

**MINNESOTA STATE**

# **Annual Financial Report**

**For the years ended June 30, 2020 and 2019**



**MINNESOTA STATE  
COLLEGES AND UNIVERSITIES**

**ANNUAL FINANCIAL REPORT**

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

Prepared by:

Minnesota State Colleges and Universities  
30 East 7<sup>th</sup> Street, Suite 350  
St. Paul, MN 55101-7804

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# MINNESOTA STATE COLLEGES AND UNIVERSITIES

## ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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# INTRODUCTION



**MINNESOTA STATE**

November 18, 2020

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

Dear Board of Trustees and Chancellor Malhotra:

I am pleased to submit to you the audited financial report for Minnesota State Colleges and Universities (Minnesota State) for the fiscal years ended June 30, 2020 and 2019. The financial statements are prepared by management and presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operations for the two years. Within the financial statements, which were audited by the firm of CliftonLarsonAllen LLP, you will find the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

We are also providing separately audited financial statements for the Revenue Fund. It is worth noting that the systemwide and Revenue Fund audit opinions are each without modification, a testimony to the efforts of each and every employee with responsibility for financial information at the 54 campuses and in the system office.

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

Sincerely,

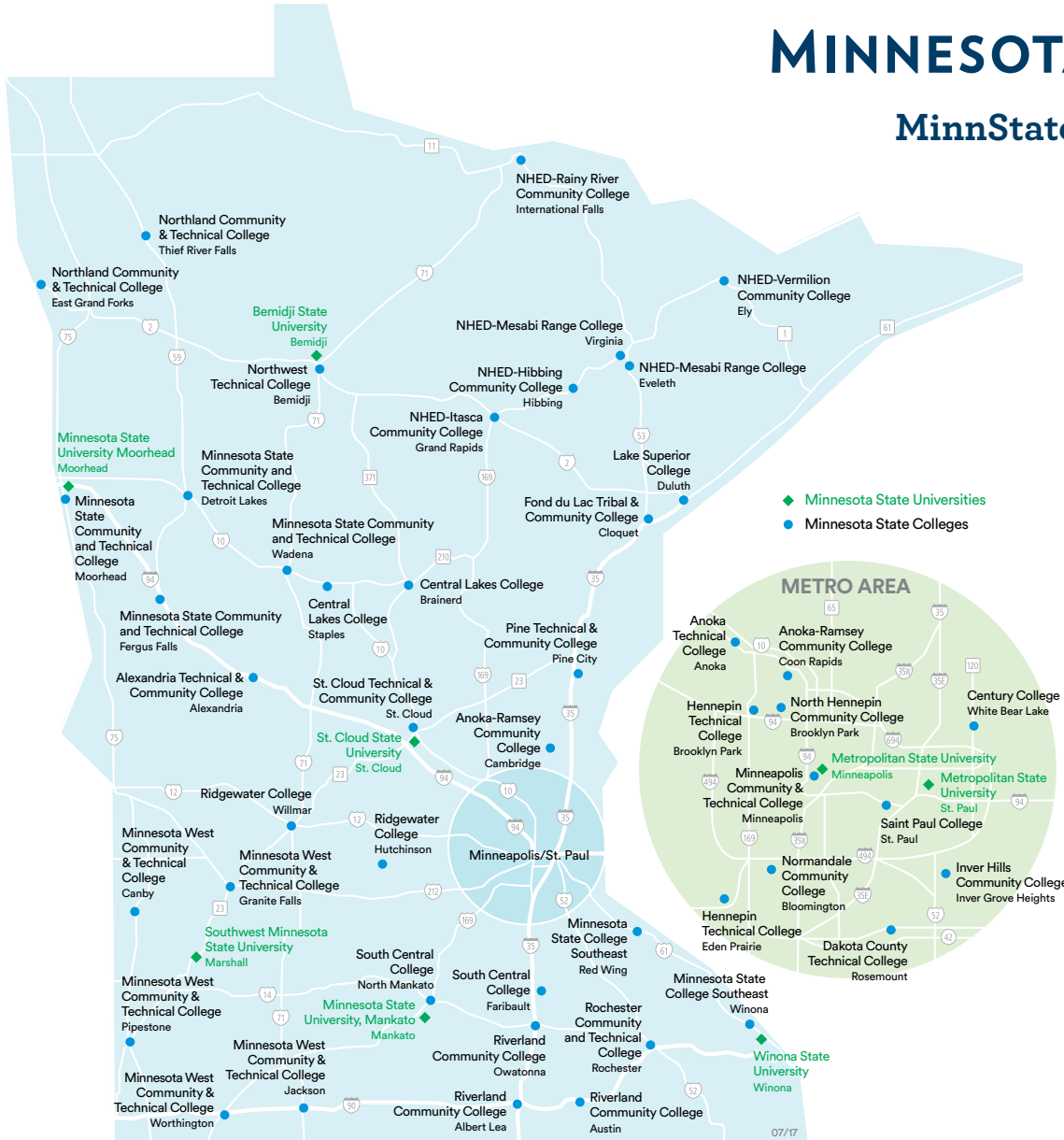
Bill Maki  
Vice Chancellor for Finance and Facilities

# Campus Map



MINNESOTA STATE

MinnState.edu



## COLLEGES

- Alexandria Technical & Community College
- Anoka Technical College
- Anoka-Ramsey Community College
- Central Lakes College
- Century College
- Dakota County Technical College
- Fond du Lac Tribal & Community College
- Hennepin Technical College
- Hibbing Community College
- Inver Hills Community College
- Itasca Community College
- Lake Superior College
- Mesabi Range College

- Minneapolis Community & Technical College
- Minnesota State College Southeast
- Minnesota State Community and Technical College
- Minnesota West Community & Technical College
- Normandale Community College
- North Hennepin Community College
- Northland Community & Technical College
- Northwest Technical College
- Pine Technical & Community College
- Rainy River Community College
- Ridgewater College
- Riverland Community College
- Rochester Community and Technical College

- Saint Paul College
- South Central College
- St. Cloud Technical & Community College
- Vermilion Community College

## UNIVERSITIES

- Bemidji State University
- Metropolitan State University
- Minnesota State University, Mankato
- Minnesota State University Moorhead
- Southwest Minnesota State University
- St. Cloud State University
- Winona State University

## Minnesota State Colleges and Universities

### ALEXANDRIA TECHNICAL & COMMUNITY COLLEGE

Alexandria  
Michael Seymour, President  
1-888-234-1222  
www.alextech.edu

### ANOKA-RAMSEY COMMUNITY COLLEGE \*\*\*

Cambridge, Coon Rapids  
Kent Hanson  
(763) 433-1100  
www.anokaramsey.edu

### ANOKA TECHNICAL COLLEGE\*\*\*

Anoka  
Kent Hanson  
(763) 576-4850  
www.anokatech.edu

### BEMIDJI STATE UNIVERSITY\*

Bemidji  
Faith Hensrud, President  
1-877-236-4354  
www.bemidjistate.edu

### CENTRAL LAKES COLLEGE

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

### CENTURY COLLEGE

White Bear Lake  
Angelia Millender, President  
1-800-228-1978  
www.century.edu

### DAKOTA COUNTY TECHNICAL COLLEGE

Rosemount  
Michael Berndt, President  
1-877-937-3282  
www.dctc.edu

### FOND DU LAC TRIBAL & COMMUNITY COLLEGE

Cloquet  
Stephanie Hammitt, President  
1-800-657-3712  
www.fdlcc.edu

### HENNEPIN TECHNICAL COLLEGE

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

### HIBBING COMMUNITY COLLEGE\*\*

Hibbing  
Michael Raich, Interim President  
1-800-224-4422  
www.hibbing.edu

### INVER HILLS COMMUNITY COLLEGE

Inver Grove Heights  
Michael Berndt, President  
(651) 450-3000  
www.inverhills.edu

### ITASCA COMMUNITY COLLEGE\*\*

Grand Rapids  
Michael Raich, Interim President  
1-800-996-6422  
www.itascacc.edu

### LAKE SUPERIOR COLLEGE

Duluth  
Patricia Rogers, President  
1-800-432-2884  
www.lsc.edu

### MESABI RANGE COLLEGE\*\*

Eveleth, Virginia  
Michael Raich, Interim President  
1-800-657-3860  
www.mesabirange.edu

### METROPOLITAN STATE UNIVERSITY

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

### MINNEAPOLIS COLLEGE

Minneapolis  
Sharon Pierce, President  
1-800-247-0911  
www.minneapolis.edu

### MINNESOTA STATE COLLEGE SOUTHEAST

Red Wing, Winona  
Larry Lundblad, Interim President  
1-877-853-8324  
www.southeastmn.edu

### MINNESOTA STATE COMMUNITY & TECHNICAL COLLEGE

Detroit Lakes, Fergus Falls, Moorhead, Wadena  
Carrie Brimhall, President  
1-877-450-3322  
www.minnesota.edu

### MINNESOTA STATE UNIVERSITY, MANKATO

Mankato  
Richard Davenport, President  
1-800-722-0544  
www.mnsu.edu

### MINNESOTA STATE UNIVERSITY MOORHEAD

Moorhead  
Anne Blackhurst, President  
1-800-593-7246  
www.mnstate.edu

### MINNESOTA WEST COMMUNITY & TECHNICAL COLLEGE

Canby, Granite Falls, Jackson, Pipestone, Worthington  
Terry Gaalswyk, President  
1-800-658-2330  
www.mnwest.edu

### NORMANDALE COMMUNITY COLLEGE

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

### NORTH HENNEPIN COMMUNITY COLLEGE

Brooklyn Park  
Rolando Garcia, President  
1-800-818-0395  
www.nhcc.edu

### NORTHLAND COMMUNITY & TECHNICAL COLLEGE

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

### NORTHWEST TECHNICAL COLLEGE\*

Bemidji  
Faith Hensrud, President  
1-800-942-8324  
www.ntcmn.edu

### PINE TECHNICAL & COMMUNITY COLLEGE

Pine City  
Joe Mulford, President  
1-800-521-7463  
www.pinetech.edu

### RAINY RIVER COMMUNITY COLLEGE\*\*

International Falls  
Michael Raich, Interim President  
1-800-456-3996  
www.rrcc.mnscu.edu

### RIDGEWATER COLLEGE

Hutchinson, Willmar  
Craig Johnson, President  
1-800-722-1151  
www.ridgewater.edu

### RIVERLAND COMMUNITY COLLEGE

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

### ROCHESTER COMMUNITY AND TECHNICAL COLLEGE

Rochester  
Jeffery Boyd, President  
1-800-247-1296  
www.rctc.edu

### ST. CLOUD STATE UNIVERSITY

St. Cloud  
Robbyn Wacker, President  
1-877-654-7278  
www.stcloudstate.edu

### ST. CLOUD TECHNICAL & COMMUNITY COLLEGE

St. Cloud  
Annessa Cheek, President  
1-800-222-1009  
www.sctcc.edu

### SAINT PAUL COLLEGE

St. Paul  
Deidra Peaslee, Interim President  
1-800-227-6029  
www.saintpaul.edu

### SOUTH CENTRAL COLLEGE

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

### SOUTHWEST MINNESOTA STATE UNIVERSITY

Marshall  
Kumara Jayasuriya, President  
1-800-642-0684  
www.smsu.edu

### VERMILION COMMUNITY COLLEGE\*\*

Ely  
Michael Raich, Interim President  
1-800-657-3608  
www.vcc.edu

### WINONA STATE UNIVERSITY

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

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

\*\*The Northeast Higher Education District is a consortium of five state colleges: Hibbing, Itasca, Mesabi Range, Rainy River and Vermilion.

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

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

Ahmitara Alwal  
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Rudy Rodriguez  
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## **System Officers of the Minnesota State Colleges and Universities**

Devinder Malhotra, Chancellor

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Academic and Student Affairs

Bill Maki, Vice Chancellor  
Finance and Facilities

Eric Davis, Vice Chancellor  
Human Resources

Ross Berndt, Interim Vice Chancellor  
Information Technology Services

Gary Cunningham, General Counsel

Noelle Hawton, Chief Marketing and Communications Officer

Andriel Dees, Interim Chief Diversity Officer

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

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

# FINANCIAL SECTION



## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (Minnesota State) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Minnesota State's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Bemidji State University Alumni and Foundation, Metropolitan State University Foundation, Minnesota State University Moorhead Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represents 60% of the total assets and 62% of the revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not audit the Foundations as listed above in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting and instances of reportable noncompliance associated with the Foundations.



***Auditors' Responsibility (Continued)***

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

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

***Opinions***

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State as of June 30, 2020 and 2019, and the respective changes in financial position and where applicable, cash flows, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Minnesota State Colleges and Universities do not purport to, and do not, present fairly the financial position of the Minnesota State as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

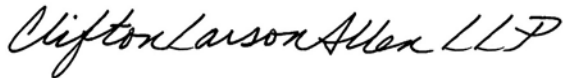
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios, and the Schedule of Proportionate Share of Net Pension Liability, and the Schedule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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnesota State's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 18, 2020

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

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### ***INTRODUCTION***

The following discussion and analysis provide an overview of the financial position and activities of the Minnesota State Colleges and Universities (Minnesota State) for the years ended June 30, 2020, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

Minnesota State, a state supported system, is the largest single provider of higher education in the state of Minnesota, and is comprised of 37 state universities, technical, and community colleges. Offering more than 4,000 educational programs, the system serves approximately 232,000 students annually in credit-based courses, as measured by unduplicated headcount enrollment. The system serves over 66,000 students of color and American Indian students across the state. An additional 109,000 students enroll in non-credit courses each year through the system's continuing education and customized training services. The system employs approximately 15,300 full time and part time faculty and staff. Minnesota State is governed by a fifteen-member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees: one from a state university, one from a community college and one from a technical college, serve two-year terms. The board of trustees selects the chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

### ***FINANCIAL HIGHLIGHTS***

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, were implemented during fiscal year 2015 and 2016. The adoption of GASB Statements No. 68 and No. 75 have a long-term material negative impact on Minnesota State's financial position.

