,730	11,863
Total	$ 47,423	$ 31,463

		2015 (In Thousands)		
		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between projected and actual investment earnings	$	-	$	55,566
Contributions paid to TRA subsequent to the measurement date		13,485		-
Differences between expected and actual economic experience		15,080		-
Changes in proportion		3,963		7,332
Total	$	32,528	$	62,898

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

(In Thousands)		
Fiscal Year		Amount
2017	$	(3,695)
2018		(3,695)
2019		(3,695)
2020		10,196
2021		3,413
Total	$	2,524

General Employees Retirement Fund

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

Benefits Provided — PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases. The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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

Contributions — Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. GERF Contributions Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in calendar years 2016 and 2015. In calendar years 2016 and 2015, the employer was required to contribute 11.78 percent of pay for Basic Plan members and 7.5 percent for Coordinated Plan members. Minnesota State contributions to the GERF for the plan's fiscal years ended June 30, 2016 and 2015 were $1,132,000 and $1,185,492, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The total pension liability in the June 30, 2015 and 2014, actuarial valuation was determined using the following actuarial assumptions:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	2.75 percent per year	2.75 percent per year
Active member payroll growth	3.50 percent per year	3.50 percent per year
Investment rate of return	8.00 percent	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Legislation passed in 2014 changed the GERF assumed post-retirement benefit increase rate from 1.0 percent per year for all future years to 1.0 percent effective every January 1 through 2026 and 2.5 percent per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2015 and 2014 was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability — At June 30, 2016 and 2015, Minnesota State reported a liability of $14,547,331 and $15,365,519, respectively, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on Minnesota State contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015 and 2014, the Minnesota State proportion was 0.2823 percent and 0.3271 percent, respectively.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1 Percent Increase in Discount Rate (8.9%)
June 30, 2016	$ 22,874	$ 14,547	$ 7,671
June 30, 2015	23,152	15,366	7,130

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2016 and 2015, Minnesota State recognized pension expense of $962,737 and $1,140,663, respectively, related to pensions. At June 30, 2016 and 2015, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 1,737
Changes in actuarial assumptions	1,056	-
Contributions paid to PERA subsequent to the measurement date	1,132	-
Differences between expected and actual economic experience	157	733
Changes in proportion	-	1,635
Total	$ 2,345	$ 4,105

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 4,152
Changes in actuarial assumptions	1,584	-
Contributions paid to PERA subsequent to the measurement date	1,186	-
Differences between expected and actual economic experience	236	-
Total	$ 3,006	$ 4,152

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

(In Thousands)	
Fiscal Year	Amount
2017	$ (877)
2018	(877)
2019	(1,483)
2020	345
Total	$ (2,892)

St. Paul Teachers Retirement Fund

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

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

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

Contributions — Minnesota Statutes Chapter 354A sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. SPTRFA Basic Plan members and Coordinated Plan members were required to contribute 9.0 percent and 6.5 percent, respectively, of their annual covered salary in fiscal year 2015. Basic Plan members and Coordinated Plan members contributed 9.25 percent and 6.75 percent, respectively, of pay in 2016. These contribution rates will increase 0.25 percent each year over the next two years for both plans. In fiscal year 2015, the employer was required to contribute 12.64 percent of pay for Basic Plan members and 9.34 percent for Coordinated Plan members. In 2016, employer rates increased to 13.14 percent for the Basic plan and 9.84 percent for the Coordinated Plan. These contribution rates will increase 0.50 percent each year over the next two years for both plans. Minnesota State contributions to the SPTRFA for the fiscal year ended June 30, 2016 and 2015, were $64,000 and $86,143, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015	June 30, 2014
Inflation	3.00 percent per year	4.00 percent per year
Active member payroll growth	4.0 to 8.9 percent per year	4.0 to 8.9 percent per year
Investment rate of return	8.0 percent	8.0 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 1.0 percent every January 1 through 2028, 2.0 percent through 2037, and 3.0 percent thereafter.

