

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

A MEMBER OF MINNESOTA STATE



ST. CLOUD STATE
UNIVERSITY

EDUCATION FOR LIFE.



ST. CLOUD STATE UNIVERSITY

A MEMBER OF MINNESOTA STATE

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Prepared by:

Chief Financial Officer
St. Cloud State University
720 Fourth Avenue South, AS 205
St. Cloud, Minnesota 56301

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ST. CLOUD STATE UNIVERSITY

ANNUAL FINANCIAL REPORT
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INTRODUCTION

November 8, 2016

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

OFFICE OF THE PRESIDENT
720 Fourth Avenue South
St. Cloud, MN 56301-4498
tel 320.308.2122
fax 320.308.5139
www.stcloudstate.edu/president

Dear Board of Trustees and Chancellor Rosenstone,

I invite your attention to the audited financial statements for St. Cloud State University for the fiscal year ending June 30, 2016. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of our financial activities for the fiscal year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Please consult the Management's Discussion and Analysis section of this report for a summary review and explanation of the financial statements.

St. Cloud State University is one of 37 colleges and universities in the Minnesota State system. The university is governed by a board of trustees, which is comprised of community and business leaders and students appointed by the Governor. The system is led by a chancellor, appointed by the board of trustees, who in turn appoints a president to oversee the operations of each of the seven Minnesota State universities.

The mission of St. Cloud State University is to prepare students for life, work and citizenship in the 21st century, and our work in fiscal year 2016 was a direct reflection of our mission. The hard work accomplished by faculty and staff to develop Our Husky Compact has reinvigorated efforts focused on learning and student success on our campus. Our Husky Compact is a commitment St. Cloud State University makes to our students and that students make to their own education that will set them apart and prepare them to be global citizens of the 21st century. Through Our Husky Compact our students will be able to:

- Think Creatively and Critically
- Seek and Apply Knowledge
- Communicate Effectively
- Integrate Existing and Evolving Technologies
- Engage as a Member of a Diverse and Multicultural World
- Act with Personal Integrity and Civic Responsibility

Guided by our mission, vision and Our Husky Compact, the university revised our Strategic Action Plan. Our Strategic Action Plan repositions St. Cloud State University within the higher education marketplace – leveraging our strengths to expand our areas of excellence, increase our competitiveness and maximize our potential. While the Strategic Action Plan will be rolled out in spring 2017, the university is already engaging in this work – by being responsive to changes in the world, oriented toward student success, accountable to community partners and engaged in the success of our state and its people.



A member of the Minnesota State Colleges and Universities system.

St. Cloud State University does not discriminate on the basis of race, sex, color, creed, religion, age, national origin, disability, marital status, status with regards to public assistance, sexual orientation, gender identity, gender expression, or status as a U.S. veteran. The Title IX coordinator at SCSU is Ellyn Barrges. For additional information, contact the Office of Equity & Affirmative Action, (320) 308-5123, Admin. Services Bldg. Rm 102. A member of the Minnesota State Colleges & Universities System.

Advancing Student Success is a central outcome of our Strategic Action Plan. In fiscal year 2016, the university honed its focus on student success through partnership by joining 44 institutions participating in the Re-Imagining the First Year of College initiative launched in February by the American Association of State Colleges and Universities (AASCU). The initiative is aimed at improving the quality of learning and student experience in the first year and improving retention rates, especially for low income, first generation and students of color. Aligned with this work is the change to Huskies First Four, a new model that orients students holistically – both academically and socially. The university also focused on plans to increase the number of students served by professional advisors and honing our strategies around scholarships.

In fiscal year 2016 the university's enrollment exemplified the changing world of higher education with students from 49 states and 93 countries, and growth in students of color and international students. Fall 2015 enrollment brought on a modest increase of 45 students compared to fall 2014. Student of color headcount enrollment was 2,543 students, which illustrates 16.4 percent of the total student body. International student enrollment recorded large gains as headcount increased by 14.5 percent bringing the total headcount figure to 1,172. This is the highest international student headcount enrollment ever at St. Cloud State University. Part of this growth is driven by international partnerships, such as the one with Nankai University Binhai College in Tianjin, China, for a new 2+2 Bachelor of Science Finance Program.

Our increase in international enrollment also partially contributed to growth in the university's premiere housing option, Coborn Plaza Apartments. Thanks to collaborative partnerships between university communications, residential life and an outside consultant through fiscal year 2016, new marketing strategies helped to increase occupancy at Coborn Plaza Apartments 35 percent, which will continue into fiscal year 2017.

In planning for the future needs of students, faculty and staff, the university unveiled its Comprehensive Facilities Plan in 2015. The plan is designed to meet the evolving expectations of students and changes in technology and teaching methods. It takes into consideration the physical condition of campus buildings and usage. The plan called for the demolition of Holes Hall and the South Office Building, which was completed during summer 2016. For the near term, the Holes Hall site has been converted to green space.

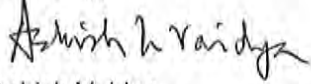
The faculty and staff roster is comprised of approximately 1,475 full and part-time employees. Organized bargaining units represent the majority of employees. All bargaining units are statewide, and all negotiations happen at the state level, either through the system office within Minnesota State, or through Minnesota Management & Budget. St. Cloud State University is managing the renewal and transformation of its workforce to address new needs and challenges. The partnership with our bargaining units to design and implement essential changes to assure our future remains very important in our ability to meet Minnesota's future needs.

This past year, St. Cloud State University's foundation exceeded many of its goals. Donors contributed about \$2.1 million for academic scholarships, more than \$875,000 for program support, more than \$225,000 for athletics programs, more than \$15,000 for capital projects and more than \$188,000 for unrestricted purposes. The foundation raised more than \$3.4 million and awarded 977 scholarships.

The university's financial position improved during fiscal year 2016 with net position increasing by \$2.1 million, or 1.4 percent, on total revenues of \$199.8 million. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position decreased by \$2.4 million, or 1.2 percent, and decreased by \$10.9 million or 5.2 percent, respectively. Of the fiscal year 2016 decrease, \$7.2 million was due to the change in net investment in capital assets due to continued depreciation on capital assets and the demolition of Holes Hall. Unrestricted net position increased by \$2.7 million, or a 25.1 percent increase in fiscal year 2016.

The management of the university is responsible for assuring the accuracy, reliability, fairness and completeness of the information presented in this report. The President relies upon the financial division of St. Cloud State University for that assurance. We take our responsibility very seriously and know that we must serve well to continue to deserve the trust of the people of Minnesota. As President of this university, I am proud of our team and of their commitment to our mission. Thank you for the opportunity to serve the people of Minnesota.

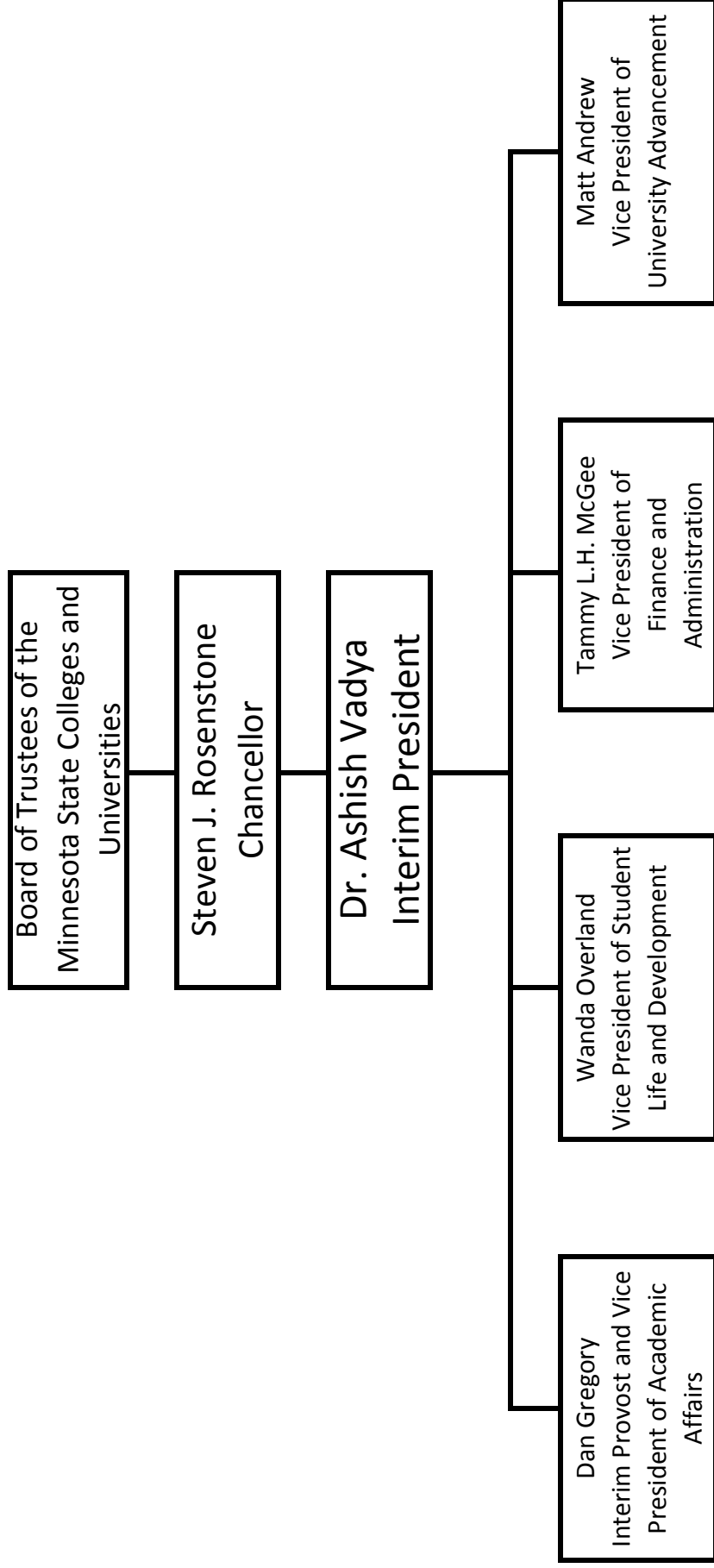
Sincerely,

A handwritten signature in black ink that reads "Ashish Vaidya". The signature is written in a cursive style with a large initial 'A'.

