ANNUAL Financial Report

FOR THE YEARS ENDED **JUNE 30, 2016 AND 2015**

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STATE UNIVERSITY

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MINNESOTA STATE

Winona State University, a member of Minnesota State

WINONA STATE UNIVERSITY

A MEMBER OF MINNESOTA STATE

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Prepared by:

Winona State University
P.O. Box 5838
Winona, MN 55987

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WINONA STATE UNIVERSITY

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

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SUPPLEMENTARY SECTION

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INTRODUCTION

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November 8, 2016

WINONA
STATE UNIVERSITY

Board of Trustees
Steven J. Rosenstone, Chancellor
Minnesota State Colleges and Univerisites
30 East Seventh Street
St. Paul, Minnesota 55101

Dear Trustees and Chancellor Rosenstone:

We are pleased to submit the financial report of Winona State University for fiscal year 2016. The accompanying statements show the university's financial position and results of operations ending on June 30, 2016. Please consult the the Management's Discussion and Analysis section of this report for a summary review and explanation of the financial statements.

As the Winona State University community faces the future, we recognize that the health, vitality, and relevance of our campuses require us to evolve into new levels of excellence and dedication. Thus we have committed ourselves to five strategic directions: Student Learning, Student Success, Stewards of Place and Resources, Inclusive Excellence, and Relationships.

Across the university, strategic plans have been implemented in academic, athletics, facilities, enrollment, student life, technology, library, and foundation. Of immediate concern to our financial reporting is our Strategic Enrollment Plan, which outlines deliberate, intentional strategies addressing recruitment, retention, and graduation. Our enrollment plan is partnered closely with our Academic Plan, as we remain committed to maintaining our excellence through admissions and academic standards.

We are also focused on development. Donations to the university have been growing steadily in recent years—including nearly $4.7 million in fiscal year 2016. The Winona State University Foundation Strategic Plan explores the great fundraising potential of this institution, and continues to focus on four distinct pillars: Recreation, Athletics, and Wellness; Entrepreneurship and Innovation; Arts, Culture and Entertainment; and Learning and Education Village. Our focus is not just on tomorrow or the next fiscal year, but on what's in store for the next 158 years of this fine institution.

With the support of the Minnesota State system office, the Winona State University community—faculty, staff, students and more than 50,000 alumni worldwide—is living its mission to improve our world. Thank you for the trust you have placed in us as good stewards of the public's resources.

Sincerely,

Dr. Scott R. Olson
President, Winona State University

President's Office
Winona State University
P.O. Box 5838
Winona, Minnesota 55987.5838