Actuarial assumptions used in the June 30, 2015 and 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2006, through June 30, 2011, with an update of economic assumptions in 2013.

The long-term expected rate of return on pension plan investments is 8.0 percent. This rate was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the board of trustees after considering input from investment consultant and actuary.

Best estimates for each major asset class included in the target asset allocation as of June 30, 2015 and 2014, are summarized as follows:

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

Discount Rate — The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine this single discount rate assumed that plan members, employer, and State of Minnesota contributions will be made in accordance with rates set by Minnesota Statute. Based on these assumptions, SPTRFA's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments of 8.00 percent was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability — At June 30, 2016 and 2015, Minnesota State reported a liability of $1,384,686 and $1,666,219, respectively, for its proportionate share of the SPTRFA's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on Minnesota State contributions received by SPTRFA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of SPTRA's participating employers. At June 30, 2015 and 2014, the Minnesota State proportion was 0.238 percent and 0.311 percent, respectively.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1 Percent Increase in Discount Rate (9.0%)
June 30, 2016	$ 1,807	$ 1,385	$ 1,034
June 30, 2015	2,233	1,666	1,198

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the fiscal years ended June 30, 2016 and 2015, Minnesota State recognized pension expense of $10,898 and $120,484, respectively, related to pensions. At June 30, 2016 and 2015, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 31
Changes in actuarial assumptions	57	-
Contributions paid to SPTRA subsequent to the measurement date	64	-
Differences between expected and actual economic experience	-	56
Change in proportion	-	313
Total	$ 121	$ 400

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 238
Changes in actuarial assumptions	99	-
Contributions paid to SPTRA subsequent to the measurement date	86	-
Differences between expected and actual economic experience	-	40
Total	$ 185	$ 278

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

(In Thousands)	
Fiscal Year	Amount
2017	$ (120)
2018	(120)
2019	(121)
2020	18
Total	$ (343)

Duluth Teachers Retirement Fund

Plan Description — The Duluth Teachers Retirement Fund Association is (DTRFA) is the administrator of a multi-employer, cost-sharing, defined benefit pension plan (DTRF). DTRFA administers a defined benefit pension plan established and administered in accordance with Minnesota Statutes, Chapters 354A and 356. DTRFA is a separate statutory entity and administered by a Board of Trustees. The Board consists of nine members.

DTRFA membership consists of licensed educators of Independent School district 709, staff of Lake Superior College hired prior to July 1, 1995 who elected coverage by the Association, and the DTRFA staff.

The Duluth Teacher Retirement Fund Association was merged into TRA, effective June 30, 2015.

Benefits Provided — DTRFA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Association members may be eligible for benefits under three different plans, depending on year of hire.

Old Plan Benefits
The Old Plan covers members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Benefits vest after ten years or at age 60. The normal retirement benefit is equal to 1.45 percent of a members high five-year average salary multiplied by the total years of credited service. Early benefits are available at age 55 with ten or more years of credited service with a 0.25 percent per month early retirement deduction under age 60. Old Plan members receive a benefit under Tier I or Tier II if that benefit is greater.

Tier I Benefits
Tier I Plan covers members hired before July 1, 1989. Normal retirement benefits are earned at age 65 or with thirty plus years of service over age 62, or if age plus service totals 90. Retirement benefits best after three years of service or at age 65. For years of service prior to July 1, 2013, the annual retirement benefit is equal to 1.2 percent for each for the first ten years of service credit and 1.7 percent for each subsequent year of service multiplied by the high five years of average salary. For years of service July 1, 2013 and later, the accrual rates increase to 1.4 percent and 1.9 percent, respectfully.

Tier II Benefits
For years of service prior to July 1, 2013, a level formula of 1.7 percent per year is applied. For years of service July 1, 2013 and after, a level formula of 1.9 percent per year is applied. Retirement benefits vest after three years for members hired prior to July 1, 2010 and after five years for members hired after June 30, 2010 or age 65.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Contributions — Minnesota Statutes Chapter 354A sets the rates for employer and employee contributions. Eligible members and participating employers were required to contribute 7.5 percent of their annual covered salary in fiscal year 2014 and 2015. The Minnesota State contribution to the plan for the fiscal year ending June 30, 2015 was $56,082. These contributions were equal to the contractually required contributions for each year as set by state statute.