Ashish Vaidya
Interim President

St. Cloud State University

Organizational Chart



The financial activity of St. Cloud State University is included in this report. The university is one of 37 colleges and universities included in the Minnesota State Colleges and Universities Annual Financial Report which is issued separately.

The university's portion of the Revenue Fund is also included in this report. The Revenue Fund activity is included both in the Minnesota State Colleges and Universities Annual Financial Report and in a separately issued Revenue Fund Annual Financial Report.

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of St. Cloud State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University'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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the St. Cloud State University Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University'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, the financial statements referred to above present fairly, in all material respects, the financial position of St. Cloud State University as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows, were 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 St. Cloud State University and do not purport to, and do not, present fairly the financial position of Minnesota State Colleges and Universities 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.

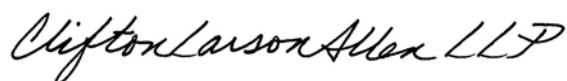
Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of St. Cloud State University'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 St. Cloud State University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

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INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of St. Cloud State University, a member of 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 accompanying footnotes, which follow this section.

St. Cloud State University is one of 37 colleges and universities comprising Minnesota State. Minnesota State is governed by a fifteen member board of trustees appointed by the Governor. Twelve trustees serve six-year terms; eight represent each of Minnesota's congressional districts and four serve 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.

The university is a comprehensive doctoral public institution of higher learning, serving 19,000 students annually, including 2,500 graduate and professional students. Approximately 1,475 faculty and staff members are employed by the university. Founded in 1869, the university offers 166 majors, minors, and pre-professional programs in business, education, fine arts and humanities, science and engineering and social sciences, and 91 master's and doctoral degrees. In addition, online offerings include over 370 courses and degree completion opportunities for several graduate programs. Between its two campuses: the 100 acre Main campus, and the Twin Cities Graduate Center campus in Maple Grove, MN total built space of 3.2 million square feet make the university the largest in the system.

Colleges and Schools that comprise the university's academic programs include:

- College of Liberal Arts
- School of the Arts
- Herberger Business School
- School of Public Affairs
- College of Science and Engineering
- School of Computing, Engineering, and Environment
- School of Education
- School of Health and Human Services

The university is accredited by several national accrediting agencies, including the Higher Learning Commission, the Association to Advance Collegiate Schools of Business International, and the National Council for Accreditation of Teacher Education.

The university has student organizations in areas such as the arts, communication, fraternities and sororities, honorary, language and culture, political and social concerns, recreational sports and student government. The university offers intercollegiate sports such as Division I men's and women's hockey, and 21 other Division II athletic teams.

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 \$50.1 million to retroactively report the net pension liability and the deferred inflows and deferred outflows of resources. Fiscal year 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year. Comparability between fiscal years will have variances due to this new accounting standard and is explained throughout the management discussion and analysis.

The university's financial position improved during fiscal year 2016 with net position increasing by \$2.1 million, or 1.4 percent, on total revenues of \$199.8 million. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position decreased by \$2.4 million, or 1.2 percent, and decreased by \$10.9 million or 5.2 percent, respectively. Of the fiscal year 2016 decrease, \$7.2 million was due to continued depreciation on capital assets and the demolition of Holes Hall. Unrestricted net position increased by \$2.7 million, or a 25.1 percent increase in fiscal year 2016.

The university experienced an increase of \$2.7 million in state appropriation revenue and a \$2.9 million increase in its gross tuition and fees revenue during fiscal year 2016 due to an increase in tuition rate of 3.4 percent. The university also saw a decrease in operating expenses of \$5.2 million in fiscal year 2016. Excluding the GASB Statement No. 68 effect, fiscal years 2016, operating expenses decreased by \$4.6 million, of which \$4.5 million or a 3.1 percent decrease from fiscal year 2015 was from a reduction in salaries and benefits resulting from a 5.5 percent reduction in full time equivalent employees. The net result of these changes resulted in a \$1.9 million increase to cash. This occurred due to an increased focus on productivity measures across the university.

For the fiscal year ended June 30, 2016, assets and deferred outflows totaled \$336.6 million while liabilities and deferred inflows totaled \$182.7 million. Net position, which represent the residual interest in the university's assets and deferred outflows after liabilities and deferred inflows are deducted, is comprised of net investment in capital assets of \$163.3 million, restricted net position of \$18.9 million and unrestricted net position of negative \$28.2 million. The university continues to pay down long term debt while depreciating recent investments like Coborns Plaza, Integrated Science Engineering Laboratory Facility, and upgrades to Shoemaker and Case-Hill Hall.

USING THE FINANCIAL STATEMENTS

The university's financial report includes three financial statements: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net position categories. A summary of significant accounting policies followed by the university is included in Note 1 to the financial statements.

STATEMENTS OF NET POSITION

The statements of net position presents the financial position of the university at the end of the fiscal year and include all assets and deferred outflows and liabilities and deferred inflows of the university as measured using the accrual basis of accounting. The difference between total assets and deferred outflows and total liabilities and deferred inflows is net position, one indicator of the current financial condition of the university.

The change in net position is an indicator of whether the overall financial condition has improved or declined during the year. Capital assets are stated at historical cost net of accumulated depreciation, with current year depreciation reflected as a period expense on the statements of revenues, expenses and changes in net position.

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

(In Thousands)			
	2016	2015	2014
Current assets	\$ 79,782	\$ 76,248	\$ 87,186
Noncurrent assets	4,847	4,858	4,990
Capital assets, net	243,409	257,082	269,832
Deferred outflows of resources	8,566	3,622	-
Total assets and deferred outflows of resources	<u>336,604</u>	<u>341,810</u>	<u>362,008</u>
Current liabilities	35,107	33,936	37,642
Noncurrent liabilities	125,846	133,058	115,479
Deferred inflows of resources	21,697	22,928	-
Total liabilities and deferred inflows of resources	<u>182,650</u>	<u>189,922</u>	<u>153,121</u>
Net position	<u>\$ 153,954</u>	<u>\$ 151,888</u>	<u>\$ 208,887</u>

Current assets consist primarily of cash and cash equivalents (unrestricted) and investments totaling \$60.2 million at June 30, 2016. This is an increase of \$1.9 million over fiscal year 2015 and represents 4.0 months of operating expenses (excluding depreciation). This is compared to 3.8 months and 4.5 months for the fiscal years ended June 30, 2015 and 2014, respectively. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the university's revenues. In fiscal years 2016 and 2015 \$8.6 million and \$3.6 million deferred outflows were reported respectively, which represent the consumption of net position in one period that is applicable to future periods, and is primarily due to the GASB Statement No. 68 implementation. Accounts receivable net of allowance increased \$2.0 million due in part to \$1.1 million in direct loan drawdowns in transit at year end.

Current liabilities consist primarily of accounts payable and salaries and benefits payable, compensated absences, current portion of long-term debt, and unearned revenue. Salaries and benefits payable at June 30, 2016 increased from the prior year by \$0.4 million, or 3.1 percent, to a total of \$14.2 million, due to two extra days being accrued after June 30, 2016 compared to fiscal year 2015. Included in salaries payable is \$1.0 million in Inter Faculty Organization equity backpay accruals. 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, increased \$1.2 million or 30.9 percent, primarily due to increased construction activity, technology and classroom amenity purchases. Unearned revenue consists of summer session tuition and grant receipts received, but not yet earned. At June 30, 2016, \$4.2 million was held as unearned revenue. Summer session began in May and ended in August 2016, with tuition being allocated based on the number of session days in fiscal year 2016.

In fiscal years 2016 and 2015, \$21.7 million and \$22.9 million of deferred inflows were reported 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 \$28.5 million and \$26.8 million, respectively.

Net position represents the residual interest in the university's assets and deferred outflows after liabilities and deferred inflows are deducted.