1.800.DIAL.WSU or 507.457.5003
Fax 507.457.2415
SOlson@winona.edu
www.winona.edu

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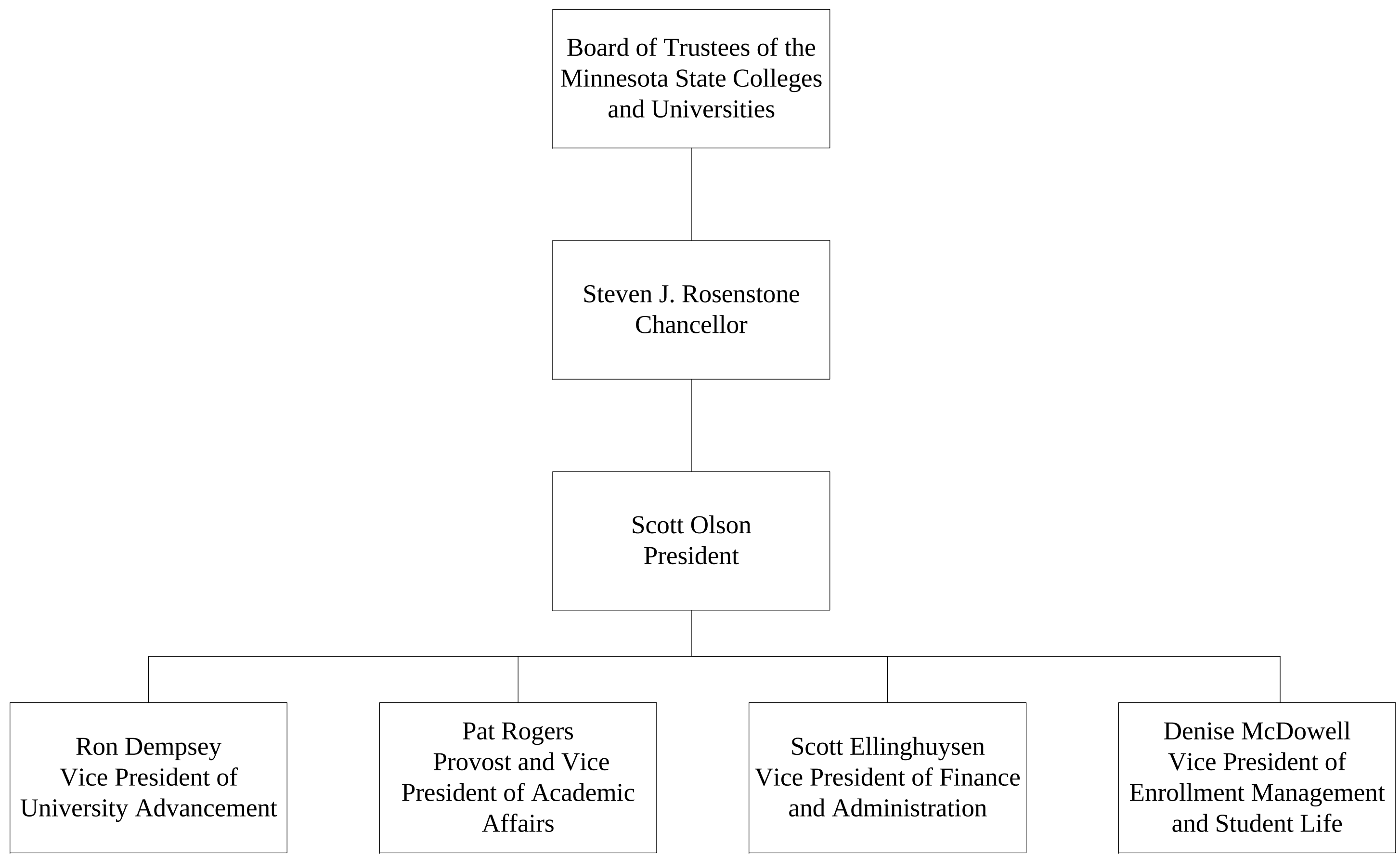
Winona State University

Organizational Chart



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

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

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

FINANCIAL SECTION

CliftonLarsonAllen LLP
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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 Winona State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Winona State University Foundation, which represents 100% of the total assets and total revenues of the discretely presented component unit of Winona State University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Winona State University Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Winona State University Foundation were not audited in accordance with *Government Auditing Standards*.

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

Auditors' Responsibility (Continued)

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 report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Winona State University, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows, were applicable, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only Winona State University and do not purport to, and do not present fairly the financial position of Minnesota State Colleges and Universities as of June 30, 2016 and 2015, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Board of Trustees
Minnesota State Colleges and Universities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of Winona State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Winona State University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

INTRODUCTION

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

Winona State University is one of 37 colleges and universities comprising Minnesota State. Minnesota State is governed by a 15 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.

The university is a comprehensive public higher education institution that serves more than 7,800 students including 372 graduate and professional students. Approximately 1,200 faculty and staff members are employed by the university. Founded in 1858, Winona State University is the oldest member of Minnesota State. The university is a premier regional university offering more than 80 academic and 10 pre-professional, certificate, and licensure, graduate, and doctorate programs between its two campuses: the Main campus, in Winona, MN, and Winona State University-Rochester in Rochester, MN. The university is accredited by 11 national accrediting agencies, including the Association to Advance Collegiate Schools of Business International (AACSB) and the Higher Learning Commission (HLC).

The five colleges that comprise the university's academic programs are as follows:

- Business
- Education
- Liberal Arts
- Nursing and Health Sciences
- Science and Engineering

FINANCIAL HIGHLIGHTS

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by $34.2 million to retroactively report the net pension liability and the deferred inflows and deferred outflows of resources. Fiscal year 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year. Comparability between fiscal years will have variances due to this new accounting standard and is explained throughout the management discussion and analysis.

The university's financial position improved during fiscal year 2016 with net position increasing by $6.8 million, or 4.8 percent, on total revenues of $148.5 million. Excluding the GASB Statement No. 68 effect, fiscal years 2016 and 2015 net position increased by $3.7 million, or 2.1 percent, and $1.5 million or 0.8 percent, respectively. Of that increase, $4.1 million for fiscal year 2016 and $1.2 million for fiscal year 2015, were due to an increase in net investment in capital assets.