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

The system's overall financial position increased by \$25.8 million in fiscal year 2020. Of this increase, \$22.6 million, can be attributed to the system's investment in capital assets.

Excluding the GASB Statements No. 68 and No. 75 effect, fiscal years 2020 and 2019 net position increased by \$43.5 million, or 1.9 percent and \$25.0 million or 1.1 percent, respectively.

- Gain (loss) before other revenues, expenses, gains, or losses, experienced a loss of (\$41.7) million and a gain of \$199.5 million in fiscal years 2020 and 2019, respectively. This compares to a loss of (\$168.9) million in fiscal year 2018. Excluding the effects of GASB Statements No. 68 and No. 75, the system experienced a loss of (\$24.0) million in fiscal year 2020, a loss of (\$38.9) million in fiscal year 2019 and a gain of \$10.3 million in fiscal year 2018.
- Compensation, the largest cost category in the system, increased \$287.8 million, or 25.4 percent, in fiscal year 2020 and decreased (\$387.2) million, or 25.5 percent, in fiscal year 2019. Excluding the GASB Statements No. 68 and No. 75 adjustments, the net increase in compensation was \$31.8 million, or 2.3 percent, and \$30.2 million, or 2.3 percent, in fiscal years 2020 and 2019, respectively. This cost constitutes 68.7 percent of the system's fiscal year 2020 total operating expenses, compared to 68.5 percent for fiscal year 2019.

- The state appropriation and tuition charged to students are the system's two largest revenue sources. The state appropriation increased by \$37.3 million, or 5.2 percent, in fiscal year 2020 following an 0.9 percent decrease in fiscal year 2019. Most of the appropriation increase, \$30.8 million, was for normal inflationary increases in labor and other costs. An additional \$4.0 million increase from fiscal year 2019 was appropriated as part of an effort to acquire a new enterprise resource planning (ERP) system. The remaining increase included \$2.5 million for workforce scholarships and smaller amounts for targeted local programs like free online textbooks, specialized equipment, and mental health.
- Gross tuition revenue increased \$3.6 million, or 0.5 percent, in fiscal year 2020. This is compared to the decrease of (\$11.4) million, or 1.4 percent, and an increase of \$6.0 million, or 0.8 percent, in fiscal years 2019 and 2018, respectively. Undergraduate tuition rates for two-year colleges increased by 3.0 percent in fiscal year 2020 and undergraduate tuition rates for state universities increased by an overall average of 3.2 percent in fiscal year 2020. This follows tuition rates being frozen at prior year rates for both two-year colleges and state universities in fiscal year 2019.
- The number of full year equivalent students is a significant factor driving both tuition revenue and operating expenses. The number of full year equivalent for credit students in fiscal years 2020, 2019 and 2018 totaled 122,483, 126,094, and 128,800, respectively. Enrollment in fiscal year 2020 decreased 2.9 percent from fiscal year 2019. This follows an enrollment decrease of 2.2 percent between fiscal year 2019 and 2018.
- Federal grants increased by \$52.3 million, or 18.0 percent in fiscal year 2020 compared to fiscal year 2019, following a decrease of 2.7 percent, or (\$8.1) million, in fiscal year 2019 compared to fiscal year 2018. This increase is primarily attributable to \$58.1 million in the federal Coronavirus Aid, Relief, and Economic and Security Act (CARES) grant revenue in fiscal year 2020. The decrease in fiscal year 2019 is primarily attributable to the decrease in enrollments and related financial aid.
- Financial aid expense increased by \$40.0 million or 72.5 percent in fiscal year 2020 compared to fiscal year 2019, following a slight increase of \$4.6 million or 9.0 percent in fiscal year 2019 compared to fiscal year 2018. The fiscal year 2020 increase is attributable to additional financial aid disbursements to students financed by federal CARES Act grant revenue.
- Total debt supporting the system's capital asset investment programs decreased in fiscal year 2020 by (\$35.0) million to a total of \$508.6 million, a 6.4 percent decrease. This decrease was primarily due to the repayment of general obligation bonds in the amount of \$21.2 million and repayment of revenue bonds in the amount of \$31.1 million. These decreases were offset by \$12.6 million of new general obligation bonds and \$13.8 of new revenue fund refunding bonds issued during fiscal year 2020.
- The system has been building up its cash in fiscal year 2020 and 2019 as it in the process of implementing a new ERP system to begin in fiscal year 2021. The increase in net position related to this is \$17.0 million for fiscal year 2020.

### ***USING THE FINANCIAL STATEMENTS***

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

## STATEMENTS OF NET POSITION

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

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

	(In Thousands)		
	2020	2019	2018
Current assets	\$ 1,282,829	\$ 1,273,007	\$ 1,249,942
Noncurrent assets	15,627	20,121	25,065
Capital assets, net	2,003,641	2,004,961	2,021,039
Deferred outflows of resources	381,278	621,822	891,778
Total assets and deferred outflows of resources	<u>3,683,375</u>	<u>3,919,911</u>	<u>4,187,824</u>
Current liabilities	335,406	343,917	339,984
Noncurrent liabilities	990,728	1,019,859	1,994,479
Deferred inflows of resources	715,258	939,920	500,508
Total liabilities and deferred inflows of resources	<u>2,041,392</u>	<u>2,303,696</u>	<u>2,834,971</u>
Net position	<u>\$ 1,641,983</u>	<u>\$ 1,616,215</u>	<u>\$ 1,352,853</u>

The primary component of current assets is cash and cash equivalents (unrestricted), which increased by \$29.1 million to total \$1.0 billion at June 30, 2020. This \$1.0 billion of cash and cash equivalents plus investments of \$22.9 million represent approximately 6.7 months of fiscal year 2020 operating expenses (excluding depreciation), a decrease of 1.0 months from fiscal year 2019. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the system's revenues.

Deferred outflows of \$381.3 million and \$621.8 million were reported in fiscal years 2020 and 2019, respectively, which represent the consumption of net position in one period that is applicable to future periods and is primarily due to GASB Statements No. 68 and No. 75.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2020 increased from the prior year by \$15.0 million, or 11.4 percent, to a total of \$146.3 million. 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, including payables from restricted assets, decreased by (\$1.4) million from fiscal year 2019 to fiscal year 2020.

The noncurrent liabilities decreased by (\$29.1) million or 2.9 percent in fiscal year 2020 compared to fiscal year 2019. This was due primarily a decrease of (\$33.3) million in the noncurrent portion of long-term debt in fiscal year 2020 compared to fiscal year 2019.

Deferred inflows of \$715.3 million and \$939.9 million were reported in fiscal years 2020 and 2019, respectively, which represent the acquisition of net position in one period that is applicable to future periods, and is primarily due to GASB Statements No. 68 and No. 75. Additionally, GASB Statement No. 68 resulted in a net pension liability for fiscal years 2020 and 2019 in the amounts of \$325.9 million and \$322.7 million, respectively.

Net position represents the system's residual interest in total assets and deferred outflows after deducting total liabilities and deferred inflows. Net investment in capital assets, represents by far the largest portion of net position. Capital assets are carried at historical cost, not replacement cost. Restricted net position has constraints placed on its use by external creditors, grantors, contributors, laws or regulations and consist primarily of those assets restricted for debt service of \$46.2 million, and restrictions imposed by bond covenants of \$73.3 million, a combined (\$2.9) million decrease from fiscal year 2019.

The system's net position as of June 30, 2020, 2019 and 2018 follows:

(In Thousands)			
	2020	2019	2018
Net investment in capital assets	\$ 1,536,997	\$ 1,514,426	\$ 1,499,963
Restricted expendable, bond covenants	73,340	75,545	68,667
Restricted expendable, other	68,682	65,962	64,595
Unrestricted	(37,036)	(39,718)	(280,372)
Total net position	<u>\$ 1,641,983</u>	<u>\$ 1,616,215</u>	<u>\$ 1,352,853</u>

The system's financial position improved during fiscal year 2020 with net position increasing by \$25.8 million, or 1.6 percent, on total revenues of \$2.1 billion. Of the increase, \$22.6 million was due to an increase in net investment in capital assets. This compares to an increase in net investment in capital assets from fiscal year 2018 to fiscal year 2019 of \$14.5 million. Restricted net position increased in fiscal year 2020 by \$0.5 million, or 0.4 percent. This is compared to fiscal year 2019 where the increase in restricted net position was \$8.2 million.

Without the effect of GASB Statements No. 68 and No. 75, unrestricted net position increased \$20.4 million or 3.0 percent in fiscal year 2020, and \$2.3 million or 0.3 percent in fiscal year 2019. Of the \$20.4 million increase in fiscal year 2020, \$17.0 million is due to the system building up a reserve for implementation of a new ERP system. Of the \$2.3 million increase in fiscal year 2019, \$8.7 million is due to the system building up a reserve for implementation of the new ERP system. This is primarily offset by operating losses due to the pandemic, timing of state appropriation as well as revenue losses due to enrollment decline.

Unrestricted net position increased by \$2.7 million, or 6.8 percent over fiscal year 2019. This is compared to the increase of \$240.7 million, or 85.8 percent in fiscal year 2019. During fiscal year 2018 unrestricted net position decreased by (\$113.9) million, or 68.4 percent. This is mainly due to GASB Statements No. 68 and No. 75, as seen in the table below.

(In Thousands)			
	2020	2019	2018
Unrestricted net position balance at June 30	\$ (37,036)	\$ (39,718)	\$ (280,372)
Prior year effect of GASB Statements No. 68 and No. 75	708,799	947,131	768,003
Current year effect of GASB Statements No. 68 and No. 75	17,697	(238,332)	179,128
Balance at June 30, without effect of GASB No. 68 and No. 75	<u>\$ 689,460</u>	<u>\$ 669,081</u>	<u>\$ 666,759</u>

### ***CAPITAL AND DEBT ACTIVITIES***

With over 28 million managed square feet, the quality of the system's academic and residential life programs is closely linked to the development and renewal of its capital assets. The system continues to update and implement a long-range plan to modernize its complement of older facilities, balanced with new construction. Detail on commitments for construction projects is provided in Note 16 to the financial statements.

Fiscal year 2020 capital outlays totaled \$134.0 million, including \$114.5 million of new construction in progress, compared to fiscal year 2019 capital outlays which totaled \$116.4 million, including \$97.9 million of new construction in progress. Investments in capital assets consist largely of replacement and renovation of academic facilities, student housing and investments in equipment.

Capital assets are primarily financed by long-term debt through issuance of general obligation and revenue bonds. As more fully described in Notes 1 and 8, the system is responsible for paying one third of the debt service for certain general obligation bonds sold by the state of Minnesota for capital asset projects. The system recognizes as capital appropriation revenue any portion of general obligation bonds sold for which the system has no debt service responsibility.

Total state appropriation in fiscal year 2020 was \$762.1 million of which \$2.5 million is included for asset repairs and improvements that are not capitalized. General obligation bonds payable totaled \$198.2 million at June 30, 2020, a net decrease of (\$8.6) million during the fiscal year. Revenue bonds payable at June 30, 2020 totaled \$242.5 million, a net decrease of (\$21.3) million from June 30, 2019.

The percentage of total revenue expended to cover debt service (principal and interest payments on general obligation and revenue bonds, capital leases and notes payable) has increased from 2.5 percent or \$52.1 million in fiscal year 2011, to 3.0 percent, or \$63.1 million in fiscal year 2020. This compares to 1.0 percent of total revenue to cover debt service (principal and interest payments) on general obligation bonds only for fiscal year 2020. Additional information on capital and debt activities can be found in Note 6 and Note 8 to the financial statements.

### **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

A summary of the system's statements of revenues, expenses and changes in net position as of June 30, 2020, 2019 and 2018 follows:

	(In Thousands)		
	2020	2019	2018
Operating revenues:			
Tuition, fees and sales, net	\$ 684,104	\$ 690,874	\$ 703,588
Restricted student payments, net	90,398	110,507	109,812
Other income	19,518	19,108	16,582
Total operating revenues	<u>794,020</u>	<u>820,489</u>	<u>829,982</u>
Nonoperating revenues and other revenues:			
State appropriations	762,135	724,802	731,500
Capital appropriations	65,460	59,890	25,747
Grants	475,879	430,764	433,247
Other	17,230	23,114	16,072
Total nonoperating and other revenues	<u>1,320,704</u>	<u>1,238,570</u>	<u>1,206,566</u>
Total revenues	<u>2,114,724</u>	<u>2,059,059</u>	<u>2,036,548</u>
Operating expenses:			
Salaries and benefits	1,420,716	1,132,891	1,520,140
Depreciation	135,954	133,129	133,266
Financial aid, net	95,218	55,209	50,650
Other	406,818	442,792	438,608
Total operating expenses	<u>2,058,706</u>	<u>1,764,021</u>	<u>2,142,664</u>
Nonoperating expenses and other expenses:			
Interest expense	19,504	20,629	21,395
Other	10,746	11,047	12,795
Total nonoperating and other expenses	<u>30,250</u>	<u>31,676</u>	<u>34,190</u>
Total expenses	<u>2,088,956</u>	<u>1,795,697</u>	<u>2,176,854</u>
Change in net position	<u>25,768</u>	<u>263,362</u>	<u>(140,306)</u>
Net position, beginning of year	<u>1,616,215</u>	<u>1,352,853</u>	<u>1,493,159</u>
Net position, end of year	<u>\$ 1,641,983</u>	<u>\$ 1,616,215</u>	<u>\$ 1,352,853</u>



The fiscal year 2020 total revenues increased by \$55.7 million or 2.7 percent which was the result of increases in federal grant revenue of \$52.3 million, along with an increase in state appropriation of \$37.3 million, which help offset the decrease in operating revenue of (\$26.5) million and a (\$7.2) million decrease in state and private grants. The operating revenue decrease was attributable to loss of student enrollment and the impact of the pandemic, which resulted in refunds to students who were no longer staying at the residential halls once the state of Minnesota declared a peace time emergency and campus operations shifted to remote instructional delivery.