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

(In Thousands)			
	2016	2015	2014
Net investment in capital assets	\$ 163,270	\$ 168,285	\$ 170,460
Restricted expendable, bond covenants	9,225	8,865	12,352
Restricted expendable, other	9,703	10,176	10,810
Unrestricted	(28,244)	(35,438)	15,265
Total Net Position	<u>\$ 153,954</u>	<u>\$ 151,888</u>	<u>\$ 208,887</u>

Net investment in capital assets represents the university's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net position primarily includes donations received for specific purposes, capital projects, bond covenants, and debt service.

Fiscal year 2014 unrestricted net position was not restated for the effects of GASB Statement No. 68, and thus is not comparable to subsequent years.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in maintaining the quality of the university's academic programs and student life programs is the development and renewal of its property, plant, and equipment. The university continues to implement its long-term plan to modernize its older facilities, balanced with new construction.

Capital assets, net of accumulated depreciation, totaled \$243.4 million as of June 30, 2016. This represents a decrease of \$13.7 million compared to June 30, 2015 and a decrease of \$26.4 million compared to June 30, 2014.

Capital outlays primarily consist of recently completed replacement and renovation of existing facilities, as well as investments in equipment and library materials. Capital outlays totaled \$3.2 million in fiscal year 2016, a decrease of \$0.7 million from fiscal year 2015. Significant capital outlays made in fiscal year 2016 include Eastman Hall renovation design of \$0.6 million, Mitchell Hall plumbing upgrades of \$0.6 million, and Stewart Hall exterior brick replacement of \$0.5 million.

Long-term debt payable on June 30, 2016 consisted primarily of \$24.2 million of general obligation bonds and \$38.1 million of revenue bonds. The general obligation bonds are issued to finance construction of buildings and repairs. Revenue bonds are issued for the construction and maintenance of revenue producing facilities such as residence halls, a student union, and parking ramps. Additional information on capital asset and debt activities can be found in Notes 6 and 8 in the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position represent the university's results of operations for the year. Users of these statements should note that GASB requires classification of state appropriations and federal and state grants as non-operating revenues.

A summary of the university's statements of revenues, expenses and changed in net position as of June 30, 2016, 2015 and 2014 follows:

(In Thousands)			
	2016	2015	2014
Operating revenues:			
Tuition and fees	\$ 70,499	\$ 67,971	\$ 70,341
Room and board	17,792	17,206	16,693
Sales and services	12,271	10,804	11,378
Other income	1,135	2,523	2,521
Total operating revenues	<u>101,697</u>	<u>98,504</u>	<u>100,933</u>
Nonoperating revenues and other revenues:			
State appropriations	63,939	61,193	58,772
Capital appropriations	1,583	1,534	4,152
Grants	32,006	33,725	33,018
Other	531	573	1,267
Total nonoperating and other revenues	<u>98,059</u>	<u>97,025</u>	<u>97,209</u>
Total revenues	<u>199,756</u>	<u>195,529</u>	<u>198,142</u>
Operating expenses:			
Salaries and benefits	134,105	139,103	139,832
Depreciation	16,410	16,634	14,621
Financial aid, net	3,337	3,400	3,127
Other	39,356	39,234	44,270
Total operating expenses	<u>193,208</u>	<u>198,371</u>	<u>201,850</u>
Nonoperating and other expenses:			
Interest expense	3,532	3,498	3,191
Other	950	548	565
Total nonoperating and other expenses	<u>4,482</u>	<u>4,046</u>	<u>3,756</u>
Total expenses	<u>197,690</u>	<u>202,417</u>	<u>205,606</u>
Change in net position	<u>2,066</u>	<u>(6,888)</u>	<u>(7,464)</u>
Net position, beginning of year	151,888	208,887	216,351
Cumulative effect of change in accounting principle	-	(50,111)	-
Net position, beginning of year, as restated	<u>151,888</u>	<u>158,776</u>	<u>216,351</u>
Net position, end of year	<u>\$ 153,954</u>	<u>\$ 151,888</u>	<u>\$ 208,887</u>

Tuition and state appropriations are the primary sources of funding for the university's academic programs. Gross tuition revenue increased \$2.8 million to \$85.6 million in fiscal year 2016 as a result of a flat enrollment and 3.4 percent increase in tuition. This follows a decrease of \$2.1 million in fiscal year 2015 as a net result of a 4.3 percent decrease in enrollment and a 3.0 percent increase in graduate tuition rates. State appropriations totaled \$63.9 million in 2016, an increase of \$2.7 million and \$5.2 million over fiscal years 2015 and 2014, respectively

Operating expenses as of June 30, 2016 decreased by \$5.2 million over fiscal year 2015. The resources expended for employee compensation and benefits totaled \$134.1 million for the fiscal year ended June 30, 2016, which represents a decrease of \$5.0 million over 2015. The change in compensation is due to a decrease of 81.4 full time equivalent employees in fiscal year 2016 and offset by bargaining unit contracts increase. Excluding GASB Statement No. 68 effect, the net decrease in compensation was \$4.5 million.

FOUNDATION

The St. Cloud State University Foundation, Inc. is a component unit of St. Cloud State University. As such, the separately audited financial statements for the foundation are included, but shown separately from those of the university in compliance with the requirements of GASB Statement No. 39. Additional information regarding the foundation can be found in Note 18 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Enrollment growth at both the undergraduate and graduate levels through new academic program development that aligns with current academic strengths and strong student and market demand exist, is critical to the future vitality of the institution. Growth through gains in student credit-taking behavior and retention and persistence will be additional, key contributors to our enrollment and financial stability and eventual growth. Expanding our footprint through programs at the St. Cloud State at Plymouth location and through onsite 2+2 programs at our partner 2-year community colleges, as well as on-line and alternative delivery, will provide additional points of access for students and increased enrollments for the university.

State capital appropriations will remain the most critical funding source to sustain the physical and technological infrastructure of the university. The development of additional alternative revenue sources through applied research grants and contracts from industry partners such as those currently occurring in the Integrated Science, Engineering and Laboratory Facility (ISELF), will be key, as will expanding private funding through external grants and private fundraising. The Foundation continues preparation for a comprehensive campaign to tie in with the university's Sesquicentennial Celebration in 2019.

Managing costs while also making strategic investments in personnel, non-personnel, facilities and technology infrastructure will significantly impact the financial sustainability of the university going forward, as we work to ensure expenses are not out-pacing revenue streams, while also ensuring that we have the talented faculty and staff, learning and living spaces, and technology and equipment to support student learning and success. We will continue our efforts to manage to healthy productivity ratios across our departments and units. We could begin to see increases in non-personnel expenses due to inflation and increased regulatory expenses, which will make oversight relative to changes in revenues and expenses more pronounced. Increasing expectations relative to technology infrastructure will require attention. In fiscal year 2016, the university received final approval of its comprehensive facilities plan. Actions were taken to reduce its physical asset footprint to reposition itself to better serve students. Once bonding is approved by the legislature, the university will continue with the renovation of Eastman Hall to strengthen health services to students and expand health-related academic experiential learning opportunities. In fiscal year 2017 we will engage in strategic planning for our information technology services to ensure we are meeting the needs and expectations of increasingly technologically savvy students and increase the effectiveness of our university through the strategic use of technology.

REQUESTS FOR INFORMATION

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

Director, Business Services
St. Cloud State University
720 Fourth Avenue South, AS 205
St. Cloud, MN 56301-4498