The university experienced an increase of $2.7 million in state appropriation revenue and experienced a $0.4 million increase in its gross tuition and fees revenue during fiscal year 2016. The university also saw an increase in operating expenses of $4.7 million in fiscal year 2016.

For the fiscal year ended June 30, 2016, assets and deferred outflows totaled $259.0 million while liabilities and deferred inflows totaled $109.8 million. Net position, which represent the residual interest in the university's assets and deferred outflows after liabilities and deferred inflows are deducted, is comprised of net investment in capital assets of $126.0 million, restricted net position of $17.8 million and unrestricted net position of $5.4 million.

USING THE FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

The statements of net position present the financial position of the university at the end of the fiscal year and include all assets and deferred outflows and liabilities and deferred inflows of the university as measured using the accrual basis of accounting. The difference between total assets and deferred outflows and total liabilities and deferred inflows is net position, one indicator of the current financial condition of the university. The change in net position is an indicator of whether the overall financial condition has improved or declined during the year. Capital assets are stated at historical cost, less an allowance for depreciation, with current year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net position.

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

(In Thousands)

	2016	2015	2014
Current assets	$ 82,547	$ 82,455	$ 85,839
Noncurrent assets	2,057	2,086	2,086
Capital assets, net	167,719	167,222	170,445
Deferred outflows of resources	6,660	2,537	-
Total assets and deferred outflows of resources	258,983	254,300	258,370
Current liabilities	20,049	20,701	25,469
Noncurrent liabilities	75,219	75,663	60,404
Deferred inflows of resources	14,492	15,494	-
Total liabilities and deferred inflows of resources	109,760	111,858	85,873
Net position	$ 149,223	$ 142,442	$ 172,497

Current assets consist primarily of cash and cash equivalents (unrestricted) and investments totaling $68.9 million at June 30, 2016. This number remains constant compared to fiscal year 2015 and represents 6.3 months of operating expenses (excluding depreciation). This is compared to 6.3 months and 6.6 months for the fiscal years ended June 30, 2015 and 2014, respectively. This is a measure of liquid asset availability to cover operating expenses in the event of a temporary interruption to or decrease in the university's revenues. In fiscal years 2016 and 2015 $6.7 million and $2.5 million of deferred outflows were reported respectively, which represent the consumption of net position in one period that is applicable to future periods, and is primarily due to the GASB Statement No. 68 implementation.

Current liabilities consist primarily of salaries and benefits payable and accounts payable. Salaries and benefits payable at June 30, 2016 increased from the prior year by $0.4 million, or 4.6 percent, to a total of $8.3 million, primarily due to two extra days being accrued after June 30, 2016 compared to fiscal year 2015. Consistent with prior years, the salaries and benefits payable accrual included about two months of earned salary for faculty who elected to receive salaries over twelve months on a September 1 through August 31 year.

Accounts payable and other liabilities, including payables from restricted assets, decreased $0.5 million or 10.8 percent, primarily due to less construction activity. Unearned revenue consists of summer session tuition and grant receipts received, but not yet earned. At June 30, 2016, $2.3 million was held as unearned revenue. Summer session began in May and ended in August 2016, with tuition being allocated based on the number of session days in fiscal year 2016.

In fiscal years 2016 and 2015 $14.5 million and $15.5 million of deferred inflows were reported respectively, which represent the acquisition of net position in one period that is applicable to future periods, and is primarily due to the GASB Statement No. 68 implementation. Additionally, the GASB Statement No. 68 implementation resulted in a net pension liability for fiscal years 2016 and 2015 in the amounts of $20.7 million and $18.6 million, respectively.

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

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

(In Thousands)

	2016	2015	2014
Net investment in capital assets	$ 126,002	$ 121,870	$ 120,696
Restricted expendable, bond covenants	11,316	10,294	12,297
Restricted expendable, other	6,488	6,595	6,777
Unrestricted	5,417	3,683	32,727
Total Net Position	$ 149,223	$ 142,442	$ 172,497

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

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

CAPITAL AND DEBT ACTIVITIES

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

Capital assets, net of accumulated depreciation, totaled $167.7 million as of June 30, 2016. This represents an increase of $0.5 million compared to June 30, 2015 and a decrease of $3.2 million compared to June 30, 2014.