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

Inflation	3.25 percent per year
Active member payroll growth	3.25 to 6.0 percent per year
Investment rate of return	8.0 percent

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

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2006, through June 30, 2011.

The long-term expected rate of return on pension plan investments is 8.25 percent. The rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

Discount Rate — The discount rate used to measure the total pension liability was 5.40 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at the current contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. In order to determine the total pension liability, the long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments for which the plan's fiduciary net position was projected to remain positive and the rate of a 20-year tax-exempt general obligation municipal bond was applied to periods of projected benefit payments for which the plan's fiduciary net position was projected to be negative. The equivalent single discount rate was determined to be 5.62 percent as of June 30, 2013, and 5.40 percent as of June 30, 2014.

Net Pension Liability — At June 30, 2015, Minnesota State reported a liability of $1,450,469 for its proportionate share of the DTRFA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on Minnesota State contributions received by DTRFA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of DTRFA's participating employers. At June 30, 2014, the Minnesota State proportion was 0.5646 percent.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (4.4%)	Discount Rate (5.4%)	1 Percent Increase in Discount Rate (6.4%)
June 30, 2015	$ 1,789	$ 1,450	$ 1,168

Pension Plan Fiduciary Net Position — Detailed information about the plan's fiduciary net position is available in a separately-issued financial report. That report may be obtained by writing TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the fiscal year ended June 30, 2015, Minnesota State recognized pension expense of $83,409 related to pensions.

At June 30, 2015, the Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 89
Changes in actuarial assumptions	44	-
Contributions paid to DTRA subsequent to the measurement date	56	-
Differences between expected and actual economic experience	1	-
Total	$ 101	$ 89

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Defined Contribution Retirement Fund include two plans: an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer, defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately. The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for Minnesota State were:

(In Thousands)		
Fiscal Year	Employer	Employee
2016	$ 28,287	$ 21,215
2015	28,527	21,395
2014	28,574	21,356

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 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
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State College and Faculty Association	6,000 to 56,000	2,500
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for Minnesota State were:

(In Thousands)	
Fiscal Year	Amount
2016	$ 14,860
2015	15,288
2014	14,887

Voluntary Retirement Savings Plans

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

The Minnesota Deferred Compensation Plan (MNDCP) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2016, the plan has 4,610 participants.

In addition, to the state's Deferred Compensation program, Minnesota State also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2016, the plan has 3,657 participants.

15. SEGMENT INFORMATION

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

Minnesota State Revenue fund issues revenue bonds to finance residence halls, student unions, parking facilities and wellness centers. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's dormitory. Note 8 to the financial statements provides additional information on the pledging of the revenues.

Summary financial information for Revenue Fund for the fiscal years ended June 30, 2016 and 2015 follows:

Summary Information for Revenue Fund
(In Thousands)

	2016	2015
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 92,766	$ 87,712
Restricted assets	96,875	137,052
Capital assets, net	386,323	359,765
Total assets	575,964	584,529
Deferred Outflows of Resources	2,085	1,012
Total assets and deferred outflows of resources	578,049	585,541
Liabilities		
Current liabilities	29,786	30,276
Noncurrent liabilities	315,963	332,916
Total liabilities	345,749	363,192
Deferred Inflows of Resources	4,473	4,771
Total liabilities and deferred inflows of resources	350,222	367,963
Net Position		
Net investment in capital assets	133,905	130,131
Restricted	93,922	87,447
Total net position	$ 227,827	$ 217,578
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 119,182	$ 112,662
Depreciation expense	(19,643)	(18,371)
Other operating expenses	(80,031)	(78,856)
Net operating income	19,508	15,435
Nonoperating revenues (expenses)		
Interest income	907	615
Private grants	11	20
Capital contributions	1,455	4,803
Interest expense	(11,164)	(10,427)
Loss on disposal of capital assets	(468)	-
Total nonoperating revenues (expenses)	(9,259)	(4,989)
Change in net position	10,249	10,446
Total net position, beginning of year	217,578	217,556
Cumulative effect of change in accounting principle	-	(10,424)
Total net position, beginning of year, as restated	217,578	207,132
Total net position, end of year	$ 227,827	$ 217,578
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 40,158	$ 27,048
Noncapital and related financing activities	111	20
Capital and related financing activities	(64,623)	(1,170)
Investing activities	785	(145)
Net increase (decrease) in cash and cash equivalents	(23,569)	25,753
Cash and cash equivalents, beginning of year	189,726	163,973
Cash and cash equivalents, end of year	$ 166,157	$ 189,726