**ST. CLOUD STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)**

Assets	2016	2015
Current Assets		
Cash and cash equivalents	\$ 57,879	\$ 55,906
Investments	2,320	2,368
Grants receivable	1,204	1,195
Accounts receivable, net	6,047	4,061
Prepaid expense	2,858	3,046
Inventory and other assets	305	387
Student loans, net	1,050	1,100
Total current assets	<u>71,663</u>	<u>68,063</u>
Current Restricted Cash and Cash Equivalents	<u>8,119</u>	<u>8,185</u>
Noncurrent Restricted Assets		
Construction in progress	<u>3,183</u>	<u>1,354</u>
Total noncurrent restricted assets	<u>3,183</u>	<u>1,354</u>
Total restricted assets	<u>11,302</u>	<u>9,539</u>
Noncurrent Assets		
Student loans, net	4,847	4,858
Capital assets, net	<u>240,226</u>	<u>255,728</u>
Total noncurrent assets	<u>245,073</u>	<u>260,586</u>
Total Assets	<u>328,038</u>	<u>338,188</u>
Deferred Outflows of Resources	<u>8,566</u>	<u>3,622</u>
Total Assets and Deferred Outflows of Resources	<u>336,604</u>	<u>341,810</u>
Liabilities		
Current Liabilities		
Salaries and benefits payable	14,168	13,736
Accounts payable and other liabilities	4,891	3,792
Unearned revenue	4,183	4,677
Payable from restricted assets	356	216
Interest payable	383	403
Funds held for others	641	596
Current portion of long-term debt	8,399	8,437
Other compensation benefits	2,086	2,079
Total current liabilities	<u>35,107</u>	<u>33,936</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	74,822	83,584
Other compensation benefits	17,209	17,236
Net pension liability	28,477	26,809
Capital contributions payable	<u>5,338</u>	<u>5,429</u>
Total noncurrent liabilities	<u>125,846</u>	<u>133,058</u>
Total Liabilities	<u>160,953</u>	<u>166,994</u>
Deferred Inflows of Resources	<u>21,697</u>	<u>22,928</u>
Total Liabilities and Deferred Inflows of Resources	<u>182,650</u>	<u>189,922</u>
Net Position		
Net investment in capital assets	163,270	168,285
Restricted expendable, bond covenants	9,225	8,865
Restricted expendable, other	9,703	10,176
Unrestricted	<u>(28,244)</u>	<u>(35,438)</u>
Total Net Position	<u>\$ 153,954</u>	<u>\$ 151,888</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 561	\$ 392
Investments	33,758	34,594
Restricted cash and cash equivalents	1,022	1,022
Pledges and contributions receivable	420	842
Other receivables	70	67
Accrued investment/Interest income	43	48
Finance lease receivable from university	910	885
Total current assets	<u>36,784</u>	<u>37,850</u>
Noncurrent Assets		
Long-term pledges receivable	1,009	1,300
Finance lease receivable, net	4,883	5,793
Annuities/Remainder interests/Trusts	321	325
Property and equipment, net	231	254
Other assets	191	222
Total noncurrent assets	<u>6,635</u>	<u>7,894</u>
Total Assets	<u>\$ 43,419</u>	<u>\$ 45,744</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 118	\$ 158
Interest payable	47	54
Annuities payable	45	45
Notes payable	1,201	630
Bonds payable	910	885
Other liabilities	94	96
Total current liabilities	<u>2,415</u>	<u>1,868</u>
Noncurrent Liabilities		
Annuities payable	278	291
Notes payable	-	1,440
Bonds payable	6,578	7,586
Total noncurrent liabilities	<u>6,856</u>	<u>9,317</u>
Total Liabilities	<u>9,271</u>	<u>11,185</u>
Net Assets		
Unrestricted	4,598	683
Temporarily restricted	10,933	15,808
Permanently restricted	18,617	18,068
Total Net Assets	<u>34,148</u>	<u>34,559</u>
Total Liabilities and Net Assets	<u>\$ 43,419</u>	<u>\$ 45,744</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
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	\$ 58,776	\$ 56,301
Fees, net	8,379	8,536
Sales, net	13,305	11,917
Restricted student payments, net	20,102	19,227
Other income	1,135	2,523
Total operating revenues	<u>101,697</u>	<u>98,504</u>
Operating Expenses		
Salaries and benefits	134,105	139,103
Purchased services	22,402	22,240
Supplies	7,092	6,841
Repairs and maintenance	1,743	2,544
Depreciation	16,410	16,634
Financial aid, net	3,337	3,400
Other expense	8,119	7,609
Total operating expenses	<u>193,208</u>	<u>198,371</u>
Operating loss	<u>(91,511)</u>	<u>(99,867)</u>
Nonoperating Revenues (Expenses)		
Appropriations	63,939	61,193
Federal grants	19,978	20,902
State grants	8,857	9,079
Private grants	3,171	3,744
Interest income	531	438
Interest expense	(3,532)	(3,498)
Grants to other organizations	(651)	(548)
Total nonoperating revenues (expenses)	<u>92,293</u>	<u>91,310</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	782	(8,557)
Capital appropriations	1,583	1,534
Donated assets and supplies	-	114
Gain (loss) on disposal of capital assets	(299)	21
Change in net position	<u>2,066</u>	<u>(6,888)</u>
Total Net Position, Beginning of Year	151,888	208,887
Cumulative Effect of Change in Accounting Principle	-	(50,111)
Total Net Position, Beginning of Year, as Restated	<u>151,888</u>	<u>158,776</u>
Total Net Position, End of Year	<u>\$ 153,954</u>	<u>\$ 151,888</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and Revenue					
Contributions	\$ 213	\$ 2,345	\$ 573	\$ 3,131	\$ 3,314
In-kind contributions	2,097	-	-	2,097	2,080
Investment income	344	499	6	849	943
Realized gain (loss)	(13)	(1,024)	(23)	(1,060)	7,607
Unrealized loss	(1)	(12)	(1)	(14)	(8,058)
Transfers	300	(294)	(6)	-	-
Net assets released from restrictions	6,389	(6,389)	-	-	-
Total support and revenue	<u>9,329</u>	<u>(4,875)</u>	<u>549</u>	<u>5,003</u>	<u>5,886</u>
Expenses					
Program services					
Program services	430	-	-	430	393
Scholarships	2,422	-	-	2,422	2,676
Total program services	<u>2,852</u>	<u>-</u>	<u>-</u>	<u>2,852</u>	<u>3,069</u>
Supporting services					
Interest expense	239	-	-	239	287
Management and general	1,391	-	-	1,391	1,467
Fundraising	932	-	-	932	653
Total supporting services	<u>2,562</u>	<u>-</u>	<u>-</u>	<u>2,562</u>	<u>2,407</u>
Total expenses	<u>5,414</u>	<u>-</u>	<u>-</u>	<u>5,414</u>	<u>5,476</u>
Change in Net Assets	3,915	(4,875)	549	(411)	410
Net Assets, Beginning of Year	<u>683</u>	<u>15,808</u>	<u>18,068</u>	<u>34,559</u>	<u>34,149</u>
Net Assets, End of Year	<u>\$ 4,598</u>	<u>\$ 10,933</u>	<u>\$ 18,617</u>	<u>\$ 34,148</u>	<u>\$ 34,559</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Support and Revenue				
Contributions	\$ 1,481	\$ 1,408	\$ 425	\$ 3,314
In-kind contributions	1,651	429	-	2,080
Investment income (loss)	467	508	(32)	943
Realized gain (loss)	2,014	5,970	(377)	7,607
Unrealized gain (loss)	(2,134)	(6,323)	399	(8,058)
Transfers	699	(679)	(20)	-
Net assets released from restrictions	3,561	(3,561)	-	-
Total support and revenue	<u>7,739</u>	<u>(2,248)</u>	<u>395</u>	<u>5,886</u>
Expenses				
Program services				
Program services	393	-	-	393
Scholarships	2,676	-	-	2,676
Total program services	<u>3,069</u>	<u>-</u>	<u>-</u>	<u>3,069</u>
Supporting services				
Interest expense	287	-	-	287
Management and general	1,467	-	-	1,467
Fundraising	653	-	-	653
Total supporting services	<u>2,407</u>	<u>-</u>	<u>-</u>	<u>2,407</u>
Total expenses	<u>5,476</u>	<u>-</u>	<u>-</u>	<u>5,476</u>
Change in Net Assets	2,263	(2,248)	395	410
Net Assets, Beginning of Year	<u>(4,469)</u>	<u>20,945</u>	<u>17,673</u>	<u>34,149</u>
Net Assets, End of Year	<u><u>\$ (2,206)</u></u>	<u><u>\$ 18,697</u></u>	<u><u>\$ 18,068</u></u>	<u><u>\$ 34,559</u></u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
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	\$ 100,468	\$ 96,233
Cash repayment of program loans	1,036	1,085
Cash paid to suppliers for goods or services	(38,378)	(42,235)
Cash payments for employees	(138,398)	(142,901)
Financial aid disbursements	(3,428)	(3,763)
Cash payments for program loans	(1,071)	(1,137)
Net cash flows used in operating activities	<u>(79,771)</u>	<u>(92,718)</u>
Cash Flows from Noncapital Financing Activities		
Appropriations	63,939	61,193
Agency activity	43	(641)
Federal grants	18,464	22,030
State grants	8,857	9,079
Private grants	3,426	3,485
Loans from other schools	-	130
Grants to other organizations	(651)	(548)
Net cash flows provided by noncapital financing activities	<u>94,078</u>	<u>94,728</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(2,963)	(4,058)
Capital appropriation	1,583	1,534
Proceeds from sale of capital assets	189	38
Proceeds from borrowing	177	3,781
Proceeds from bond premium	30	87
Interest paid	(3,387)	(3,485)
Repayment of lease principal	(4,002)	(4,051)
Repayment of bond principal	(4,256)	(7,531)
Net cash flows used in capital and related financing activities	<u>(12,629)</u>	<u>(13,685)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,881	1,423
Purchase of investments	(1,836)	(1,396)
Investment earnings	184	126
Net cash flows provided by investing activities	<u>229</u>	<u>153</u>
Net Increase (Decrease) In Cash and Cash Equivalents	1,907	(11,522)
Cash and Cash Equivalents, Beginning of Year	<u>64,091</u>	<u>75,613</u>
Cash and Cash Equivalents, End of Year	<u>\$ 65,998</u>	<u>\$ 64,091</u>

The notes are an integral part of the financial statements.