Compensation is the system’s single largest expense component. Compensation expense increased \$287.8 million, or 25.4 percent, in fiscal year 2020 and represented 69.0 percent of total operating expense, compared to 64.2 percent in fiscal year 2019. Total compensation expense included fringe benefit costs of \$377.7 million and \$108.2 million in fiscal years 2020 and 2019, respectively. Fringe benefit costs in fiscal year 2020 increased \$269.5 million due to GASB Statements No. 68 and No.75 adjustments, compared to a decrease of (\$409.4) million in fiscal year 2019. Excluding the GASB Statements No. 68 and No. 75 adjustments, the net increase in compensation was \$31.8 million or 2.3 percent, for fiscal year 2020.

The total of all other operating expenses increased slightly for fiscal year 2020 by \$6.9 million or 1.1 percent compared to fiscal year 2019. This follows an increase of 1.4 percent from fiscal year 2018 to fiscal year 2019. Purchased services decreased by (\$25.9) million or 10.2 percent due to following Center for Disease Control’s and the state’s executive orders to stay at home and travel restrictions due to the COVID-19 pandemic. Due to these mandates, schools finished the rest of the school year virtually and had to cancel graduation, conferences, events, and travel, which resulted in lower contracted food service, utility, and travel expenses. This was offset by decreases of (\$7.6) million in supplies and repairs and maintenance from fiscal year 2019.

The system’s overall financial position increased by \$25.8 million in fiscal year 2020. This is mainly due to GASB Statements No. 68 and No. 75, as seen in the table below. Without the effect of GASB Statements No. 68 and No. 75, the system’s overall financial position increased by \$43.5 million in fiscal year 2020.

(In Thousands)

	2020	2019	2018
Increase (decrease) in net position including GASB No. 68 and GASB No. 75	\$ 25,768	\$ 263,362	\$ (140,306)
Impact on compensation expense			
Pension	45,184	(241,769)	176,795
Other postemployment benefits	(27,487)	3,437	2,333
Total GASB No. 68 and No. 75 impact	\$ 17,697	\$ (238,332)	\$ 179,128
Increase in net position excluding GASB No. 68 and No. 75	\$ 43,465	\$ 25,030	\$ 38,822

### **INVESTMENTS**

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

### **FOUNDATIONS**

The system’s annual financial report for the years ended June 30, 2020 and 2019 includes financial statements for the foundations of all seven state universities, based on an assessment of the foundations’ significance to the system’s financial statements.

The accompanying financial report includes the foundations' statements of financial position, and the foundations' statements of activities, analogous to the system's statements of revenues, expenses, and changes in net position. It should be noted that the foundations' financial statements are not consolidated but are reported separately within the system's financial statements. The relationships between the foundations and the related universities are described in Note 18.

### ***ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE***

Despite the unprecedented impact of the COVID-19 pandemic, Minnesota State maintained a sound financial position in fiscal year 2020. Despite continued enrollment declines, net position improved including and excluding the effects of GASB No. 68 and 75. Our primary nonoperating revenue of state appropriation support increased by 5.1 percent in fiscal year 2020. Undergraduate tuition rates at colleges and universities increased by 3.0 percent and 3.2 percent respectively while credit enrollment declined by 2.9 percent. These changes resulted in a decrease of tuition and fee revenue of 0.8 percent.

The COVID-19 pandemic has caused additional challenges for budgets system-wide. These challenges come on top of the existing long-term concerns regarding inflationary pressures and enrollment uncertainty. Strong efforts by colleges and universities have shifted course delivery methods while continuing to provide affordable programs and services to students.

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

#### **System Budget Risks Being Monitored**

The May 2020 Interim Budget Forecast issued by Minnesota Management and Budget (MMB) showed a \$2.4 billion deficit in the State General Fund budget for the fiscal year 2020-2021 biennium. The state's budget reserve of roughly the same amount, however, has allowed the legislature so far to hold off on reductions to fiscal year 2021 appropriations. While late year un-allotments remain a possibility, our current projections have been made with the assumption that these will be avoided. The State Revenue Update in July 2020 projects a \$4.7 billion deficit in the State General Fund budget for the fiscal year 2022-2023 biennium. This projection, due both to lower projected revenues and higher projected expenditures, represents a weaker State economy for the coming biennium. This weaker state economy could ultimately result in Minnesota State losing a portion of its state appropriation support in the near future.

Minnesota State enrollment has decreased by over 25.0 percent over the last decade. Current projections indicate that enrollment will decline by an additional 6.0 percent for fiscal year 2021. A slowly recovering state economy will have implications for students deciding whether or not to seek higher education and how much of their time to devote to it. Projecting enrollment and responding quickly to enrollment changes will continue to be critical activities for colleges and universities.

Colleges and universities rely on state appropriation and tuition revenue to fund their operational costs. Continued reduction in tuition and campus activity revenues, and the potential for state appropriations that do not keep pace with inflationary pressures would require colleges and universities to make budget adjustments such as:

- Further reductions in faculty and staff
- Elimination of low-enrollment, high-cost programs important to regional economies
- Reductions in course offerings
- Reductions in student services
- Continued delays in addressing deferred maintenance needs
- Delays in implementation of strategic initiatives

Minnesota State will be focusing on two major enterprise initiatives over the next several years. These initiatives are expected to have a positive impact on long-term financial sustainability.

### *Equity 2030*

By fiscal year 2030, Minnesota State will eliminate the educational equity gaps at every Minnesota State college and university. To achieve this, we will enhance access and increase student success by:

- Increasing student retention, persistence, and graduation
- Increasing the percent of Minnesotans age 25 to 44 who have attained a postsecondary certificate or degree to 70.0 percent across all populations (Minnesota’s Educational Attainment Goal 2025)
- Increasing market share of high school graduates and the transfer rate from our two-year colleges to our universities
- Increasing the number of post-traditional (adult) learners

While *Equity 2030* is an ambitious goal, it is a moral and economic imperative for the state of Minnesota. A recent Economic Contribution Study found that the Minnesota State colleges and universities contributed \$8.0 billion annually to the economic activity of the state. Making progress in improving student success will also contribute positively to the financial sustainability at our institutions through increased enrollments which will provide additional revenue.

### NextGen ERP System

Minnesota State is expected to begin the implementation of a commercial modern technology solution in fiscal year 2021 that meets the needs of today’s students and campuses. It will link all 54 campuses and will serve as a unified administrative technology system that improves the student experience and streamlines enterprise-wide business processes in student services, finance, and human resources. The implementation of a new ERP system will occur over the next several years and will be a significant investment for the system. Minnesota State currently uses an internally developed ERP system created by Minnesota State’s Information Technology Services division and its constituent partners. This ERP system – referred to as Integrated Statewide Record System (ISRS) – was developed more than 20 years ago. A new system will provide a seamless experience for students across the Minnesota State system, regardless of the Minnesota State institution attended and provide technology that integrates and personalizes the student engagement on and off campus.

### ***REQUESTS FOR INFORMATION***

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

System Director Financial Reporting  
Minnesota State  
30 East 7<sup>th</sup> Street, Suite 350  
St Paul, MN 55101-7804

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

Assets	2020	2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,049,039	\$ 1,019,925
Investments	22,925	24,396
Grants receivable	31,177	21,638
Accounts receivable, net	61,725	57,944
Prepaid expense	29,102	28,898
Inventory and other assets	15,342	15,746
Student loans, net	3,881	4,009
Total current assets	<u>1,213,191</u>	<u>1,172,556</u>
Current Restricted Cash and Cash Equivalents	<u>69,638</u>	<u>100,451</u>
<b>Noncurrent Restricted Assets</b>		
Investments	304	299
Construction in progress	762	17,740
Total noncurrent restricted assets	<u>1,066</u>	<u>18,039</u>
Total restricted assets	<u>70,704</u>	<u>118,490</u>
<b>Noncurrent Assets</b>		
Notes receivable	1,616	1,741
Student loans, net	13,707	18,081
Capital assets, net	2,002,879	1,987,221
Total noncurrent assets	<u>2,018,202</u>	<u>2,007,043</u>
Total Assets	<u>3,302,097</u>	<u>3,298,089</u>
Deferred Outflows of Resources	<u>381,278</u>	<u>621,822</u>
Total Assets and Deferred Outflows of Resources	<u>3,683,375</u>	<u>3,919,911</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Salaries and benefits payable	146,253	131,241
Accounts payable	47,068	43,940
Unearned revenue	51,877	70,326
Payable from restricted assets	15,289	19,773
Funds held for others	6,047	8,805
Current portion of long-term obligations	46,503	48,127
Other compensation benefits	22,369	21,705
Total current liabilities	<u>335,406</u>	<u>343,917</u>
<b>Noncurrent Liabilities</b>		
Noncurrent portion of long-term obligations	462,087	495,434
Other compensation benefits	202,752	201,719
Net pension liability	325,889	322,706
Total noncurrent liabilities	<u>990,728</u>	<u>1,019,859</u>
Total Liabilities	<u>1,326,134</u>	<u>1,363,776</u>
Deferred Inflows of Resources	<u>715,258</u>	<u>939,920</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,041,392</u>	<u>2,303,696</u>
<b>Net Position</b>		
Net investment in capital assets	1,536,997	1,514,426
Restricted expendable, bond covenants	73,340	75,545
Restricted expendable, other	68,682	65,962
Unrestricted	(37,036)	(39,718)
Total Net Position	<u>\$ 1,641,983</u>	<u>\$ 1,616,215</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2020 AND 2019**  
**(IN THOUSANDS)**

Assets	2020	2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,975	\$ 4,569
Investments	85,491	82,495
Restricted cash and cash equivalents	1,029	1,036
Pledges and contributions receivable, net	7,775	10,611
Other receivables and Other assets	311	582
Annuities/Remainder interests/Trusts	230	236
Finance lease receivable	1,000	980
Total current assets	<u>107,811</u>	<u>100,509</u>
<b>Noncurrent Assets</b>		
Annuities/Remainder interests/Trusts	431	426
Long-term pledges receivable	6,904	8,092
Finance lease receivable, net	1,008	2,008
Investments	149,904	144,339
Restricted investments	6,138	5,667
Buildings, property and equipment, net	14,904	15,295
Other assets	4,131	3,919
Total noncurrent assets	<u>183,420</u>	<u>179,746</u>
Total Assets	<u>\$ 291,231</u>	<u>\$ 280,255</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 975	\$ 1,513
Interest payable	70	79
Unearned revenue	463	385
Annuities payable	917	1,066
Bonds payable	2,022	1,980
Scholarships payable and Other liabilities	2,078	1,361
Total current liabilities	<u>6,525</u>	<u>6,384</u>
<b>Noncurrent Liabilities</b>		
Annuities payable and Unitrust liabilities	1,012	1,021
Notes payable	620	670
Bonds payable	9,912	11,863
Total noncurrent liabilities	<u>11,544</u>	<u>13,554</u>
Total Liabilities	<u>18,069</u>	<u>19,938</u>
<b>Net Assets</b>		
Without donor restrictions	18,148	17,065
With donor restrictions	255,014	243,252
Total Net Assets	<u>273,162</u>	<u>260,317</u>
Total Liabilities and Net Assets	<u>\$ 291,231</u>	<u>\$ 280,255</u>

The notes are an integral part of the financial statements.

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

	2020	2019
Operating Revenues		
Tuition, net	\$ 523,337	\$ 515,618
Fees, net	70,445	70,893
Sales and room and board, net	90,322	104,363
Restricted student payments, net	90,398	110,507
Other income	19,518	19,108
Total operating revenues	<u>794,020</u>	<u>820,489</u>
Operating Expenses		
Salaries and benefits	1,420,716	1,132,891
Purchased services	229,216	255,206
Supplies	118,157	124,251
Repairs and maintenance	23,005	24,501
Depreciation	135,954	133,129
Financial aid, net	95,218	55,209
Other expense	36,440	38,834
Total operating expenses	<u>2,058,706</u>	<u>1,764,021</u>
Operating loss	<u>(1,264,686)</u>	<u>(943,532)</u>
Nonoperating Revenues (Expenses)		
Appropriations	762,135	724,802
Federal grants	343,436	291,142
State grants	99,046	103,577
Private grants	33,383	36,017
Interest income	15,230	19,146
Interest expense	(19,504)	(20,629)
Grants to other organizations	(10,746)	(11,047)
Total nonoperating revenues (expenses)	<u>1,222,980</u>	<u>1,143,008</u>
Gain (Loss) Before Other Revenues, Expenses, Gains, or Losses	(41,706)	199,476
Capital appropriations	65,460	59,890
Capital grants	14	28
Donated assets	1,927	3,493
Gain on disposal of capital assets	73	475
Change in net position	<u>25,768</u>	<u>263,362</u>
Total Net Position, Beginning of Year	1,616,215	1,352,853
Total Net Position, End of Year	<u>\$ 1,641,983</u>	<u>\$ 1,616,215</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(IN THOUSANDS)**

	Without Donor Restrictions	With Donor Restriction	2020 Total
Support and Revenue			
Contributions	\$ 3,236	\$ 23,002	\$ 26,238
Endowment gifts	-	1,218	1,218
In-kind contributions	4,794	986	5,780
Investment income	1,912	2,646	4,558
Realized loss	(14)	(67)	(81)
Unrealized gain	238	2,028	2,266
Program income	1,196	339	1,535
Special events	-	249	249
Fundraising income	-	86	86
Other income	867	101	968
Reclassification of net assets	1,180	(1,180)	-
Net assets released from restrictions	17,646	(17,646)	-
Total support and revenue	<u>31,055</u>	<u>11,762</u>	<u>42,817</u>
Expenses			
Program services			
Program services	3,604	-	3,604
Scholarships	14,484	-	14,484
Institutional activities	1,257	-	1,257
Special projects	1,409	-	1,409
Total program services	<u>20,754</u>	<u>-</u>	<u>20,754</u>
Supporting services			
Management and general	3,972	-	3,972
Fundraising	5,246	-	5,246
Total supporting services	<u>9,218</u>	<u>-</u>	<u>9,218</u>
Total expenses	<u>29,972</u>	<u>-</u>	<u>29,972</u>
Change in Net Assets	1,083	11,762	12,845
Net Assets, Beginning of Year	17,065	243,252	260,317
Net Assets, End of Year	<u>\$ 18,148</u>	<u>\$ 255,014</u>	<u>\$ 273,162</u>

The notes are an integral part of the financial statements.