Summary financial information for Itasca Community College's Residence Halls (which is reported within the Northeast Higher Education District) for the fiscal years ended June 30, 2016 and 2015 follows:

Itasca Community College Financial Summary
(In Thousands)

	2016	2015
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 388	$ 260
Restricted assets	295	296
Capital assets, net	2,834	2,952
Total assets	3,517	3,508
Liabilities		
Current liabilities	143	129
Noncurrent liabilities	1,470	1,600
Total liabilities	1,613	1,729
Net Position		
Net investment in capital assets	1,234	1,232
Restricted	296	296
Unrestricted	374	251
Total net position	$ 1,904	$ 1,779
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 495	$ 478
Depreciation expense	(119)	(119)
Other operating expenses	(209)	(203)
Net operating income	167	156
Nonoperating revenues (expenses)		
Interest/Other income	4	5
Interest expense	(46)	(48)
Total nonoperating revenues (expenses)	(42)	(43)
Changes in net position	125	113
Net position, beginning of year	1,779	1,666
Net position, end of year	$ 1,904	$ 1,779
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 271	$ 266
Capital and related financing activities	(166)	(168)
Investing activities	5	7
Net increase in cash and cash equivalents	110	105
Cash and cash equivalents, beginning of year	241	136
Cash and cash equivalents, end of year	$ 351	$ 241

16. COMMITMENTS

Minnesota State Involvement in Ongoing Projects as of June 30, 2016
(In Thousands)

Institution Name	Project	Total Cost	Spent to Date	Balance	Completion Date
Anoka Tech	Manufacturing Technology Hub and Auto Tech Lab	$ 2,114	$ 831	$ 1,283	Sept 2016
Century	East Campus Solar, Lab and Kitchen	3,220	1,890	1,330	Aug 2016
Dakota	Transportation Lab Renovation	7,733	1,023	7,892	July 2017
Lake Superior	Allied Health Renovation	5,266	4,694	572	Aug 2016
M State	Transportation Center Addition	6,544	5,286	1,258	July 2016
Mankato	Dining Services	31,407	18,239	13,168	Dec 2016
Moorhead	Snarr Hall South Renovation	8,780	215	8,565	July 2017
Northland	Aviation Maintenance Facility	6,164	5,342	822	Aug 2016
Saint Paul	Health & Science Center	20,329	3,877	16,452	April 2017
South Central	Faribault Classroom Renovation	13,294	13,209	85	Aug 2016
Vermilion	Residence Hall	6,450	977	5,473	June 2017
Winona	Education Village	31,208	2,800	28,408	Oct 2018

* Anoka Technical College; Century College; Dakota County Technical College; Lake Superior College; Minnesota State Community & Technical College; Minnesota State University, Mankato; Minnesota State University Moorhead; Northland Community & Technical College; Saint Paul College; South Central College; Vermilion Community College and Winona State University.

17. CONTINGENCIES

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

Central Lakes College

A former nursing student brought an action in federal district court claiming first amendment and due process violations in Central Lakes College's decision to academically dismiss him from the nursing program after he posted inappropriate comments on Facebook. In August 2014, the federal district court granted Central Lakes College's motion for summary judgment. On October 26, 2016 the Eighth Circuit Court of Appeals affirmed the district court’s grant of summary judgment. The district court found decisively in favor of Central Lakes College. Plaintiff may seek further review. If summary judgment were reversed Plaintiff has requested approximately $2 million in damages, readmission to the nursing program and attorney's fees. The case is being vigorously contested.