ST. CLOUD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Operating Loss	\$ <u>(91,511)</u>	\$ <u>(99,867)</u>
Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities		
Depreciation	16,410	16,634
Provision for loan defaults	17	(1)
Loan principal repayments	1,036	1,085
Loans issued	(1,071)	(1,137)
Loans forgiven	79	86
Change in assets and liabilities		
Inventory and other assets	32	34
Accounts receivable	(1,106)	(220)
Accounts payable and other liabilities	1,191	(1,940)
Salaries and benefits payable	432	(298)
Other compensation benefits	(19)	457
Deferred outflows/inflows of resources/Net pension liability	(4,743)	(3,971)
Capital contributions payable	(92)	(362)
Unearned revenue	(123)	(2,049)
Bond premium payable	-	(1,278)
Other	<u>(303)</u>	<u>109</u>
Net reconciling items to be added to operating loss	<u>11,740</u>	<u>7,149</u>
Net cash flow used in operating activities	<u>\$ (79,771)</u>	<u>\$ (92,718)</u>
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	\$ 1,002	\$ 671
Donated equipment	-	114
Amortization of bond premium	316	326

**ST. CLOUD STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of St. Cloud State University, a member 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 include financial activities of St. Cloud State University.

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. St. Cloud State University receives a portion of the Minnesota State appropriation. 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 annual financial report. Copies are available from the Financial Reporting System Director, Minnesota State, 30 7th St. E., Suite 350, St. Paul, Minnesota 55101-7804.

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*. The St. Cloud State University Foundation, Inc. is considered significant to the university and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the St. Cloud State University Foundation, Inc. Alumni and Foundation Center, 720 Fourth Avenue South, St. Cloud, MN 56301-4498.

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. Interfund receivables and payables have been eliminated in the statements of net position.

Budgetary Accounting — University budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, differs from GAAP. University 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, 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 university biennial budget request and allocation as part of Minnesota State total budget.

Budgetary control is maintained at the university. The university President has the authority and responsibility to administer the budget and can transfer money between programs within the university without board approval. The budget of the university can be legally amended by the authority of the Vice Chancellor/Chief Financial Officer.

The state appropriations do not lapse at year end. Any unexpended appropriation from the first year of a biennium is available for the second year. Any unexpended balance may also carry over into future bienniums.

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

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

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

All balances related to the state appropriation, tuition revenues, and most fees are in the state treasury. The university also has two accounts 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.

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

Inventories — Inventories are valued at cost using the first in, first out method.

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:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	35-40 years
Building improvements	7-20 years
Equipment	3-20 years
Library collections	7 years

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

Funds Held for Others — Funds held for others are assets primarily held in a custodial capacity such as student organizations, student loans and other clearing accounts that serve as a flow-through conduit.

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned, for summer and fall term. It also includes room deposits, amounts received from grants that have not yet been earned under the terms of the agreement, and advanced athletic ticket revenue received.

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. The university is responsible for a portion of the debt service on the bonds sold for some of its projects. The university 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, net other postemployment benefits, early termination benefits, 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 the university 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 the difference in the carrying value of the refunded debt and its reacquisition price.

The following tables summarize the university’s deferred outflows and inflows:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Related to Pensions:</u>		
Differences between projected and actual investment earnings	\$ 4,329	\$ 8,397
Changes in actuarial assumptions	1,097	8,259
Contributions paid to pension plans subsequent to the measurement date	2,152	-
Differences between expected and actual experience	713	3,936
Changes in proportion	251	870
Total related to pensions	<u>8,542</u>	<u>21,462</u>
<u>Related to Refunding:</u>		
Economic loss on refunding of revenue bonds	24	-
Economic gain on refunding of general obligation bonds	-	235
Total	<u>\$ 8,566</u>	<u>\$ 21,697</u>

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Related to Pensions:</u>		
Differences between projected and actual investment earnings	\$ -	\$ 11,520
Changes in actuarial assumptions	32	11,078
Contributions paid to pension plans subsequent to the measurement date	2,263	-
Differences between expected and actual experience	969	330
Changes in proportion	333	-
Total related to pensions	<u>3,597</u>	<u>22,928</u>
<u>Related to Refunding:</u>		
Economic loss on refunding of revenue bonds	25	-
Total	<u>\$ 3,622</u>	<u>\$ 22,928</u>

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 university's 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 allowances. Sales consist of room, board and other miscellaneous sales and services. 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 allowances. Note 12 to the financial statements provides additional information.

Federal Grants — The university participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant and Federal Work Study. 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 university will record such disallowance at the time the determination is made.

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, 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 three net position categories:

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

- *Restricted expendable*: net position subject to externally imposed stipulations. Net position restrictions for the university 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 for bond debt repayment

Donations — restricted per donor requests

Faculty contract obligations — faculty development and travel required by contracts

Loans — university capital contribution for Perkins loans

Net Position Restricted for Other		
Year Ended June 30		
(In Thousands)		
	2016	2015
Capital projects	\$ 6,394	\$ 419
Debt service	347	6,855
Donations	394	381
Faculty contract obligations	1,926	1,867
Loans	642	654
Total	<u>\$ 9,703</u>	<u>\$ 10,176</u>

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the state appropriation, tuition, and most fees are in the state treasury. In addition, the university has two accounts in a local bank. The activities handled through the local bank include financial aid, student payroll, auxiliary, and student activities.

Minnesota Statute, 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. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

The following table summarizes cash and cash equivalents:

Carrying Amount	Year Ended June 30	
	(In Thousands)	
	2016	2015
Cash and repurchase agreements	\$ 4,702	\$ 5,494
Cash in bank- Foreign currencies	128	139
Change fund	25	25
Cash, trustee account (US Bank)	3,628	3,623
Total local cash and cash equivalents	8,483	9,281
Total treasury cash accounts	57,515	54,810
Grand Total	\$ 65,998	\$ 64,091

At June 30, 2016 and 2015, the university's bank balances were \$5,177,282 and \$6,318,198, respectively. These balances were adjusted by items in transit to arrive at the university's cash in bank balance. The university's 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 university's excess cash in the local bank is swept nightly to purchase interest bearing cash equivalents. As of June 30, 2016 and 2015, the university had \$4,529,140 and \$5,616,909, respectively, in repurchase agreements. 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. The 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 Minnesota 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 United States and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, and restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and 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, Minnesota State Board of Investment has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the university 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 university’s policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04. This statute limits investments to the top quality rating categories of a nationally recognized rating agency. At June 30, 2016 and 2015, the university’s debt securities were rated equivalent to *Standard and Poor’s* AA or higher.

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 university’s policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

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

The university had the following investments and maturities:

Year Ended June 30, 2016 (In Thousands)					
Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
U.S. agencies	\$ 2,320	2.00	x		

Year Ended June 30, 2015 (In Thousands)					
Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
U.S. agencies	\$ 2,368	1.71	x		

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2016 and 2015, the total accounts receivable balances for the university were \$10,430,093 and \$8,278,268, respectively, less an allowance for uncollectible receivables of \$4,383,458 and \$4,216,843, respectively.

The following table summarizes accounts receivable:

	Year Ended June 30	
	(In Thousands)	
	2016	2015
Tuition	\$ 4,423	\$ 3,933
Room and board	2,191	2,050
Fees	1,329	1,099
Sales and service	731	548
Other income	1,756	648
Total accounts receivable	10,430	8,278
Allowance for doubtful accounts	(4,383)	(4,217)
Net accounts receivable	\$ 6,047	\$ 4,061

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

Fiscal Year 2016			Fiscal Year 2015		
(In Thousands)			(In Thousands)		
Year	Allowance Amount	Allowance Percentage	Year	Allowance Amount	Allowance Percentage
Summer 2016	\$ 45	10	Summer 2015	\$ 49	10
2016	946	25	2015	708	25
2015	628	50	2014	654	50
2014	704	80	2013	738	80
2013 and before	2,060	100	2012 and before	2,068	100
Total	\$ 4,383		Total	\$ 4,217	

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 \$2,594,181 and \$2,939,102 for fiscal years 2016 and 2015, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand at December 1, of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second year. Also, included in prepaid expense for fiscal years 2016 and 2015 was \$263,968 and \$107,199, respectively, stemming from prepaid software maintenance agreements, primarily for software fees.