**MINNESOTA STATE COLLEGES AND UNIVERSITIES FOUNDATIONS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
**(IN THOUSANDS)**

	Without Donor Restrictions	With Donor Restriction	2019 Total
Support and Revenue			
Contributions	\$ 2,923	\$ 21,746	\$ 24,669
Endowment gifts	-	895	895
In-kind contributions	4,380	1,802	6,182
Investment income	2,679	9,112	11,791
Realized gain	102	754	856
Unrealized gain	219	1,228	1,447
Program income	1,203	382	1,585
Special events	-	325	325
Fundraising income	-	125	125
Other income	817	129	946
Reclassification of net assets	1,362	(1,362)	-
Net assets released from restrictions	23,686	(23,686)	-
Total support and revenue	<u>37,371</u>	<u>11,450</u>	<u>48,821</u>
Expenses			
Program services			
Program services	4,119	-	4,119
Scholarships	19,057	-	19,057
Institutional activities	1,099	-	1,099
Special projects	1,582	-	1,582
Total program services	<u>25,857</u>	<u>-</u>	<u>25,857</u>
Supporting services			
Management and general	3,949	-	3,949
Fundraising	5,398	-	5,398
Total supporting services	<u>9,347</u>	<u>-</u>	<u>9,347</u>
Total expenses	<u>35,204</u>	<u>-</u>	<u>35,204</u>
Change in Net Assets	2,167	11,450	13,617
Net Assets, Beginning of Year	14,898	231,802	246,700
Net Assets, End of Year	<u>\$ 17,065</u>	<u>\$ 243,252</u>	<u>\$ 260,317</u>

The notes are an integral part of the financial statements.

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

	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	\$ 778,107	\$ 818,713
Cash repayment of program loans	4,198	4,335
Cash paid to suppliers for goods or services	(404,883)	(444,074)
Cash payments for employees	(1,384,486)	(1,366,587)
Financial aid disbursements	(100,631)	(55,642)
Net cash flows used in operating activities	<u>(1,107,695)</u>	<u>(1,043,255)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	762,135	724,802
Federal grants	339,085	287,132
State grants	99,046	103,577
Private grants	33,383	36,017
Agency activity	2,947	858
Grants to other organizations	(10,746)	(11,047)
Net cash flows provided by noncapital and related financing activities	<u>1,225,850</u>	<u>1,141,339</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(134,915)	(107,066)
Capital appropriation	46,449	62,196
Capital grants	14	28
Proceeds from sale of capital assets and insurance proceeds	732	468
Proceeds from borrowing	29,987	16,313
Proceeds from bond premiums	5,691	2,630
Interest paid	(19,178)	(20,205)
Repayment of lease principal	(4,143)	(4,247)
Repayment of note principal	(589)	(672)
Repayment of bond principal	(55,984)	(39,951)
Net cash flows used in capital and related financing activities	<u>(131,936)</u>	<u>(90,506)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	4,046	2,318
Purchase of investments	(2,708)	(3,737)
Investment earnings	10,744	14,464
Net cash flows provided by investing activities	<u>12,082</u>	<u>13,045</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,699)	20,623
Cash and Cash Equivalents, Beginning of Year	1,120,376	1,099,753
Cash and Cash Equivalents, End of Year	<u>\$ 1,118,677</u>	<u>\$ 1,120,376</u>

The notes are an integral part of the financial statements.

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

	2020	2019
Operating Loss	\$ <u>(1,264,686)</u>	\$ <u>(943,532)</u>
Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities		
Change in pension plan related items:		
Net pension liability	3,183	(952,816)
Deferred inflows of resources	(228,607)	273,245
Deferred outflows of resources	240,114	437,802
Depreciation	135,954	133,129
Provision for loan defaults	(302)	-
Loan principal repayments	4,198	4,335
Forgiven loans	607	279
Change in assets and liabilities		
Inventory	309	(395)
Accounts receivable	(2,153)	(1,870)
Accounts payable	(3,068)	(3,104)
Salaries and benefits payable	15,011	1,511
Other compensation benefits and related deferred outflows and inflows	6,569	7,023
Capital contributions payable	(5,413)	(433)
Unearned revenue	(8,055)	96
Other	(1,356)	1,475
Net reconciling items to adjust operating loss	<u>156,991</u>	<u>(99,723)</u>
Net cash flows used in operating activities	<u>\$ (1,107,695)</u>	<u>\$ (1,043,255)</u>
Non-Cash Investing, Capital, and Financing Activities:		
Capital projects on account	\$ 20,000	\$ 24,113
Donated equipment	1,927	3,493
Amortization of bond premium	4,266	3,985
Food service vendor investment	2,807	2,550

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
 DEFINED CONTRIBUTION RETIREMENT FUND  
 STATEMENTS OF FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS  
 AS OF JUNE 30, 2020 AND 2019  
 (IN THOUSANDS)**

	2020	2019
Assets		
Mutual Funds	\$ 2,247,535	\$ 2,161,277
Total Assets	<u>2,247,535</u>	<u>2,161,277</u>
Liabilities		
Total Liabilities	<u>-</u>	<u>-</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 2,247,535</u>	<u>\$ 2,161,277</u>

The notes are an integral part of the financial statements.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT FUND  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION HELD FOR PENSION BENEFITS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019  
(IN THOUSANDS)**

	2020	2019
Additions:		
Contributions		
Employer	\$ 45,555	\$ 45,542
Member	45,178	38,006
Contributions from roll overs and other sources	3,952	3,014
Total Contributions	<u>94,685</u>	<u>86,562</u>
Net Investment Gain	<u>106,093</u>	<u>130,888</u>
Total Additions	<u>200,778</u>	<u>217,450</u>
Deductions:		
Benefits and refunds paid to plan members	112,903	102,011
Administrative fees	1,617	1,513
Total Deductions	<u>114,520</u>	<u>103,524</u>
Net Increase	86,258	113,926
Net Position Held in Trust for Pension Benefits, Beginning of Year	2,161,277	2,047,351
Net Position Held in Trust for Pension Benefits, End of Year	<u>\$ 2,247,535</u>	<u>\$ 2,161,277</u>

The notes are an integral part of the financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Foundations considered significant to a college or university are included as discretely presented component units and are separately identified in Note 18. For GASB financial statement purposes, most college foundations are not considered significant to the Minnesota State System and, therefore, are not included as discretely presented component units.

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

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

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

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

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

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

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

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

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

*Joint Ventures and Jointly Governed Organizations* — A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. During fiscal year 2020, joint ventures received revenues of \$7,071,999 and incurred expenses of \$7,291,241. In fiscal year 2019 the amounts for revenues and expenses were \$7,409,717 and \$8,157,630, respectively.

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

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

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

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

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

State appropriations do not lapse at fiscal year-end. Any unexpended appropriation from the first fiscal year of a biennium is available for the second fiscal year. Any unexpended balance may also carry over into future bienniums. State appropriation included \$2,464,599 and \$2,445,093 in fiscal years 2020 and 2019 respectively, for asset repairs and improvements that are not capitalized.

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

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	30-40 years
Building improvements	15-20 years
Equipment	3-20 years
Internally developed software	7 years
Library collections	7 years

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

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

*Unearned Revenue* — Unearned revenue consists primarily of tuition received, but not yet earned for summer session and fall term. It also includes amounts received for unspent bond proceeds, residence hall deposits, and from grants which have not yet been earned under the terms of the agreement. Additionally, it includes food service vendor capital investments that will benefit Minnesota State over the next several years. At June 30, 2020 and 2019, the food service vendor capital investment balances were \$11,959,515 and \$12,941,139, respectively. The amount of food service revenue recognized in fiscal years 2020 and 2019 was \$2,807,098 and \$2,576,787, respectively.

*Long-Term Liabilities* — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of Minnesota State facilities as approved through the state’s capital budget process. Minnesota State is responsible for a portion of the debt service on the bonds sold for some college and university projects. Minnesota State may sell revenue bonds and may also enter into capital lease agreements for certain capital assets.



Other long-term liabilities include compensated absences, net pension liability, early retirement benefits, other postemployment benefits, workers' compensation claims, notes payable, and capital contributions payable associated with Perkins Loan agreements with the United States Department of Education.

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

The following tables summarize Minnesota State deferred outflows and inflows:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
<b><u>Related to Pensions:</u></b>		
Changes in actuarial assumptions	\$ 324,714	\$ 566,898
Contributions paid to plans subsequent to the measurement date	30,490	29,025
Differences between expected and actual economic experience	3,500	5,402
Changes in proportion	10,703	8,194
Total related to pensions	<u>369,407</u>	<u>609,519</u>
<b><u>Related to OPEB:</u></b>		
Contributions paid to plan subsequent to measurement date	4,836	4,269
Changes in actuarial assumptions	4,992	6,092
Total related to OPEB	<u>9,828</u>	<u>10,361</u>
<b><u>Related to Refunding:</u></b>		
Economic loss on refunding of revenue bonds	2,043	1,942
Total	<u>\$ 381,278</u>	<u>\$ 621,822</u>
	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
<b><u>Related to Pensions:</u></b>		
Differences between projected and actual investment earnings	\$ 44,089	\$ 43,407
Changes in actuarial assumptions	608,366	820,676
Differences between expected and actual economic experience	5,476	12,472
Changes in proportion	45,437	55,420
Total related to pensions	<u>703,368</u>	<u>931,975</u>
<b><u>Related to OPEB:</u></b>		
Changes in actuarial assumptions	3,226	1,605
Differences between expected and actual economic experience	5,059	2,340
Total related to OPEB	<u>8,285</u>	<u>3,945</u>
<b><u>Related to Refunding:</u></b>		
Economic gain on refunding of general obligation bonds	3,605	4,000
Total	<u>\$ 715,258</u>	<u>\$ 939,920</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 expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state, and private grants, and investment income.

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

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

*Federal Grants* — Minnesota State participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant, Federal Work Study, and TRIO. New for fiscal year 2020 was federal CARES Act grant funds of \$58,082,859 due to the pandemic. Federal grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the system will record such disallowance at the time the determination is made.

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

*Other Postemployment Benefits (OPEB)* — For purposes of measuring the total OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to and deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The plan is not funded. Minnesota State recognized an increase in benefit expense of \$3,001,000 and \$3,437,000 in fiscal years 2020 and 2019 respectively, related to OPEB. Those increases are comprised of OPEB expense of \$7,837,000 and \$7,706,000, net of reduction to expense for yearly contributions of (\$4,836,000) and (\$4,269,000) for fiscal years 2020 and 2019, respectively.

*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. For the years ended June 30, 2020 and 2019, Minnesota State recognized an increase in benefit expense of \$14,690,735 and a decrease in benefit expense of (\$241,768,066), respectively, related to defined benefit pensions. The increase in fiscal year 2020 is comprised of an increase in expense of \$45,180,547, plus a reduction in expense for yearly contributions of (\$30,489,812). The decrease in fiscal year 2019 is comprised of a decrease in expense of (\$212,742,022), plus of reduction in expense for yearly contributions of (\$29,026,044).

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

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

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

*Restricted for bond covenants* — revenue bond restrictions.

*Restricted for other* — includes restrictions for the following:

*Capital projects* — restricted for completion of capital projects.

*Debt service* — legally restricted debt repayment.

*Donations* — restricted per donor requests.

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

*Loans* — college and university capital contributions for Perkins Loans.

Net Position Restricted for Other (In Thousands)		
	2020	2019
Capital projects	\$ 336	\$ 863
Debt service	46,221	46,949
Donations	8,045	5,239
Faculty contract obligations	11,544	9,468
Loans	2,536	3,443
Total	\$ 68,682	\$ 65,962

- *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 January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes standards of accounting and financial reporting for fiduciary activities. Statement No. 84 is effective for the fiscal year beginning July 1, 2020. The effect GASB Statement No. 84 will have on the fiscal year 2021 financial statements has not yet been determined.

In June 2017, the GASB issued Statement No. 87, *Leases*, which establishes accounting and financial reporting for leases by lessees and lessors. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use the lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Statement No. 87 is effective for the fiscal year beginning July 1, 2021. The effect GASB Statement No. 87 will have on the fiscal year 2022 financial statements has not yet been determined.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. GASB No. 90 is effective for the year beginning after December 15, 2019. The effect GASB Statement No. 90 will have on the fiscal year 2021 financial statements has not yet been determined.

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

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

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

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

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

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

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

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

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

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state’s name by an agent of the state. The statutes further require that such insurance and collateral shall be at least ten percent greater than the amount on deposit, except where the collateral is an irrevocable standby letter of credit, in which case the collateral should at least equal the deposits. Board procedure 7.5.1 requires compliance with Minnesota Statutes, Section 118A.03.

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

At June 30, 2020 and 2019, the local bank balances were \$93,799,552 and \$86,979,116, respectively. These balances were adjusted by items in transit to arrive at the cash in bank balance.