St. Cloud State University

A group of female student athletes initiated a lawsuit against St. Cloud State University after it decided to eliminate certain sports programs in March 2016. The federal district court issued a preliminary injunction prohibiting the university from eliminating two female sports teams. St. Cloud State University is vigorously contesting the case. If the matter is not resolved before trial, the federal district court could issue a permanent injunction, and award damages and attorneys’ fees.

18. RISK MANAGEMENT

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

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

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2016 and 2015.

Coverage Type	Amount
Institution deductible	$2,500 to $250,000
Fund responsibility	$1,000,000
Primary re-insurer coverage	$1,000,001 to $25,000,000
Multiple re-insurers' 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 re-insurer	$2,500,000
Maintenance deductible for additional claims	$25,000

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

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

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

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

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2016 and 2015.

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/16	$ 3,486	$ 2,640	$ 1,664	$ 4,462
Fiscal Year Ended 6/30/15	5,576	1,282	3,372	3,486

19. COMPONENT UNITS

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

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

Minnesota State received $16,379,665 and $13,702,640 in fiscal years 2016 and 2015, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

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

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

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

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

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

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

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

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Money market	$ 2,509	$ 2,509	$ -	$ -
Fixed income	19,824	16,413	3,411	-
Mutual funds	93,817	51,100	37,933	4,784
Equity securities	34,641	34,341	300	-
Bonds/U.S treasuries	16,911	1,387	15,524	-
Real estate	2,337	2,200	-	137
Other	4,278	147	22	4,109
Total	$ 174,317	$ 108,097	$ 57,190	$ 9,030

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2015	Level 1	Level 2	Level 3
Money market	$ 3,802	$ 3,802	$ -	$ -
Fixed income	19,512	19,270	3,734	62
Mutual funds	88,431	40,151	39,526	5,200
Equity securities	38,434	38,134	300	-
Bonds/U.S treasuries	16,088	2,247	13,841	-
Real estate	2,601	1,921	-	680
Other	4,758	171	34	4,553
Total	$ 173,626	$ 105,696	$ 57,435	$ 10,495

Capital Assets — Summaries of the foundations' capital assets for fiscal years 2016 and 2015 follow:

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

	2016	2015
Capital assets, not depreciated		
Land	$ 2,421	$ 2,421
Total capital assets, not depreciated	2,421	2,421
Capital assets, depreciated:		
Buildings and improvements	23,364	23,303
Equipment	1,929	1,963
Leasehold improvments	107	107
Total capital assets, depreciated	25,400	25,373
Total accumulated depreciation	(9,574)	(8,819)
Total capital assets depreciated, net	15,826	16,554
Total capital assets, net	$ 18,247	$ 18,975

Long-Term Obligations— Payment schedule of the foundations' long-term obligations follow. Excluded from the table below is St. Cloud State University Foundation's unamortized bond premium of $672,766, which is amortized over the life of the bonds. Also excluded from the table below is Winona State University Foundation's loan agreement with a local bank of $1,167,279.

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2017	$ 3,236
2018	2,054
2019	1,937
2020	1,999
2021	2,050
Thereafter	9,585
Total	$ 20,861

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

Changes in endowment net assets as of June 30, 2016 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2016
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 3,328	$ 36,718	$ 110,945	$ 150,991
Change in value of trusts	(16)	(1,009)	20	(1,005)
Contributions	826	1,586	5,175	7,587
Investment income (loss)	(104)	(843)	506	(441)
Amounts appropriated for expenditures	(433)	(6,002)	1,026	(5,409)
Other transfers	(3)	(347)	(164)	(514)
Net assets, end of year	$ 3,598	$ 30,103	$ 117,508	$ 151,209