5. LOANS RECEIVABLE

Loans receivable balances consist primarily of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The university is responsible for loan collections. As of June 30, 2016 and 2015, the loans receivable for this program totaled \$6,237,058 and \$6,281,074, respectively, less an allowance for uncollectible loans of \$339,884 and \$323,206, 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			Completed	Ending
	Balance	Increases	Decreases	Construction	Balance
Capital assets, not depreciated:					
Land	\$ 13,634	\$ 149	\$ 192	\$ -	\$ 13,591
Construction in progress	1,652	2,386	-	-	4,038
Total capital assets, not depreciated	<u>15,286</u>	<u>2,535</u>	<u>192</u>	<u>-</u>	<u>17,629</u>
Capital assets, depreciated:					
Buildings and improvements	388,856	-	2,543	-	386,313
Equipment	15,889	318	2,499	-	13,708
Library collections	6,045	360	1,086	-	5,319
Total capital assets, depreciated	<u>410,790</u>	<u>678</u>	<u>6,128</u>	<u>-</u>	<u>405,340</u>
Less accumulated depreciation:					
Buildings and improvements	153,429	14,795	1,955	-	166,269
Equipment	12,100	855	2,803	-	10,152
Library collections	3,465	760	1,086	-	3,139
Total accumulated depreciation	<u>168,994</u>	<u>16,410</u>	<u>5,844</u>	<u>-</u>	<u>179,560</u>
Total capital assets depreciated, net	<u>241,796</u>	<u>(15,732)</u>	<u>284</u>	<u>-</u>	<u>225,780</u>
Total capital assets, net	<u>\$ 257,082</u>	<u>\$ (13,197)</u>	<u>\$ 476</u>	<u>\$ -</u>	<u>\$ 243,409</u>

Year Ended June 30, 2015					
(In Thousands)					
	Beginning			Completed	Ending
	Balance	Increases	Decreases	Construction	Balance
Capital assets, not depreciated:					
Land	\$ 13,634	\$ -	\$ -	\$ -	\$ 13,634
Construction in progress	17,077	2,048	-	(17,473)	1,652
Total capital assets, not depreciated	<u>30,711</u>	<u>2,048</u>	<u>-</u>	<u>(17,473)</u>	<u>15,286</u>
Capital assets, depreciated:					
Buildings and improvements	371,383	-	-	17,473	388,856
Equipment	15,029	984	124	-	15,889
Library collections	6,519	868	1,342	-	6,045
Total capital assets, depreciated	<u>392,931</u>	<u>1,852</u>	<u>1,466</u>	<u>17,473</u>	<u>410,790</u>
Less accumulated depreciation:					
Buildings and improvements	138,535	14,894	-	-	153,429
Equipment	11,332	876	108	-	12,100
Library collections	3,943	864	1,342	-	3,465
Total accumulated depreciation	<u>153,810</u>	<u>16,634</u>	<u>1,450</u>	<u>-</u>	<u>168,994</u>
Total capital assets, depreciated, net	<u>239,121</u>	<u>(14,782)</u>	<u>16</u>	<u>17,473</u>	<u>241,796</u>
Total capital assets, net	<u>\$ 269,832</u>	<u>\$ (12,734)</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 257,082</u>

7. ACCOUNTS PAYABLE

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

The following table summarizes accounts payable and other liabilities:

Year Ended June 30 (In Thousands)		
	2016	2015
Purchased services	\$ 1,311	\$ 1,610
Capital projects	646	455
Supplies	1,363	494
Repairs and maintenance	114	181
Student payroll	335	272
Other	733	336
Total accounts payable	<u>4,502</u>	<u>3,348</u>
Other liabilities	<u>389</u>	<u>444</u>
Total accounts payable and other liabilities	<u>\$ 4,891</u>	<u>\$ 3,792</u>

In addition, as of June 30, 2016 and 2015, the university also had payables from restricted assets in the amounts of \$356,408 and \$216,457, 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	\$ 3,072	\$ 30	\$ 316	\$ 2,786	\$ -
Capital leases	22,121	-	4,002	18,119	3,965
General obligation bonds	26,372	177	2,344	24,205	2,089
Revenue bonds	40,456	-	2,345	38,111	2,345
Total long-term debt	<u>\$ 92,021</u>	<u>\$ 207</u>	<u>\$ 9,007</u>	<u>\$ 83,221</u>	<u>\$ 8,399</u>

Year Ended June 30, 2015 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 4,729	\$ 87	\$ 1,744	\$ 3,072	\$ -
Capital leases	26,172	-	4,051	22,121	4,002
General obligation bonds	27,581	886	2,095	26,372	2,090
Revenue bonds	43,002	2,895	5,441	40,456	2,345
Total long-term debt	<u>\$ 101,484</u>	<u>\$ 3,868</u>	<u>\$ 13,331</u>	<u>\$ 92,021</u>	<u>\$ 8,437</u>

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

Year Ended June 30, 2016					
(In Thousands)					
	Beginning			Ending	Current
	Balance	Increases	Decreases	Balance	Portion
Liabilities for:					
Compensated absences	\$ 15,836	\$ 1,520	\$ 2,076	\$ 15,280	\$ 1,788
Early termination benefits	142	298	142	298	298
Net other postemployment benefits	3,337	994	614	3,717	-
Total other compensation benefits	\$ <u>19,315</u>	\$ <u>2,812</u>	\$ <u>2,832</u>	\$ <u>19,295</u>	\$ <u>2,086</u>
Year Ended June 30, 2015					
(In Thousands)					
	Beginning			Ending	Current
	Balance	Increases	Decreases	Balance	Portion
Liabilities for:					
Compensated absences	\$ 15,861	\$ 2,233	\$ 2,258	\$ 15,836	\$ 1,937
Early termination benefits	80	142	80	142	142
Net other postemployment benefits	2,917	952	532	3,337	-
Total other compensation benefits	\$ <u>18,858</u>	\$ <u>3,327</u>	\$ <u>2,870</u>	\$ <u>19,315</u>	\$ <u>2,079</u>

Bond Premium — Bonds were issued in fiscal years 2016 and 2015, resulting in premiums of \$29,704 and \$86,619, 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 the 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 those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based primarily upon the specific projects funded. The general obligation bond liability included in these financial statements represents the university's share.

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 residence hall, student union, parking ramp and other revenue-producing and related facilities at the state colleges and universities. Revenue bonds currently outstanding have interest rates between 1.0 percent and 5.0 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 2034. Annual principal and interest payments on the bonds are expected to require less than 16.96 percent of net revenues. The total principal and interest remaining to be paid on the revenue bonds is \$50,637,814. Principal and interest paid for the current year and total customer net revenues were \$3,859,057 and \$22,315,228 respectively.

Compensated Absences — University 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 — 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.

Net Pension Liability — The net pension liability of \$28,477,355 and \$26,808,855 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 — Liabilities of \$5,337,779 and \$5,429,491 at June 30, 2016 and 2015, respectively, represent the amount the university would owe the federal government if it were to discontinue the Perkins loan program. The net decrease is \$91,712 for fiscal year 2016. There was a net decrease of \$361,629 for fiscal year 2015.

Principal and interest payment schedules are provided in the following table for capital leases, general obligation bonds, and revenue bonds. Excluded from the table below is the unamortized bond premium of \$2,784,927, which is amortized over the life of the bonds. There are no payment schedules for compensated absences, early termination benefits, net other postemployment benefits, net pension liability, or capital contributions.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2017	\$ 3,965	\$ 1,122	\$ 2,089	\$ 975	\$ 2,345
2018	3,938	1,231	2,089	890	2,393	1,366
2019	3,883	1,339	2,036	804	2,488	1,284
2020	3,855	1,438	1,892	725	2,564	1,193
2021	1,470	346	1,690	649	2,655	1,096
2022-2026	1,008	81	7,429	2,245	11,176	4,051
2027-2031	-	-	5,228	858	10,075	1,919
2032-2036	-	-	1,752	94	4,415	176
Total	\$ 18,119	\$ 5,557	\$ 24,205	\$ 7,240	\$ 38,111	\$ 12,525

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, including the Inter Faculty Organization (IFO) contract 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.

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’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 those faculty as of the end of fiscal years 2016 and 2015, follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2016	5	\$ 114
2015	5	98

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:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2016	5	\$ 184
2015	2	44

10. NET OTHER POSTEMPLOYMENT BENEFITS

The university 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 72 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 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)		
	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 979	\$ 939
Interest on net OPEB obligation	137	120
Adjustment to ARC	<u>(122)</u>	<u>(107)</u>
Annual OPEB cost	994	952
Contributions during the year	<u>(614)</u>	<u>(532)</u>
Increase in net OPEB obligation	380	420
Net OPEB obligation, beginning of year	<u>3,337</u>	<u>2,917</u>
Net OPEB obligation, end of year	<u>\$ 3,717</u>	<u>\$ 3,337</u>

The university's 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	\$ 3,337	\$ 2,917
Annual OPEB cost	994	952
Employer contribution	(614)	(532)
End of year net OPEB obligation	\$ <u>3,717</u>	\$ <u>3,337</u>
Percentage contributed	61.77%	55.88%

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	\$ -	\$ 9,293	\$ 9,293	0.00	\$ 106,625	8.72

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 seventeen 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 — The university is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal years ended June 30, 2016 and 2015, totaled \$504,806 and \$612,851, respectively.

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

Year Ended June 30 (In Thousands)	
<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 377
2018	188
2019	54
2020	2
Total	\$ <u>621</u>

Income Leases — The university has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2016 and 2015, totaled \$84,382 and \$87,729, respectively, and is 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)	
<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 111
2018	66
2019	20
Total	\$ <u>197</u>

Capital Leases — The university has entered into several capital lease agreements. The leases meet the criteria of a capital lease as defined by GAAP, which defines a capital lease generally as one that transfers benefits and risk of ownership to the lessee.

In March 2002, the 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 and a stadium and student recreation center. Note 18 to the financial statements provides additional information.

In August 2010, the university entered into agreements with Wedum St. Cloud Housing LLC for residence hall and Welcome Center space for a term of ten years with two successive options for five year extensions.