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

Carrying Amount	Year Ended June 30 (In Thousands)	
	2020	2019
Cash, in bank	\$ 65,578	\$ 69,775
Money markets	9,400	10,074
Repurchase agreements	2,096	-
Cash, trustee account (US Bank)	28,436	28,614
Total local cash and cash equivalents	105,510	108,463
Total treasury cash accounts	1,013,167	1,011,913
Grand Total	\$ 1,118,677	\$ 1,120,376

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

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

*Foreign Currency Risk* — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. St. Cloud State University has foreign checking accounts, denominated entirely in British Pounds. At June 30, 2020 and 2019, the fair value in U.S. Dollars is \$101,579 and \$136,682, respectively.

*Investments* — The Minnesota State Board of Investment (SBI) manages the majority of the state’s investments. All investments managed by the SBI are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments to obligations and stocks of U.S. and Canadian governments, their agencies and registered corporations, other international securities, short term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate or resource equity investments, and the restricted participation in registered mutual funds. Funds not invested by SBI must also conform to the above statutes and may be further restricted by bond indentures.

Generally, when applicable, the statutes limit investments to those rated by a nationally recognized rating agency within the top four quality rating categories. 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.

SBI is authorized to establish, and has established, combined investment funds. Within statutory requirements and based on detailed analysis of each fund, the SBI 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.

*Interest Rate Risk* — Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Minnesota State complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long-term debt investments. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

*Credit Risk* — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Minnesota State policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04. The statutes limit investments to the top-quality rating categories of a nationally recognized rating agency.

*Custodial Credit Risk* — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, Minnesota State will not be able to recover the value of the investments that are in the possession of an outside party.

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

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

*Fair Value Reporting* — GASB Statement No. 72 *Fair Value Measurement and Application* sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs. The statement defines fair value as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obliged for the liability. The hierarchy has three levels:

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

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

Year Ended June 30, 2020 (In Thousands)					
Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	\$ 8,266	4.41		x	
U.S. agencies	3,866	4.38	x		
Asset backed securities	50	3.27		x	
Total	<u>12,182</u>				
Portfolio weighted average maturity		4.40			
Certificates of deposit	8,960			x	
Stock	2,087			x	
Total	<u>\$ 23,229</u>				

Year Ended June 30, 2019 (In Thousands)					
Investment Type	Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	\$ 3,794	4.24		x	
U.S. agencies	7,690	3.16	x		
Asset backed securities	118	2.40		x	
U.S. treasuries	869	0.93	x		
Total	<u>12,471</u>				
Portfolio weighted average maturity		3.31			
Certificates of deposit	9,109			x	
Stock	3,115			x	
Total	<u>\$ 24,695</u>				

### 3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals not paid as of June 30, 2020 and 2019. At June 30, 2020 and 2019, the total accounts receivable balances were \$95,264,496 and \$91,723,327, respectively, less an allowance for uncollectible receivables of \$33,539,099 and \$33,778,518, respectively.

Summary of Accounts Receivable at June 30  
(In Thousands)

	2020	2019
Tuition	\$ 42,090	\$ 42,173
Fees	9,723	10,287
Sales and service	8,377	11,433
Room and board	4,923	5,126
Third party obligations	6,253	4,585
Inventory	500	764
Financial aid	4,111	4,406
Capital projects	1,628	-
Direct loans	3,065	2,367
Other	14,594	10,582
Total accounts receivable	95,264	91,723
Allowance for doubtful accounts	(33,539)	(33,779)
Net accounts receivable	\$ 61,725	\$ 57,944

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

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

### 4. 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 \$26,335,037 and \$27,164,339 for fiscal years 2020 and 2019, respectively. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand December 1 of each fiscal year an amount sufficient to pay all general obligations bond principal and interest due and to become due, through July 1 of the second fiscal year. Also, included in prepaid expenses for fiscal years 2020 and 2019 were \$2,766,838 and \$1,733,947, respectively, stemming mostly from prepaid maintenance agreements and prepaid contractual support.

### 5. LOANS RECEIVABLE

Loans receivable balance is made up primarily of loans under the Federal Perkins Loan Program. The federal government provided the funding for those loans. The Perkins Loan Program expired September 30, 2017. No new Perkins loan advances are permitted after June 30, 2018. Funds collected will be returned to the Department of Education and the institution on an annual basis. The Minnesota State loans collection unit and the colleges and universities are responsible for loans collection. As of June 30, 2020 and 2019, the loans receivable for this program totaled \$20,247,133 and \$25,050,615, respectively, less an allowance for uncollectible loans of \$2,658,644 and \$2,960,303, respectively.



## 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2020 and 2019 follow:

Year Ended June 30, 2020

(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 86,656	\$ 1,746	\$ 6	\$ -	\$ 88,396
Construction in progress	116,695	114,535	-	(129,653)	101,577
Total capital assets, not depreciated	<u>203,351</u>	<u>116,281</u>	<u>6</u>	<u>(129,653)</u>	<u>189,973</u>
Capital assets, depreciated:					
Buildings and improvements	3,637,188	1,661	1,939	129,653	3,766,563
Equipment	210,829	10,669	4,950	-	216,548
Internally developed software	5,440	900	460	-	5,880
Library collections	37,230	4,490	5,936	-	35,784
Total capital assets, depreciated	<u>3,890,687</u>	<u>17,720</u>	<u>13,285</u>	<u>129,653</u>	<u>4,024,775</u>
Less accumulated depreciation:					
Buildings and improvements	1,914,563	117,340	1,939	-	2,029,964
Equipment	149,444	12,638	5,589	-	156,493
Internally developed software	2,766	864	460	-	3,170
Library collections	22,304	5,112	5,936	-	21,480
Total accumulated depreciation	<u>2,089,077</u>	<u>135,954</u>	<u>13,924</u>	<u>-</u>	<u>2,211,107</u>
Total capital assets depreciated, net	<u>1,801,610</u>	<u>(118,234)</u>	<u>(639)</u>	<u>129,653</u>	<u>1,813,668</u>
Total capital assets, net	<u>\$ 2,004,961</u>	<u>\$ (1,953)</u>	<u>\$ (633)</u>	<u>\$ -</u>	<u>\$ 2,003,641</u>

Year Ended June 30, 2019

(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 86,596	\$ 362	\$ 302	\$ -	\$ 86,656
Construction in progress	74,300	97,894	-	(55,499)	116,695
Total capital assets, not depreciated	<u>160,896</u>	<u>98,256</u>	<u>302</u>	<u>(55,499)</u>	<u>203,351</u>
Capital assets, depreciated:					
Buildings and improvements	3,580,271	1,418	-	55,499	3,637,188
Equipment	207,349	12,220	8,740	-	210,829
Internally developed software	7,775	-	2,335	-	5,440
Library collections	38,666	4,533	5,969	-	37,230
Total capital assets, depreciated	<u>3,834,061</u>	<u>18,171</u>	<u>17,044</u>	<u>55,499</u>	<u>3,890,687</u>
Less accumulated depreciation:					
Buildings and improvements	1,801,688	113,954	1,079	-	1,914,563
Equipment	145,284	12,747	8,587	-	149,444
Internally developed software	3,990	1,111	2,335	-	2,766
Library collections	22,956	5,317	5,969	-	22,304
Total accumulated depreciation	<u>1,973,918</u>	<u>133,129</u>	<u>17,970</u>	<u>-</u>	<u>2,089,077</u>
Total capital assets, depreciated, net	<u>1,860,143</u>	<u>(114,958)</u>	<u>(926)</u>	<u>55,499</u>	<u>1,801,610</u>
Total capital assets, net	<u>\$ 2,021,039</u>	<u>\$ (16,702)</u>	<u>\$ (624)</u>	<u>\$ -</u>	<u>\$ 2,004,961</u>

## 7. ACCOUNTS PAYABLE

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

### Summary of Accounts Payable at June 30 (In Thousands)

	2020	2019
Purchased services	\$ 14,561	\$ 18,439
Grants, loans and scholarships	4,510	1,369
Supplies	4,754	6,291
Repairs and maintenance	1,813	1,405
Other payables	7,419	5,361
Employee benefits	3,164	2,907
Inventory	876	1,181
Interest	2,483	2,646
Clearing	2,777	-
Capital projects	4,711	4,341
Total accounts payable	<u>\$ 47,068</u>	<u>\$ 43,940</u>

In addition, as of June 30, 2020 and 2019, Minnesota State had payable from restricted assets in the amounts of \$15,289,208 and \$19,772,444, respectively, which were related to capital projects financed by general obligation bonds and revenue bonds.

## 8. LONG-TERM OBLIGATIONS

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

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

	Year Ended June 30, 2020 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 27,468	\$ 5,691	\$ 4,266	\$ 28,893	\$ -
Capital leases	9,494	-	4,143	5,351	1,754
General obligation bonds	206,793	12,588	21,175	198,206	20,919
Notes payable	10,358	3,629	589	13,398	639
Revenue bonds	263,785	13,770	35,065	242,490	20,280
Capital contributions payable	25,663	-	5,411	20,252	2,911
Total long-term obligations	<u>\$ 543,561</u>	<u>\$ 35,678</u>	<u>\$ 70,649</u>	<u>\$ 508,590</u>	<u>\$ 46,503</u>

Year Ended June 30, 2019					
(In Thousands)					
	Beginning			Ending	Current
	Balance	Increases	Decreases	Balance	Portion
Liabilities for:					
Bond premium	\$ 28,823	\$ 2,630	\$ 3,985	\$ 27,468	\$ -
Capital leases	13,741	-	4,247	9,494	4,141
General obligation bonds	211,331	16,313	20,851	206,793	21,156
Notes payable	11,030	-	672	10,358	588
Revenue bonds	282,580	-	18,795	263,785	19,245
Capital contributions payable	26,096	-	433	25,663	2,997
Total long-term obligations	<u>\$ 573,601</u>	<u>\$ 18,943</u>	<u>\$ 48,983</u>	<u>\$ 543,561</u>	<u>\$ 48,127</u>

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

Year Ended June 30, 2020					
(In Thousands)					
	Beginning			Ending	Current
	Balance	Increases	Decreases	Balance	Portion
Liabilities for:					
Compensated absences	\$ 146,919	\$ 21,697	\$ 17,716	\$ 150,900	\$ 18,141
Early termination benefits	1,652	1,876	1,290	2,238	2,023
Other postemployment benefits	70,054	8,263	10,135	68,182	-
Workers' compensation	4,799	1,674	2,672	3,801	2,205
Total other compensation benefits	<u>\$ 223,424</u>	<u>\$ 33,510</u>	<u>\$ 31,813</u>	<u>\$ 225,121</u>	<u>\$ 22,369</u>

Year Ended June 30, 2019					
(In Thousands)					
	Beginning			Ending	Current
	Balance	Increases	Decreases	Balance	Portion
Liabilities for:					
Compensated absences	\$ 143,589	\$ 21,831	\$ 18,501	\$ 146,919	\$ 17,716
Early termination benefits	1,855	1,038	1,241	1,652	1,292
Other postemployment benefits	65,158	12,451	7,555	70,054	-
Workers' compensation	4,341	2,326	1,868	4,799	2,697
Total other compensation benefits	<u>\$ 214,943</u>	<u>\$ 37,646</u>	<u>\$ 29,165</u>	<u>\$ 223,424</u>	<u>\$ 21,705</u>

**Bond Premium** — Bonds were issued in fiscal years 2020 and 2019, resulting in net premiums of \$5,690,970 and \$2,630,369, 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 Minnesota State capital projects. The interest rate on these bonds ranges from 2.0 to 5.3 percent. Minnesota State is responsible for paying one third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded.

*Notes Payable* — Notes payable consist of energy efficiency loans granted by energy companies in order to improve energy efficiency in college and university buildings. The interest rate for the energy loans are tied to the prime interest rate at the time of the project. The interest rate for the financing agreements ranges from 2.40 percent to 4.92 percent.

- In fiscal year 2016, Riverland Community College entered into an energy efficient loan. The loan was a \$1,690,400, fifteen-year note, with semi-annual payments each year for energy efficient upgrades throughout the school.
- In fiscal year 2018, Minnesota State University, Mankato, entered into an energy efficient loan. The loan was a \$7,505,102, eighteen-year note, with semi-annual payments each year for energy efficient upgrades throughout the school.
- In fiscal year 2020, Hennepin Technical College entered into an energy efficient loan. The loan was a \$3,628,975, eighteen-year note, with semi-annual payments each year for energy efficient upgrades throughout the school.

All projects completed under Minnesota Statutes, Section 16B.32, the State Retrofit Program and the State/Minnegasco Program are interest free loans. Projects completed under Minnesota Statutes, Sections 16C.14 and 16C.144, have an interest component.

*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 renovation of buildings for residence halls, student unions, food services, parking facilities, and wellness centers at an institution. Revenue bonds currently outstanding have interest rates of 1.9 percent to 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 2038. Annual principal and interest payments on the bonds are expected to require less than 30.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$304,026,916. Principal and interest paid for the current year and total customer net revenues were \$27,576,598 and \$98,172,765, respectively.

In addition, Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2038. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 46.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,206,491. For the current year, principal and interest paid and total customer net revenues were \$171,982 and \$380,208, respectively. These revenue bonds have a variable interest rate of 2.55 percent to 3.65 percent.

*Capital Contributions Payable* — The liabilities of \$20,251,813 and \$25,662,636 at June 30, 2020 and 2019, respectively, represent the amount Minnesota State would owe the federal government if it were to discontinue the Perkins loan program.

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

*Early Termination Benefits* — Early termination benefits are benefits received for discontinuing service earlier than planned, as well as the right to continue, at the employer's expense, health insurance benefits until death. Note 9 to the financial statements provides additional information.

*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.