Changes in endowment net assets as of June 30, 2015 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2015
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 2,720	$ 41,804	$ 105,305	$ 149,829
Change in value of trusts	(1)	(416)	5	(412)
Contributions	826	405	5,505	6,736
Investment income (loss)	218	2,804	(119)	2,903
Amounts appropriated for expenditures	(421)	(3,300)	200	(3,521)
Other transfers	(14)	(4,579)	49	(4,544)
Net assets, end of year	$ 3,328	$ 36,718	$ 110,945	$ 150,991

20. ACTIVITIES WITH THE STATE OF MINNESOTA

General Obligation Bond Issuances — In August 2016 $27.2 million in general obligation state bonds Series 2016A were issued at a true interest rate of 2.289 percent. Minnesota State pays one third of the debt service on those bonds, over the life of the bonds. The first debt service payment on these bonds was in November 2016.

This page intentionally left blank

REQUIRED SUPPLEMENTARY INFORMATION SECTION

This page intentionally left blank

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 94,235	$ 94,235	0.00	$ 876,585	10.75
July 1, 2008	—	92,551	92,551	0.00	894,035	10.35
July 1, 2010	—	108,409	108,409	0.00	978,480	11.08
July 1, 2012	—	80,571	80,571	0.00	914,792	8.81
July 1, 2014	—	94,297	94,297	0.00	983,145	9.59

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	8.35	$ 135,402	$213,833	63.32	87.64
June 30, 2015	8.19	126,222	221,209	57.06	88.32

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By MSRS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 12,166	$ 12,166	$ —	$ 221,209	5.50
June 30, 2016	12,288	12,288	—	223,418	5.50

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, 2016 and 2015

There have been no changes in benefit terms since the prior actuarial valuation. There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. The assumed post-retirement benefit increase rate was changed from 2.0 percent through 2015, and 2.5 percent thereafter, to 2.0 percent per year through 2043, and 2.5 percent per year thereafter.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	3.84	$ 176,742	$ 175,083	100.95	81.50
June 30, 2015	3.60	222,609	179,801	123.81	76.77

Schedule of Employer Contributions
(In Thousands)

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

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, 2016 and 2015

There have been no changes in benefit terms since the prior actuarial valuation. There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. The discount rate was lowered from 8.25 percent to 8.00 percent.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.3271	$ 15,366	$ 17,173	89.48	78.75
June 30, 2015	0.2823	14,547	15,807	92.30	78.19

Schedule of Employer Contributions
(In Thousands)

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

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, 2016 and 2015

There were no significant changes in benefit terms or actuarial assumptions since the prior actuarial valuation.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.311	$ 1,666	$ 2,082	80.03	66.12
June 30, 2015	0.238	1,385	1,566	88.41	63.56

Schedule of Employer Contributions
(In Thousands)

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

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, 2016 and 2015

There were no significant changes in benefit terms or actuarial assumptions since the prior actuarial valuation.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.5646	$ 1,450	$ 729	198.88	46.81

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	$ 56	$ 56	$ —	$ 748	7.50

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 and 2015

The Duluth Teachers Retirement Fund Association was merged into TRA, effective June 30, 2015.

SUPPLEMENTARY SECTION

CliftonLarsonAllen LLP
CLAconnect.com

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 (Minnesota State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MnSCU's basic financial statements, and have issued our report thereon dated November 16, 2016. Our report includes references to other auditors who audited the financial statements of Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University, Mankato Foundation, Inc., Minnesota State University Moorhead Alumni Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represent 81% of the total assets and 83% of the total revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Board of Trustees
Minnesota State Colleges and Universities

Internal Control Over Financial Reporting (Continued)

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

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 16, 2016

This page intentionally left blank

30 East 7th Street, Suite 350
St. Paul, MN 55101-7804

Phone: 651-201-1800

www.mnscu.edu

MINNESOTA STATE

This document is available in alternative formats to individuals with disabilities. To request an alternate format, contact Victoria DeFord, Human Resources Director, System Office & Executive Search Manager, at 651-201-1664.

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