The total cost of all capital assets acquired with capital leases and corresponding accumulated depreciation at June 30, 2016, are \$46,634,144 and \$23,664,421, respectively.

12. TUITION, FEES, AND SALES, NET

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	\$ 85,621	\$ (26,845)	\$ 58,776	\$ 82,805	\$ (26,504)	\$ 56,301
Fees	9,596	(1,217)	8,379	9,725	(1,189)	8,536
Sales and room and board	13,371	(66)	13,305	11,978	(61)	11,917
Restricted student payments	21,035	(933)	20,102	20,061	(834)	19,227
Total	<u>\$ 129,623</u>	<u>\$ (29,061)</u>	<u>\$ 100,562</u>	<u>\$ 124,569</u>	<u>\$ (28,588)</u>	<u>\$ 95,981</u>

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Description	Year Ended June 30, 2016 (In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 13,013	\$ 3,440	\$ 5,907	\$ 154	\$ 22,514
Institutional support	11,660	4,558	8,091	151	24,460
Instruction	57,821	14,654	12,012	677	85,164
Public service	962	181	1,842	43	3,028
Research	1,711	294	1,124	19	3,148
Student services	14,215	3,965	7,530	361	26,071
Auxiliary enterprises	6,382	1,249	19,260	2,127	29,018
Scholarships & fellowships	-	-	3,337	-	3,337
Less interest expense	-	-	-	(3,532)	(3,532)
Total operating expenses	<u>\$ 105,764</u>	<u>\$ 28,341</u>	<u>\$ 59,103</u>	<u>\$ -</u>	<u>\$ 193,208</u>

Description	Year Ended June 30, 2015 (In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 14,254	\$ 3,796	\$ 5,140	\$ 169	\$ 23,359
Institutional support	13,520	4,559	8,771	170	27,020
Instruction	58,444	15,028	11,192	689	85,353
Public service	837	134	1,777	36	2,784
Research	1,839	357	1,366	21	3,583
Student services	14,639	4,115	7,805	379	26,938
Auxiliary enterprises	6,245	1,336	19,817	2,034	29,432
Scholarships & fellowships	-	-	3,400	-	3,400
Less interest expense	-	-	-	(3,498)	(3,498)
Total operating expenses	<u>\$ 109,778</u>	<u>\$ 29,325</u>	<u>\$ 59,268</u>	<u>\$ -</u>	<u>\$ 198,371</u>

14. EMPLOYEE PENSION PLANS

The university 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, the university 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 university's contributions to the General Plan for the fiscal years ending June 30, 2016 and 2015 were \$1,336,180 and \$1,386,790, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions — The university's 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	SBI's Long-Term Expected Real
	Percentage	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
	<u>100</u>	

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 7.9 percent and a municipal bond rate of 3.8 percent.

Net Pension Liability — At June 30, 2016 and 2015, the university reported a liability of \$14,342,456 and \$15,199,071, 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 university's proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement periods 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 university's proportion was 0.93 and 0.94 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 2.0 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 2.0 percent through 2015, and 2.5 percent thereafter, to 2.0 percent per year through 2043, and 2.5 percent per year thereafter.

Pension Liability Sensitivity — The following presents the university’s proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 1 percentage point lower or 1 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	\$	29,359	\$ 14,342	\$ 1,846
June 30, 2015		30,674	15,199	2,340

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, the university recognized a reduction in pension expense of \$3,412,862 and \$2,339,905, respectively, related to pensions. At June 30, 2016 and 2015, the university 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	\$	2,929	\$ 5,877
Changes in actuarial assumptions		-	8,259
Contributions paid to MSRS subsequent to the measurement date		1,336	-
Differences between expected and actual economic experience		-	3,922
Changes in proportion		232	165
Total	\$	<u>4,497</u>	<u>18,223</u>

		2015 (In Thousands)	
		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$	-	\$ 7,884
Changes in actuarial assumptions		-	11,077
Contributions paid to MSRS subsequent to the measurement date		1,387	-
Differences between expected and actual economic experience		-	330
Changes in proportion		309	-
Total	\$	<u>1,696</u>	<u>19,291</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the university's 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	\$ (4,945)
2018	(4,945)
2019	(4,945)
2020	(227)
Total	\$ (15,062)

Teachers Retirement Fund

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

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

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

Contributions — Minnesota 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. The university's contributions to the TRA for the fiscal years ended June 30, 2016 and 2015 were \$792,540 and \$852,345, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The university's 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, valuations 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 8.0 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	

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2015 and 2014 was 8.00 percent 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.

Net Pension Liability — At June 30, 2016 and 2015, the university reported a liability of \$13,844,243 and \$11,303,247, 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 university's proportion of the net pension liability was based on the employer contributions received by TRF 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 TRF's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.22 percent and 0.25 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 university’s proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 1 percentage point lower or 1 percentage point higher than the current discount rate:

Proportionate Share of Net Pension Liability 2016 (In Thousands)		
1 Percent Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1 Percent Increase in Discount Rate (9.00%)
\$ 21,073	\$ 13,844	\$ 7,812

Proportionate Share of Net Pension Liability 2015 (In Thousands)		
1 Percent Decrease in Discount Rate (7.25%)	Discount Rate (8.25%)	1 Percent Increase in Discount Rate (9.25%)
\$ 18,680	\$ 11,303	\$ 5,153

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, the university’s recognized pension expense of \$779,468 and \$609,227, respectively, related to pensions. At June 30, 2016 and 2015, the university’s 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	\$ 1,373	\$ 2,458
Changes in assumptions	1,076	-
Contributions paid to TRA subsequent to the measurement date	793	-
Differences between expected and actual economic experience	710	-
Changes in proportion	19	673
Total	\$ 3,971	\$ 3,131

	2015	
	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 3,554
Contributions paid to TRA subsequent to the measurement date	852	-
Differences between expected and actual economic experience	965	-
Changes in proportion	24	-
Total	\$ 1,841	\$ 3,554

Amounts reported as deferred outflows of resources related to pensions resulting from the university's 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	\$ (199)
2018	(199)
2019	(199)
2020	580
2021	64
Total	\$ 47

General Employees Retirement Fund

Plan Description — The university 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 1.0 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. university contributions to the GERF for the plan’s fiscal years ended June 30, 2016 and 2015 were \$23,071 and \$23,618, 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 valuations were 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 1st 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:

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

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, the university reported a liability of \$290,656 and \$306,537, 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 the university's contributions received by PERA during the measurement periods 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 university's proportion was .0056 percent and .0065 percent, respectively.

Pension Liability Sensitivity — The following presents the university's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 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	\$ 452	\$ 291	\$ 157
June 30, 2015	494	307	152

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, the university recognized pension expense of \$18,455 and \$22,756 related to pensions. At June 30, 2016 and 2015, the university 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	\$ 27	\$ 62
Changes in actuarial assumptions	21	-
Contributions paid to PERA subsequent to the measurement date	23	-
Differences between expected and actual economic experience	3	14
Changes in proportion	-	32
Total	\$ 74	\$ 108

		2015	
		(In Thousands)	
		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$	-	\$ 83
Changes in actuarial assumptions		31	-
Contributions paid to PERA subsequent to the measurement date		24	-
Differences between expected and actual economic experience		5	-
Total	\$	60	\$ 83

Amounts reported as deferred outflows of resources related to pensions resulting from the university's 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	\$	(17)	
2018		(17)	
2019		(30)	
2020		7	
Total	\$	(57)	

Minnesota State Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for St. Cloud State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2016	\$ 3,411	\$ 2,558
2015	3,561	2,671
2014	3,323	2,479

Supplemental Retirement Plan (SRP)

Participation — Every unclassified employee who has completed two full time years of unclassified service with the university 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 University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

The university matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for St. Cloud State University were:

(In Thousands)	
Fiscal Year	Amount
2016	\$ 1,500
2015	1,553
2014	1,535

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 primarily composed of employee pre-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 507 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 414 participants.

15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone 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 and losses, assets, deferred outflows, liabilities and deferred inflows that are required by an external party to be accounted for separately.

Minnesota State issues revenue bonds to finance St. Cloud State University residence halls and student union.

St. Cloud State University Portion of the Revenue Fund (In Thousands)		
	2016	2015
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	\$ 13,313	\$ 13,405
Restricted assets	7,425	7,552
Noncurrent restricted assets	-	-
Noncurrent assets	68,642	72,949
Total assets	89,380	93,906
Deferred Outflows of Resources	451	205
Total assets and deferred outflows of resources	89,831	94,111
Liabilities		
Current liabilities	4,445	4,709
Noncurrent liabilities	41,266	44,022
Total liabilities	45,711	48,731
Deferred Inflows of Resources	1,073	1,146
Total liabilities and deferred inflows of resources	46,784	49,877
Net Position		
Net investment in capital assets	30,022	31,452
Restricted	13,025	12,782
Total net position	\$ 43,047	\$ 44,234
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	\$ 22,315	\$ 21,322
Other operating expenses	(21,750)	(21,346)
Net operating income (loss)	565	(24)
Nonoperating revenues (expenses)	(1,305)	(1,375)
Loss on disposal of capital assets	(447)	-
Change in net position	(1,187)	(1,399)
Total net position, beginning of year	44,234	48,139
Cumulative effect of change in accounting principle	-	(2,506)
Total net position, beginning of year, as restated	44,234	45,633
Total net position, end of year	\$ 43,047	\$ 44,234
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	\$ 4,941	\$ 3,857
Capital and related financing activities	(5,340)	(5,719)
Investing activities	104	(79)
Net decrease in cash and cash equivalents	(295)	(1,941)
Cash and cash equivalents, beginning of year	19,805	21,746
Cash and cash equivalents, end of year	\$ 19,510	\$ 19,805

16. COMMITMENTS AND CONTINGENCIES

General obligation bond funding has been requested for the renovation of Eastman Hall which, if awarded, could begin in the fall of 2017.