*Workers' Compensation* — The state of Minnesota Department of Management and Budget manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of \$3,801,435 and \$4,797,662 at June 30, 2020 and 2019, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end and is an undiscounted estimate of future payments.

*Net Pension Liability* — The net pension liability of \$325,889,229 and \$322,705,965 at June 30, 2020 and 2019, respectively, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 14 to the financial statements provides additional information.

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

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

Long-Term Obligation Repayment Schedule  
(In Thousands)

Fiscal Years	General Obligation			
	Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 20,919	\$ 9,088	\$ 20,280	\$ 9,290
2022	20,343	7,783	21,050	8,544
2023	18,837	6,821	19,685	7,744
2024	17,648	5,925	18,035	6,991
2025	16,431	5,112	18,295	6,252
2026-2030	62,035	15,853	89,515	19,428
2031-2035	32,034	5,805	50,775	4,339
2036-2040	9,959	923	4,855	155
Total	<u>\$ 198,206</u>	<u>\$ 57,310</u>	<u>\$ 242,490</u>	<u>\$ 62,743</u>

Long-Term Obligation Repayment Schedule  
(In Thousands)

Fiscal Years	Capital Leases				Notes Payable	
	Principal	Interest	Principal	Interest		
	2021	\$ 1,754	\$ 435	\$ 639	\$ 379	
2022	1,316	174	771	329		
2023	308	93	757	303		
2024	308	93	722	280		
2025	308	92	770	258		
2026-2030	1,039	136	4,019	967		
2031-2035	318	7	4,251	474		
2036-2040	-	-	1,469	57		
Total	<u>\$ 5,351</u>	<u>\$ 1,030</u>	<u>\$ 13,398</u>	<u>\$ 3,047</u>		

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, Minnesota State College Faculty (MSCF), Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF), provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2020 and 2019.

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

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2020 and 2019 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2020	43	\$ 1,504
2019	20	677

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

The number of retired faculty who received this benefit and the amount of future liability as of the end of fiscal years 2020 and 2019 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2020	14	\$ 327
2019	24	745

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

The number of retired faculty who received this benefit and the amount of future liability for faculty as of the end of fiscal years 2020 and 2019 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2020	6	\$ 173
2019	7	191

*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 2020 and 2019 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In Thousands)</u>
2020	9	\$ 234
2019	2	39

#### 10. OTHER POSTEMPLOYMENT BENEFITS

*Plan Description* — Minnesota State provides health insurance benefits for certain retired employees under the “Minnesota State Colleges and Universities Postretirement Medical Plan”, a single employer fully insured plan, as required by Minnesota Statutes, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the plan. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

As of the July 1, 2018 actuarial valuation, the following current and former employees were covered by benefit terms under the plan:

Active employees	12,465
Inactive employees or beneficiaries currently receiving benefits	606
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>13,071</u>

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

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

*Discount Rate* — The discount rate used to measure the total OPEB liability at June 30, 2020 and 2019 was 3.5 percent and 3.87 percent, respectively. The discount rate was based on a municipal bond rate based on the 20-year Bond Buyer GO Index as of the end of June 2019 and 2018. The plan is not funded by assets in a separate trust. Therefore, the municipal bond rate was applied to all period of projected benefit payments to determine the total OPEB liability.

*Changes in Total OPEB Liability* — The changes in total OPEB liability are as follows:

Changes in Total OPEB Liability (In Thousands)		
	2020	2019
Balance, Beginning of Year	\$ 70,054	\$ 65,158
Changes for the Year		
Service Cost	5,424	4,869
Interest	2,839	2,421
Changes in Assumptions	(2,264)	5,161
Differences Between Expected and Actual Experience	(3,602)	(2,706)
Benefit Payments	(4,269)	(4,849)
Net Changes	<u>(1,872)</u>	<u>4,896</u>
Balance, End of Year	<u>\$ 68,182</u>	<u>\$ 70,054</u>

There have been no changes in benefit terms since the previous valuation.

Changes were made in assumptions that affect the total OPEB liability since the prior valuation. The discount rate was changed from 3.87 percent to 3.5 percent. Mortality assumptions, salary increase assumptions, and medical trend rates were updated. The inflation rate and payroll growth rate decreased 0.25 percent.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* — The following presents the Minnesota State total OPEB liability calculated using the discount rate above, as well as the total OPEB liability if it were calculated using a discount rate that is one percentage lower or one percentage higher than the current discount rate:

Sensitivity of Total OPEB Liability to Changes in the Discount Rate (In Thousands)				
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	2.50	\$ 71,563	2.87	\$ 73,740
Current Discount Rate	3.50	68,182	3.87	70,054
1 Percent Higher	4.50	64,815	4.87	66,413

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

Sensitivity of Total OPEB Liability to Changes in the Health Care Trend Rate (In Thousands)				
	2020		2019	
1 Percent Lower	\$	61,468	\$	63,651
Current Trend Rate		68,182		70,054
1 Percent Higher		75,984		77,481

*OPEB Expense and Deferred Outflows and Deferred Inflows of Resources* — For the years ended June 30, 2020 and 2019, Minnesota State recognized an increase in benefit expense of \$7,837,000 and \$7,706,000, respectively, related to OPEB.



At June 30, 2020 and 2019, Minnesota State reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

		Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
		2020	2019
Contributions made subsequent to the measurement date		\$ 4,836	\$ 4,269
Changes in actuarial assumptions		4,992	6,092
Total		<u>\$ 9,828</u>	<u>\$ 10,361</u>
		Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
		2020	2019
Changes in actuarial assumptions		\$ 3,226	\$ 1,605
Differences between expected and actual economic experience		5,059	2,340
Total		<u>\$ 8,285</u>	<u>\$ 3,945</u>

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

(In Thousands)	
Fiscal Year	Amount
2021	\$ (426)
2022	(426)
2023	(426)
2024	(807)
2025	(525)
Thereafter	(683)
Total	<u>\$ (3,293)</u>

## 11. LEASE AGREEMENTS

*Operating Leases* — Minnesota State is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the fiscal years ended June 30, 2020 and 2019, totaled \$15,905,389 and \$17,217,733, respectively, and are included in purchased services expense on the statements of revenues, expenses, and changes in net position.

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

On August 1, 2017, an operating lease agreement between Stadium Heights Apartments, LLLP and the state of Minnesota on behalf of Minnesota State University, Mankato was extended for existing leased space in the amount of \$8,489,424 for a period of 5 years.

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2021	\$ 12,341
2022	9,401
2023	4,290
2024	2,434
2025	1,575
2026-2030	3,700
2031-2035	422
2036-2040	335
2041-2045	284
2046-2050	302
2051-2055	289
Total	\$ <u>35,373</u>

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

- In fiscal year 2002, St. Cloud State University guaranteed revenue bonds issued by the city of St. Cloud Housing and Redevelopment Authority to the foundation. The proceeds of the bonds in the amount of \$16,515,000 were used to construct and equip a stadium, fitness center and an addition to the Atwood Memorial Center.
- In fiscal year 2003, Minnesota State University Moorhead entered into a lease with the Minnesota State University Moorhead Foundation, Inc. The lease was a \$3,940,000, thirty-year capital lease for John Neumaier Hall Apartments.
- In fiscal year 2005, Minnesota State University, Mankato entered into a fifteen-year, \$3,281,428 (principal and interest) capital lease for an emergency generator.

The total cost of all capital assets acquired with capital leases and corresponding accumulated depreciation at June 30, 2020, are \$53,684,172 and \$42,104,448, respectively.

*Income Leases* — Minnesota State has entered into several income lease agreements, primarily for building space. Lease income for the fiscal years ended June 30, 2020 and 2019 totaled \$3,727,802 and \$2,848,447, respectively, and are included in other income in the statements of revenues, expenses, and changes in net position.

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

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2021	\$ 2,889
2022	2,482
2023	1,625
2024	1,276
2025	817
2026-2030	2,914
2031-2035	1,911
Total	\$ <u>13,914</u>

## 12. TUITION, FEES, SALES AND ROOM AND BOARD

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

	Year Ended June 30 (In Thousands)					
	2020			2019		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	\$ 787,205	\$ (263,868)	\$ 523,337	\$ 783,610	\$ (267,992)	\$ 515,618
Fees	91,401	(20,956)	70,445	92,364	(21,471)	70,893
Sales and room and board	99,868	(9,546)	90,322	114,666	(10,303)	104,363
Restricted student payments	93,656	(3,258)	90,398	114,239	(3,732)	110,507
Total	<u>\$ 1,072,130</u>	<u>\$ (297,628)</u>	<u>\$ 774,502</u>	<u>\$ 1,104,879</u>	<u>\$ (303,498)</u>	<u>\$ 801,381</u>

## 13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Description	Year Ended June 30, 2020 (In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 138,263	\$ 50,059	\$ 77,835	\$ 1,250	\$ 267,407
Institutional support	142,474	48,077	81,711	1,269	273,531
Instruction	542,231	184,249	153,330	5,342	885,152
Public service	6,374	2,021	5,932	56	14,383
Research	4,957	1,333	4,276	43	10,609
Student services	165,251	57,440	80,794	1,480	304,965
Auxiliary enterprises	43,491	14,667	138,894	10,064	207,116
Scholarships and fellowships	-	-	95,218	-	95,218
GASB 68/75 expense	-	19,829	-	-	19,829
Less interest expense	-	-	-	(19,504)	(19,504)
Total operating expenses	<u>\$ 1,043,041</u>	<u>\$ 377,675</u>	<u>\$ 637,990</u>	<u>\$ -</u>	<u>\$ 2,058,706</u>

Description	Year Ended June 30, 2019 (In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 135,722	\$ 47,992	\$ 83,995	\$ 1,565	\$ 269,274
Institutional support	137,445	49,620	91,394	1,611	280,070
Instruction	544,980	175,234	162,686	4,811	887,711
Public service	7,172	2,034	8,530	76	17,812
Research	4,412	1,013	4,743	43	10,211
Student services	161,982	54,072	94,004	1,849	311,907
Auxiliary enterprises	33,009	16,535	130,569	10,674	190,787
Scholarships and fellowships	-	-	55,209	-	55,209
GASB 68/75 expense	-	(238,331)	-	-	(238,331)
Less interest expense	-	-	-	(20,629)	(20,629)
Total operating expenses	<u>\$ 1,024,722</u>	<u>\$ 108,169</u>	<u>\$ 631,130</u>	<u>\$ -</u>	<u>\$ 1,764,021</u>

## 14. EMPLOYEE PENSION PLANS

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

### *State Employees Retirement Fund*

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

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

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

Contributions — Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members were required to contribute 6.0 and 5.75 percent, respectively, of their annual covered salary in fiscal years 2020 and 2019. Participating employers were required to contribute 6.25 and 5.875 percent, respectively, of employee annual covered salary in fiscal years 2020 and 2019. The Minnesota State contributions to the General Plan for the fiscal years ending June 30, 2020 and 2019 were \$14,946,336 and \$13,721,384, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

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

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

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

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

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

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

As of June 30, 2019 and 2018, the projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan fiduciary net position was available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Net Pension Liability — At June 30, 2020 and 2019, Minnesota State reported a liability of \$104,997,138 and \$105,001,248, respectively, for its proportionate share of MSRS’ net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement period July 1, 2018, through June 30, 2019, and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of MSRS’s participating employers. At June 30, 2020 and 2019, the Minnesota State proportion was 7.46 percent and 7.58 percent, respectively.

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

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

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

	Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)			
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	\$ 244,548	6.50	\$ 242,699
Current Discount Rate	7.50	104,997	7.50	105,001
1 Percent Higher	8.50	(10,845)	8.50	(9,296)

Pension Plan Fiduciary Net Position — Detailed information about the pension plan’s fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website at [www.msrs.state.mn.us/annual-reports](http://www.msrs.state.mn.us/annual-reports).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2020 and 2019, Minnesota State recognized an increase in benefit expense of \$14,230,893 and a decrease in benefit expense of (\$132,103,165), respectively, related to pensions. At June 30, 2020 and 2019, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Changes in actuarial assumptions	\$ 147,942	\$ 300,332
Contributions paid to MSRS subsequent to the measurement date	14,946	13,721
Differences between expected and actual economic experience	3,183	2,900
Changes in proportion	-	609
Total	\$ <u>166,071</u>	\$ <u>317,562</u>

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Differences between projected and actual investment earnings	\$ 25,644	\$ 26,285
Changes in actuarial assumptions	328,976	468,921
Differences between expected and actual economic experience	364	7,965
Changes in proportion	16,604	20,618
Total	\$ <u>371,588</u>	\$ <u>523,789</u>

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

Fiscal Year	Amount
2021	\$ 5,609
2022	(155,399)
2023	(70,579)
2024	(94)
Total	\$ (220,463)

*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 consecutive sixty months of formula service, age, and formula service credit at termination of service. Benefit increases for retirees are 1.0 percent for January 2019 through January 2023, then increasing by 0.1 percent each year up to 1.5 percent annually.

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

Tier I Benefits

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

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3.0 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 Plan members and 2.7 percent per year for Basic Plan 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 Statute 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 7.5 percent, respectively, of their annual covered salary in fiscal years 2020 and 2019. In fiscal year 2020 the employer was required to contribute 11.92 percent of pay for Basic Plan members and 7.92 percent for Coordinated Plan members. In fiscal year 2019, the employer was required to contribute 11.71 percent of pay for Basic Plan members and 7.71 percent for Coordinated Plan members. Minnesota State contributions to the TRA for the fiscal years ended June 30, 2020 and 2019, were \$14,643,434 and \$14,291,498, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	7.50 percent

Salary increases for the June 30, 2018 and 2017 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. Prior year salary is annualized for members with less than one year of service. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are 1.0 percent for January 2019 through January 2023, then increasing by 0.1 percent each year up to 1.5 percent annually.

Actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of actuarial experience studies dated June 10, 2015 and the study of economic assumptions presented to the Board in November 2017.



The long-term expected rate of return on pension plan investments is 7.5 percent. An experience study of the economic assumptions prepared in 2017 recommended that the long-term rate of return be reduced to 7.5 percent from 8.0 percent. The review considered long-term historical data, estimates inherent in current market data, and an analysis in which best estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) were developed using assumptions for each major asset class, as well as estimates of variability and correlations, provided by the Minnesota State Board of Investment (SBI). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage then adding expected inflation.

The target asset allocation and best estimates of geometric rates of return for each major asset class, as provided by the SBI are summarized in the following table:

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

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

As of June 30, 2019 and 2018, the projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the current statutory contribution rates and supplemental aid will be received as currently provided in state statute. Based on these assumptions, the pension plan fiduciary net position was available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

**Net Pension Liability** — At June 30, 2020 and 2019, Minnesota State reported a liability of \$209,985,748 and \$205,524,788, respectively, for its proportionate share of TRF net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Minnesota State proportion of the net pension liability was based on the employer contributions received by TRF during the measurement period July 1, 2018 through June 30, 2019 and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of TRF's participating employers. At June 30, 2020 and 2019, the Minnesota State proportion was 3.29 percent and 3.27 percent, respectively.

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

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

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

Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)				
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	\$ 334,769	6.50	\$ 326,167
Current Discount Rate	7.50	209,986	7.50	205,525
1 Percent Higher	8.50	107,104	8.50	105,996

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/financial/annual-reports](http://www.minnesotatra.org/financial/annual-reports).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2020 and 2019, Minnesota State recognized an increase in benefit expense of \$31,416,080 and a decrease of (\$79,225,286), respectively, related to pensions. At June 30, 2020 and 2019, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Changes in actuarial assumptions	\$ 176,712	\$ 265,371
Contributions paid to TRA subsequent to the measurement date	14,644	14,291
Differences between expected and actual economic experience	30	2,192
Changes in proportion	10,695	7,570
Total	\$ 202,081	\$ 289,424

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Differences between projected and actual investment earnings	\$ 17,401	\$ 15,939
Changes in actuarial assumptions	278,573	350,445
Differences between expected and actual economic experience	5,099	4,145
Changes in proportion	26,589	32,167
Total	\$ 327,662	\$ 402,696

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

(In Thousands)	
Fiscal Year	Amount
2021	\$ 6,519
2022	(5,535)
2023	(82,400)
2024	(58,769)
2025	(40)
Total	\$ (140,225)

### *General Employees Retirement Fund*

**Plan Description** — Minnesota State participates in the General Employees Retirement Plan (GERF), a defined benefit pension plan 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. Members will receive future annual increases equal to 50.0 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent beginning January 1, 2019. 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 Statute Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. GERF 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 2020 and 2019. In calendar years 2020 and 2019, the employer was required to contribute 11.78 percent of pay for Basic Plan members and 7.5 percent for Coordinated Plan members. Minnesota State contributions to the GERF for the plan’s fiscal years ended June 30, 2020 and 2019 were \$861,902 and \$966,399, 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, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases for the June 30, 2019 and 2018 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables adjusted for white collar and mortality improvements using projection scale MP-2018 and MP-2017, respectively, from a base year of 2014 for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2019 and 2018 valuation were based on the results of actuarial experience studies dated June 30, 2015, and a review of inflation and investment return assumptions dated June 27, 2019 and September 11, 2017, respectively.

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

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

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

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2019 and 2018 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee, employer, and state contributions will be made at the current statutory rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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, 2020 and 2019, Minnesota State reported a liability of \$10,289,054 and \$11,550,083, respectively, for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on Minnesota State contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2020 and 2019, the Minnesota State proportion was 0.1861 percent and 0.2082 percent, respectively.

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

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The mortality projection scale was changed from MP-2017 to MP-2018.

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

	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	\$ 16,915	6.50	\$ 18,770
Current Discount Rate	7.50	10,289	7.50	11,550
1 Percent Higher	8.50	4,818	8.50	5,590

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/about/financial](http://www.mnpera.org/about/financial).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the years ended June 30, 2020 and 2019, Minnesota State recognized a decrease in benefit expense of (\$248,933) and (\$1,115,682), respectively, related to pensions. At June 30, 2020 and 2019, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Changes in actuarial assumptions	\$ -	\$ 1,103
Contributions paid to PERA subsequent to the measurement date	862	966
Differences between expected and actual economic experience	285	306
Total	\$ 1,147	\$ 2,375

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Differences between projected and actual investment earnings	\$ 1,043	\$ 1,180
Changes in actuarial assumptions	809	1,298
Differences between expected and actual economic experience	-	337
Changes in proportion	2,014	2,129
Total	\$ 3,866	\$ 4,944

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

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(In Thousands)	
Fiscal Year	Amount
2021	\$ (1,537)
2022	(1,510)
2023	(550)
2024	16
Total	\$ <u>(3,581)</u>

*St. Paul Teachers Retirement Fund*

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

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

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

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

Tier I Benefits

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

With these provisions:

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

## Tier II Benefits

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

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

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

Contributions — Minnesota Statute Chapter 354A sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. SPTRFA Basic Plan members and Coordinated Plan members were required to contribute 10.0 percent and 7.5 percent, respectively, of their annual covered salary in fiscal years 2020 and 2019. In fiscal years 2020 and 2019, the employer was required to contribute 15.31 and 14.475 percent, respectively, of pay for Basic Plan members, and 12.01 and 11.175 percent, respectively, for Coordinated Plan members. Minnesota State contributions to the SPTRFA for the fiscal year ended June 30, 2020 and 2019, were \$38,140 and \$46,763, respectively. These contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions — The Minnesota State net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	7.50 percent

Salary increases for the June 30, 2019 and 2018 valuation were equal to reported salary at valuation date increased according to the rate table, to current fiscal year and annually each future year. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables adjusted for white collar and mortality improvements using projection scale MP-2018 and MP-2017, respectively, from a base year of 2014 for males or females, as appropriate, with slight adjustments.

The long-term expected rate of return on pension plan investments is 7.5 percent. This rate was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates for each major asset class included in the target asset allocation as of the measurement date of June 30, 2019, are summarized as follows:

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

Discount Rate — The discount rate used to measure the total pension liability as of June 30, 2019 and 2018 was 7.5 percent. This discount rate was based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, SPTRFA’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments of was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability — At June 30, 2020 and 2019, Minnesota State reported a liability of \$617,289 and \$629,846, respectively, for its proportionate share of the SPTRFA’s net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on Minnesota State contributions received by SPTRFA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of SPTRFA’s participating employers. At June 30, 2020 and 2019, the Minnesota State proportion was 0.101 percent and 0.104 percent, respectively.

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

Changes were made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The mortality projection scale was changed from MP-2017 to MP-2018.

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

	Sensitivity of Net Pension Liability at Current Single Discount Rate (In Thousands)			
	2020		2019	
	Percent	Amount	Percent	Amount
1 Percent Lower	6.50	\$ 820	6.50	\$ 837
Current Discount Rate	7.50	617	7.50	630
1 Percent Higher	8.50	449	8.50	458



Pension Plan Fiduciary Net Position — Detailed information about the plan’s fiduciary net position is available in a separately-issued financial report. That report may be found at <https://sptrfa.org/publications/reports>.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions — For the fiscal years ended June 30, 2020 and 2019, Minnesota State recognized a decrease in benefit expense of (\$217,493) and (\$297,889), respectively, related to pensions. At June 30, 2020 and 2019, Minnesota State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Changes in actuarial assumptions	\$ 60	\$ 92
Contributions paid to SPTRFA subsequent to the measurement date	38	47
Differences between expected and actual economic experience	2	4
Changes in proportion	8	15
Total	<u>\$ 108</u>	<u>\$ 158</u>

	Deferred Inflows of Resources Year Ended June 30 (In Thousands)	
	2020	2019
Differences between projected and actual investment earnings	\$ 1	\$ 3
Changes in actuarial assumptions	8	12
Differences between expected and actual economic experience	13	25
Changes in proportion	230	506
Total	<u>\$ 252</u>	<u>\$ 546</u>

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

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(In Thousands)	
Fiscal Year	Amount
2021	\$ (84)
2022	(103)
2023	1
2024	4
Total	<u>\$ (182)</u>

*Minnesota State Colleges and Universities Defined Contribution Retirement Fund*

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

*Individual Retirement Account Plan (IRAP)*

Participation — Every employee who is in unclassified service is required to participate in TRF or IRAP upon achieving eligibility. An unclassified employee is one who serves in a position deemed unclassified according to Minnesota Statutes. This includes presidents, vice presidents, deans, administrative or service faculty, teachers and other managers, and professionals in academic and academic support programs. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25.0 percent of a full academic year, excluding summer session. An employee remains a participant of the plan even if employed for less than 25.0 percent of a full academic year in subsequent years.

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrator group. As of June 30, 2020 and 2019, for both faculty and administrators, the employer and employee statutory contribution rates are 6.0 percent and 5.15 percent, and 6.0 and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Required contributions for Minnesota State were:

(In Thousands)		
<u>Fiscal Year</u>	<u>Employer</u>	<u>Employee</u>
2020	\$ 30,012	\$ 29,704
2019	29,390	22,042
2018	28,554	21,415

*Supplemental Retirement Plan (SRP)*

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

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

Member Group	Eligible Compensation	Maximum Annual Contribution
Administrators	\$ 6,000 to 60,000	\$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State College and Faculty Association	6,000 to 56,000	2,700
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

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

Required contributions for Minnesota State were:

(In Thousands)	
Fiscal Year	Amount
2020	\$ 15,233
2019	15,531
2018	15,300

#### *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 Statute, Section 352.965. The plan is composed of employee pre-tax and after-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2020, the plan has 5,288 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, 2020, the plan has 4,323 participants.

## 15. SEGMENT INFORMATION

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

Minnesota State Revenue Fund issues revenue bonds to finance the acquisition, construction, and renovation of buildings for residence halls, student unions, food services, parking facilities, and wellness centers at an institution. The Itasca County Housing Redevelopment Authority sold bonds to finance Itasca Community College's student housing program. Note 8 to the financial statements provides additional information on the pledging of the revenues.

Summary financial information for Minnesota State Revenue Fund for the fiscal years ended June 30, 2020 and 2019 follows:

Summary Financial Information for Revenue Fund (In Thousands)		
	2020	2019
<b>CONDENSED STATEMENTS OF NET POSITION</b>		
Assets		
Current assets	\$ 95,665	\$ 97,615
Restricted assets	57,996	61,565
Capital assets, net	383,693	400,940
Total assets	<u>537,354</u>	<u>560,120</u>
Deferred outflows of resources	8,877	13,490
Total assets and deferred outflows of resources	<u>546,231</u>	<u>573,610</u>
Liabilities		
Current liabilities	41,302	40,930
Noncurrent liabilities	244,737	266,316
Total liabilities	<u>286,039</u>	<u>307,246</u>
Deferred inflows of resources	13,277	17,762
Total liabilities and deferred inflows of resources	<u>299,316</u>	<u>325,008</u>
Net Position		
Net investment in capital assets	153,658	152,801
Restricted	93,257	95,801
Total net position	<u>\$ 246,915</u>	<u>\$ 248,602</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Operating revenues	\$ 98,172	\$ 118,060
Depreciation expense	(24,177)	(23,957)
Other operating expenses	(76,121)	(76,509)
Net operating income (loss)	<u>(2,126)</u>	<u>17,594</u>
Nonoperating revenues (expenses)		
Federal grant (CARES Act)	6,666	-
Interest income	2,571	3,508
Capital contributions	-	2,230
Interest expense	(8,798)	(9,535)
Loss on disposal of capital assets	-	(10)
Total nonoperating revenues (expenses)	<u>439</u>	<u>(3,807)</u>
Change in net position	<u>(1,687)</u>	<u>13,787</u>
Total net position, beginning of year	<u>248,602</u>	<u>234,815</u>
Total net position, end of year	<u>\$ 246,915</u>	<u>\$ 248,602</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
Net cash provided by (used in)		
Operating activities	\$ 17,884	\$ 34,368
Noncapital and related financing activities	6,666	-
Capital and related financing activities	(34,477)	(37,633)
Investing activities	2,614	3,498
Net increase (decrease) in cash and cash equivalents	<u>(7,313)</u>	<u>233</u>
Cash and cash equivalents, beginning of year	154,952	154,719
Cash and cash equivalents, end of year	<u>\$ 147,639</u>	<u>\$ 154,952</u>

Summary financial information for Itasca Community College's student housing program for the fiscal years ended June 30, 2020 and 2019 follows:

Summary Financial Information for Itasca Community College (In Thousands)		
	2020	2019
<b>CONDENSED STATEMENTS OF NET POSITION</b>		
<b>Assets</b>		
Current assets	\$ 716	\$ 640
Restricted assets	304	299
Capital assets, net	2,360	2,478
Total assets	<u>3,380</u>	<u>3,417</u>
Deferred outflows of resources	47	77
Total assets and deferred outflows of resources	<u>3,427</u>	<u>3,494</u>
<b>Liabilities</b>		
Current liabilities	162	152
Noncurrent liabilities	1,002	1,137
Total liabilities	<u>1,164</u>	<u>1,289</u>
Deferred inflows of resources	87	116
Total liabilities and deferred inflows of resources	<u>1,251</u>	<u>1,405</u>
<b>Net Position</b>		
Net investment in capital assets	1,285	1,268
Restricted	304	299
Unrestricted	587	522
Total net position	<u>\$ 2,176</u>	<u>\$ 2,089</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Operating revenues	\$ 380	\$ 487
Depreciation expense	(119)	(119)
Other operating expenses	(233)	(207)
Net operating income	<u>28</u>	<u>161</u>
Nonoperating revenues (expenses)		
Federal grant (CARES Act)	90	-
Interest income	6	8
Interest expense	(37)	(40)
Total nonoperating revenues (expenses)	<u>59</u>	<u>(32)</u>
Change in net position	87	129
Total net position, beginning of year	2,089	1,960
Total net position, end of year	<u>\$ 2,176</u>	<u>\$ 2,089</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
<b>Net cash provided by (used in)</b>		
Operating activities	\$ 161	\$ 235
Noncapital and related financing activities	90	-
Capital and related financing activities	(172)	(172)
Investing activities	5	8
Net increase in cash and cash equivalents	<u>84</u>	<u>71</u>
Cash and cash equivalents, beginning of year	577	506
Cash and cash equivalents, end of year	<u>\$ 661</u>	<u>\$ 577</u>

## 16. COMMITMENTS

### Minnesota State Involvement in Ongoing Projects as of June 30, 2020 (In Thousands)

Institution *	Project	Total	Spent to		Completion Date
		Cost	Date	Balance	
Anoka-Ramsey	Business and Nursing Renovation	\$ 16,851	\$ 565	\$ 16,286	Apr 2024
Bemidji	Academic Learning Center	23,600	18,019	5,581	Oct 2020
Century	Applied Technology Center Renovation	6,362	1,124	5,238	May 2021
Inver Hills	Technology and Business Center	15,351	623	14,728	Aug 2022
Moorhead	Weld Hall Renovation	17,918	397	17,521	Aug 2022
Normandale	Classroom and Student Services Center	39,270	9,782	29,488	Mar 2023
Riverland	Transportation, Trade & Industrial Educ Center	10,122	7,025	3,097	Aug 2020
Rochester	Memorial and Plaza Halls Renovation	23,853	22,307	1,546	Oct 2020

\* Anoka-Ramsey Community College; Bemidji State University; Century College; Inver Hills Community College; Minnesota State University Moorhead; Normandale Community College; Riverland Community College; Rochester Community and Technical College

## 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, a self-insurance fund, and through purchased insurance coverage.