The university has entered into operating agreements with Wedum St. Cloud Housing LLC and also with the St. Cloud State University Foundation, Inc. These operating agreements each contain lease terms meeting the criteria of a capital lease, as defined by GAAP. Note 11 to the financial statements provides additional information.

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.

17. 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 and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. Property and casualty coverage is required by Minnesota State policy. The university also purchased professional liability for employed physicians, and student health services professional liability.

Property coverage's offered by the Minnesota Risk Management Fund are as follows:

Coverage Type	Amount
Institution deductible	\$2,500 to \$250,000
Fund responsibility	Deductible to \$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

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

The Minnesota Risk Management Fund purchased student intern professional liability insurance on the open market for the university. Minnesota State participate in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self-insurance for which Minnesota State pays the cost of claims through the state Workers' Compensation Fund. A Minnesota State workers' compensation payment pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars and claims history. From this pool all workers' compensation claims are paid to the state Workers' Compensation Fund. Annual premiums for the university for fiscal years 2016 and 2015 were \$478,578 and \$503,397, respectively.

18. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with St. Cloud State University is a legally separate, tax exempt entity and reported as a component unit.

The St. Cloud State University Foundation, Inc. is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the university. The university does not appoint any members of the board and the resources held by the foundation can only be used by, or for, the benefit of the university. The foundation's relationship with the institution is such that exclusion of the foundation's financial statements would cause the university's financial statements to be misleading or incomplete. The foundation is considered a component unit of the university and their statements are discretely presented in the university's financial statements.

The foundation 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, which are classified on the existence or absence of donor imposed restrictions, are classified and reported according to the following classes:

- *Unrestricted Net Assets:* Net assets that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets:* Net assets subject to donor imposed restrictions as to how the assets are to be used.
- *Permanently Restricted Net Assets:* Net 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.

The university has an agreement with the foundation whereby the university has agreed to furnish services for the operation of the foundation. The values of such services, which are included in the university's expenses, are estimated at \$1,618,660 and \$1,647,403, respectively, for fiscal years 2016 and 2015.

An additional estimated \$965,464 and 1,071,660, respectively, is included in the university's revenues and the foundation's expenditures in fiscal years 2016 and 2015, as a result of planned transfers of foundation funds to the university, whereby actual subsequent purchases are made from university accounts.

The foundation expended \$2,852,428 and \$3,069,469, respectively, toward university educational program purposes during fiscal years 2016 and 2015. Of these amounts, approximately \$967,784 and \$842,305 respectively went to support student scholarships, talent grants, and other awards during fiscal years 2016 and 2015. The foundation's total assets decreased \$2,324,837 in fiscal year 2016 after having decreased \$1,537,991 in fiscal year 2015.

Investments — The foundation's 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)				
	2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market	\$ 561	\$ 561	\$ -	\$ -
Mutual funds	12,516	12,516	-	-
Equity securities	10,235	10,235	-	-
Bonds/U.S treasuries	10,442	-	10,442	-
Other	4	-	4	-
Total	\$ <u>33,758</u>	\$ <u>23,312</u>	\$ <u>10,446</u>	\$ <u>-</u>

Schedule of Investments				
As of June 30				
(In Thousands)				
	2015	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market	\$ 1,763	\$ 1,763	\$ -	\$ -
Mutual funds	9,560	9,560	-	-
Equity securities	13,100	13,100	-	-
Bonds/U.S treasuries	10,166	-	10,166	-
Other	5	-	5	-
Total	\$ <u>34,594</u>	\$ <u>24,423</u>	\$ <u>10,171</u>	\$ <u>-</u>

Capital Assets — Summaries of the foundation’s capital assets for fiscal years 2016 and 2015 are:

Schedule of Capital Assets		
As of June 30		
(In Thousands)		
	2016	2015
Capital assets, not depreciated		
Land	\$ 175	\$ 175
Total capital assets, not depreciated	175	175
Capital assets, depreciated:		
Equipment	278	278
Leasehold improvements	107	107
Total capital assets, depreciated	385	385
Total accumulated depreciation	(329)	(306)
Total capital assets depreciated, net	56	79
Total capital assets, net	\$ 231	\$ 254

Long-Term Obligations — In March 2002 the foundation entered into an agreement with the Housing and Redevelopment Authority in and for the city of St. Cloud, MN and U.S. Bank National Association to issue \$16,515,000 in revenue bonds. Proceeds of the bonds were transferred to the university to finance the construction costs of the Atwood Memorial Center addition and the new stadium and recreational center. In May 2012 the bonds were paid off and refinanced with \$10,220,000 of new bonds issued with the Economic Development Authority of St. Cloud, Minnesota and U.S. Bank National Association. The refunding resulted in \$1,586,535 gross debt service savings over the next 11 years, and an economic gain of \$1,372,639. Of this bond issuance, \$6,815,000 is outstanding as of June 30, 2016.

The foundation has a note payable with Bremer Bank for \$6,600,000. The note has a personal guarantee from a former member of the board of trustees. The proceeds of the note were transferred, along with other receipts to the university to finance construction costs of the Herb Brooks National Hockey Center (HBNHC) renovation and addition. The fund is anticipated to be replenished with future contributions to a capital campaign for the HBNHC. Of this loan amount, \$1,201,000 is outstanding as of June 30, 2016.

Principal payment schedules are provided in the following table for revenue bonds payable and notes payable. Excluded from the table below is the unamortized bond premium of \$672,766, which is amortized over the life of the bonds.

Year Ended June 30		
(In Thousands)		
Fiscal Year	Bonds Payable	Notes Payable
2017	\$ 910	\$ 1,201
2018	945	-
2019	950	-
2020	980	-
2021	1,000	-
Thereafter	2,030	-
Total	\$ 6,815	\$ 1,201

Endowment Funds — The foundation’s 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 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	\$ (109)	\$ 7,726	\$ 18,068	\$ 25,685
Change in value of trusts	(16)	(1,034)	(12)	(1,062)
Contributions	1	643	581	1,225
Investment income (loss)	8	491	(7)	492
Amounts appropriated for expenditures	(14)	(1,634)	(8)	(1,656)
Other transfers	-	16	(5)	11
Net assets, end of year	\$ (130)	\$ 6,208	\$ 18,617	\$ 24,695

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	\$ (107)	\$ 8,943	\$ 17,673	\$ 26,509
Change in value of trusts	(1)	(391)	(4)	(396)
Contributions	1	89	423	513
Investment income (loss)	1	546	(5)	542
Amounts appropriated for expenditures	(3)	(1,447)	-	(1,450)
Other transfers	-	(14)	(19)	(33)
Net assets, end of year	\$ (109)	\$ 7,726	\$ 18,068	\$ 25,685

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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ST. CLOUD STATE UNIVERSITY
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	\$ —	\$ 9,105	\$ 9,105	0.00	\$ 99,283	9.17
July 1, 2008	—	8,915	8,915	0.00	103,060	8.65
July 1, 2010	—	11,506	11,506	0.00	113,311	10.15
July 1, 2012	—	8,361	8,361	0.00	98,825	8.46
July 1, 2014	—	9,293	9,293	0.00	106,625	8.72

ST. CLOUD STATE UNIVERSITY
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.94	\$ 15,199	\$24,003	63.32	87.64
June 30, 2015	0.93	14,342	25,214	56.88	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	\$ 1,387	\$ 1,387	\$ —	\$ 25,214	5.50
June 30, 2016	1,336	1,336	—	24,294	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.

**ST. CLOUD STATE UNIVERSITY
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	0.25	\$ 11,303	\$ 11,196	100.96	81.50
June 20, 2015	0.22	13,844	11,365	121.82	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	\$ 852	\$ 852	\$ —	\$ 11,365	7.50
June 30, 2016	792	792	—	10,567	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.

ST. CLOUD STATE UNIVERSITY
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	0.0065	\$ 307	\$ 343	89.48	78.75
June 30, 2015	0.0056	291	315	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	\$ 24	\$ 24	\$ —	\$ 315	7.50
June 30, 2016	23	23	—	308	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.

SUPPLEMENTARY SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Cloud State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise St. Cloud State University's basic financial statements, and have issued our report thereon dated November 8, 2016. The financial statements of the St. Cloud State University Foundation 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 St. Cloud State University'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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University'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.


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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University’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 test 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 University’s internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

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