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

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

The Minnesota Risk Management Fund provides the following coverage for fiscal years 2020 and 2019.

Coverage Type	Amount
Property and contents institution deductible	\$1,000 to \$250,000
Property and contents fund responsibility	\$1,000,000
Property and contents primary re-insurer coverage	\$1,000,001 to \$1,250,000,000
Third party bodily injury and property damage per person	\$500,000
Third party bodily injury and property damage per occurrence	\$1,500,000

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

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

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

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

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2020 and 2019.

(In Thousands)				
	Beginning		Payments & Other	Ending
	<u>Liability</u>	<u>Additions</u>	<u>Reductions</u>	<u>Liability</u>
Fiscal Year Ended 6/30/20	\$ 4,799	\$ 1,674	\$ 2,672	\$ 3,801
Fiscal Year Ended 6/30/19	4,341	2,326	1,868	4,799

## 18. COMPONENT UNITS

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

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

Minnesota State received \$17,471,281 and \$22,300,404 in fiscal years 2020 and 2019, respectively, from the foundations for scholarships and other educational program support. Information about lease agreements between Minnesota State and the foundations can be found in Note 11. In addition to lease agreements, Southwest Minnesota State University and Winona State University have entered into agreements to manage student housing facilities owned by the foundations.

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

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

Change in Accounting Principle — In fiscal year 2019 FASB issued Accounting Standards Update (ASU) 2016-14, *Non-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundations have implemented ASU 2016-14 and have adjusted the presentation in the consolidated financial statements accordingly.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions:* Net assets available for use in general operations and no subject donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. Funds paid from the board-designated endowment are subject to approval by the board.
- *Net Assets With Donor Restrictions:* Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulated that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

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

- *Level 1* — Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds.
- *Level 2* — Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- *Level 3* — Inputs that are unobservable and significant to the fair value measurement.
- *Net Asset Value* — Inputs that do not fall in any of the above three categories listed.



Schedule of Investments  
As of June 30  
(In Thousands)

	2020	Fair Value Measurements Using			Net Asset Value
		Level 1	Level 2	Level 3	
Money market	\$ 33,449	\$ 33,437	\$ 12	\$ -	\$ -
Fixed income	6,634	152	6,482	-	-
Mutual funds	129,146	95,365	32,754	1,027	-
Equity securities	33,170	33,170	-	-	-
Bonds/U.S treasuries	28,939	-	28,939	-	-
Other	10,195	-	26	2,674	7,495
Total	<u>\$ 241,533</u>	<u>\$ 162,124</u>	<u>\$ 68,213</u>	<u>\$ 3,701</u>	<u>\$ 7,495</u>

Schedule of Investments  
As of June 30  
(In Thousands)

	2019	Fair Value Measurements Using			Net Asset Value
		Level 1	Level 2	Level 3	
Money market	\$ 9,662	\$ 9,645	\$ 17	\$ -	\$ -
Fixed income	20,105	10,160	9,945	-	-
Mutual funds	102,435	70,983	30,345	1,107	-
Equity securities	65,357	41,591	23,766	-	-
Bonds/U.S treasuries	24,830	-	24,830	-	-
Other	10,112	-	23	3,865	6,224
Total	<u>\$ 232,501</u>	<u>\$ 132,379</u>	<u>\$ 88,926</u>	<u>\$ 4,972</u>	<u>\$ 6,224</u>

*Buildings, Property and Equipment* — Summaries of the foundations' buildings, property, and equipment for fiscal years 2020 and 2019 follow:

Schedules of Buildings, Property and Equipment, Net  
As of June 30  
(In Thousands)

	2020	2019
Buildings, property and equipment, not depreciated		
Land	\$ 2,490	\$ 2,201
Total buildings, property and equipment, not depreciated	<u>2,490</u>	<u>2,201</u>
Buildings, property and equipment, depreciated:		
Buildings and improvements	23,392	23,386
Equipment	730	730
Leasehold improvements	107	107
Total buildings, property and equipment, depreciated	<u>24,229</u>	<u>24,223</u>
Total accumulated depreciation	<u>(11,815)</u>	<u>(11,129)</u>
Total buildings, property and equipment depreciated, net	<u>12,414</u>	<u>13,094</u>
Total buildings, property and equipment, net	<u>\$ 14,904</u>	<u>\$ 15,295</u>

*Long-Term Obligations* — Payment schedule of the foundations' long-term obligations follow. Excluded from the table below is St. Cloud State University Foundation's unamortized bond premium of \$278,952 and unamortized debt issuance costs of (\$78,642), which are amortized over the life of the bonds. Also excluded from the table below is Winona State University Foundation's loan agreement with a local bank of \$620,000.

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2021	\$ 2,022
2022	2,201
2023	2,116
2024	1,131
2025	1,138
Thereafter	3,127
Total	\$ <u>11,735</u>

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

Changes in endowment net assets as of June 30, 2020 are as follows:

Schedule of Endowment Net Assets As of June 30, 2020 (In Thousands)			
	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Net assets, beginning of year	\$ 3,645	\$ 189,923	\$ 193,568
Contributions	96	12,804	12,900
Investment income	(5)	3,572	3,567
Amounts appropriated for expenditures	(131)	(8,522)	(8,653)
Other transfers	(517)	901	384
Net assets, end of year	\$ <u>3,088</u>	\$ <u>198,678</u>	\$ <u>201,766</u>

Changes in endowment net assets as of June 30, 2019 are as follows:

Schedule of Endowment Net Assets As of June 30, 2019 (In Thousands)			
	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Net assets, beginning of year	\$ 3,668	\$ 178,820	\$ 182,488
Change in value of trusts	3	1,212	1,215
Contributions	39	8,437	8,476
Investment income	96	7,081	7,177
Amounts appropriated for expenditures	(179)	(5,578)	(5,757)
Other transfers	18	(49)	(31)
Net assets, end of year	\$ <u>3,645</u>	\$ <u>189,923</u>	\$ <u>193,568</u>

## 19. SUBSEQUENT EVENTS

*General Obligation Bond Issuances* — In August 2020 \$24.5 million in general obligation state bonds Series 2020A were authorized at a true interest rate of 1.6 percent. Minnesota State pays one third of the debt service on those bonds, over the life of the bonds. The first debt service payment on these bonds was in November 2020.

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# REQUIRED SUPPLEMENTARY INFORMATION SECTION

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**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**

Schedule of Changes in Total OPEB Liability  
(In Thousands)

	2020	2019	2018	2017
Balance, Beginning of Year	\$ 70,054	\$ 65,158	\$ 64,823	\$ 60,831
Changes for the Year				
Service Cost	5,424	4,869	5,167	4,404
Interest	2,839	2,421	1,931	2,374
Changes in Assumptions	(2,264)	5,161	(2,241)	2,835
Differences between Expected and Actual Economic Experience	(3,602)	(2,706)	-	-
Benefit Payments	(4,269)	(4,849)	(4,522)	(5,621)
Net Changes	(1,872)	4,896	335	3,992
Balance, End of Year	\$ 68,182	\$ 70,054	\$ 65,158	\$ 64,823
Covered Employee Payroll	\$ 970,494	\$ 945,338	\$ 950,401	\$ 938,713
Total OPEB Liability as a Percentage of Covered Employee Payroll	7.03	7.41	6.86	6.91

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

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

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

There have been no changes in benefit terms since the previous valuation.

Changes were made in assumptions that affect the total OPEB liability since the prior valuation. They are summarized as follows:

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

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	8.35	\$ 135,402	\$ 213,833	63.32	87.64
June 30, 2015	8.19	126,222	221,209	57.06	88.32
June 30, 2016	8.13	999,423	223,418	447.33	47.51
June 30, 2017	7.75	574,921	225,689	254.74	62.73
June 30, 2018	7.58	105,001	228,146	46.02	90.56
June 30, 2019	7.46	104,997	233,555	44.96	90.73

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By MSRS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 12,166	\$ 12,166	\$ —	\$ 221,209	5.50
June 30, 2016	12,288	12,288	—	223,418	5.50
June 30, 2017	12,413	12,413	—	225,689	5.50
June 30, 2018	12,548	12,548	—	228,146	5.50
June 30, 2019	13,721	13,721	—	233,555	5.875
June 30, 2020	14,946	14,946	—	239,141	6.25

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

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

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

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



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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	3.84	\$ 176,742	\$ 175,083	100.95	81.50
June 30, 2015	3.60	222,609	179,801	123.81	76.77
June 30, 2016	3.45	823,265	179,147	459.55	44.88
June 30, 2017	3.43	684,950	183,390	373.49	51.57
June 30, 2018	3.27	205,525	181,967	112.95	78.07
June 30, 2019	3.29	209,986	185,104	113.44	78.21

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By TRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 13,485	\$ 13,485	\$ —	\$ 179,801	7.50
June 30, 2016	13,436	13,436	—	179,147	7.50
June 30, 2017	13,754	13,754	—	183,390	7.50
June 30, 2018	13,647	13,647	—	181,967	7.50
June 30, 2019	14,271	14,271	—	185,104	7.71
June 30, 2020	14,643	14,643	—	184,892	7.92

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

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

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

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

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.3271	\$ 15,366	\$ 17,173	89.48	78.75
June 30, 2015	0.2807	14,547	15,807	92.03	78.19
June 30, 2016	0.2493	20,242	15,093	134.11	68.91
June 30, 2017	0.2292	14,632	14,467	101.14	75.90
June 30, 2018	0.2082	11,550	13,712	84.23	79.53
June 30, 2019	0.1861	10,289	12,885	79.85	80.23

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By PERA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 1,185	\$ 1,185	\$ —	\$ 15,807	7.50
June 30, 2016	1,132	1,132	—	15,093	7.50
June 30, 2017	1,085	1,085	—	14,467	7.50
June 30, 2018	1,028	1,028	—	13,712	7.50
June 30, 2019	966	966	—	12,885	7.50
June 30, 2020	861	861	—	11,492	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, 2020 and 2019**

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

There were changes in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. They are summarized as follows:

- The mortality projection scale was changed from MP-2017 to MP-2018.

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

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.311	\$ 1,666	\$ 2,082	80.03	66.12
June 30, 2015	0.238	1,385	1,566	88.41	63.56
June 30, 2016	0.171	1,082	1,067	101.46	60.26
June 30, 2017	0.176	1,019	1,062	95.94	64.07
June 30, 2018	0.104	630	619	101.83	63.87
June 30, 2019	0.101	617	638	96.82	63.87

Schedule of Employer Contributions  
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By SPTRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 86	\$ 86	\$ —	\$ 1,566	5.50
June 30, 2016	64	64	—	1,067	6.00
June 30, 2017	66	66	—	1,062	6.25
June 30, 2018	40	40	—	619	6.50
June 30, 2019	47	47	—	638	7.34
June 30, 2020	38	38	—	467	8.17

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

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

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

There were changes in actuarial assumptions that affected the measurement of the total pension liability since the prior actuarial valuation. They are summarized as follows:

- The mortality projection scale was changed from MP-2017 to MP-2018.

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# SUPPLEMENTARY SECTION



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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Minnesota State Colleges and Universities (Minnesota State), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Minnesota State's basic financial statements, and have issued our report thereon dated November 18, 2020. Our report includes references to other auditors who audited the financial statements of Bemidji State University Foundation, Metropolitan State University Foundation, Minnesota State University Moorhead Foundation, Inc., Southwest Minnesota State University Foundation, and Winona State University Foundation, which cumulatively represent 60% of the total assets and 62% of the total revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. The financial statements of Minnesota State Colleges and Universities Foundations were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

**Internal Control Over Financial Reporting (Continued)**

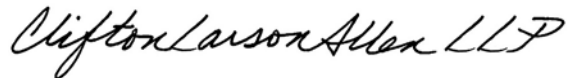
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 18, 2020

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## **MINNESOTA STATE**

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

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