Capital outlays primarily consist of recently completed replacement and renovation of existing facilities, as well as significant investments in equipment and library materials. Capital outlays totaled $10.2 million in fiscal year 2016, an increase of $2.8 million from fiscal year 2015. Significant capital outlays made in fiscal year 2016 include the renovation of academic facilities, student residence halls, and capital projects which include the Pedestrian Tunnel and Education Village projects.

Long-term debt payable on June 30, 2016 consisted primarily of $9.3 million of general obligation bonds and $33.1 million of revenue bonds. The general obligation bonds are primarily used to finance construction of buildings and repairs. Revenue bonds are issued for the construction and maintenance of revenue producing facilities such as residence halls and the student union. Additional information on capital and debt activities can be found in Notes 6 and 8 in the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

(In Thousands)

	2016	2015	2014
Operating revenues:			
Tuition, fees and sales, net	$ 66,020	$ 65,176	$ 66,020
Restricted student payments, net	21,459	20,474	20,590
Other income	1,469	1,596	1,437
Total operating revenues	88,948	87,246	88,047
Nonoperating revenues and other revenues:			
State appropriations	36,955	34,228	32,033
Capital appropriations	1,428	762	894
Grants	19,890	17,870	17,669
Other	1,292	1,263	1,324
Total nonoperating and other revenues	59,565	54,123	51,920
Total revenues	148,513	141,369	139,967
Operating expenses:			
Salaries and benefits	86,716	83,876	86,880
Depreciation	9,892	9,799	9,713
Financial aid, net	1,026	502	995
Other	42,096	40,861	43,178
Total operating expenses	139,730	135,038	140,766
Nonoperating and other expenses:			
Interest expense	2,002	2,100	2,229
Other	-	88	72
Total nonoperating and other expenses	2,002	2,188	2,301
Total expenses	141,732	137,226	143,067
Change in net position	6,781	4,143	(3,100)
Net position, beginning of year	142,442	172,497	175,597
Cumulative effect of change in accounting principle	-	(34,198)	-
Net position, beginning of year, as restated	142,442	138,299	175,597
Net position, end of year	$ 149,223	$ 142,442	$ 172,497

Tuition and state appropriations are the primary sources of funding for the university's operations. Gross tuition revenue increased $0.3 million to $59.5 million in fiscal year 2016 as a result of a 3.5 percent increase in tuition rates along with a 3.7 percent decline in enrollment. This follows a decrease of $0.3 million in fiscal year 2015 as a net result of 1.4 percent decrease in enrollment coupled with frozen undergraduate tuition rates and a 3.0 percent increase in graduate tuition rates. State appropriation totaled $37.0 million in 2016, an increase of $2.7 million and $4.9 million over fiscal years 2015 and 2014, respectively.

Operating expenses as of June 30, 2016 increased by $4.7 million over fiscal year 2015. The resources expended for employee compensation and benefits totaled $86.7 million for the fiscal year ended June 30, 2016, which represents an increase of $2.8 million over 2015, with the majority of that related to a bargaining unit contract increases, along with an increase in full time equivalents. Excluding GASB Statement No. 68 effect, the net decrease in compensation was $3.3 million or a 3.8 percent increase over fiscal year 2015.

FOUNDATION

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Given recent enrollment declines at the university, it is important that the institution closely monitor the enrollment trends and make key investments in order to ensure enrollment stabilizes. High school graduation rates have either stabilized or begun their uptick after a period of time of declining numbers of high school graduates. However, the largest growth rates in new high school graduates will be from diverse students. Winona State University will have to make additional investments in order to attract and serve these diverse students.

Winona State University continues to have one of the highest facilities condition index in the Minnesota State system. This situation is primarily due to the age of our facilities and will require significant investment in the next 5 to 10 years. Specifically, residence halls will need to be updated and modernized in order to offer the amenities that today's students are demanding.

REQUESTS FOR INFORMATION

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

Vice President of Finance and Administration/CFO
Winona State University
PO Box 5838
Winona, MN 55987

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WINONA STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

Assets	2016	2015
Current Assets		
Cash and cash equivalents	$ 63,544	$ 62,960
Investments	5,319	5,952
Grants receivable	701	450
Accounts receivable, net	2,901	2,785
Prepaid expense	1,714	1,706
Inventory and other assets	904	894
Student loans, net	345	345
Total current assets	75,428	75,092
Current Restricted Assets		
Cash and cash equivalents	7,119	7,363
Total current restricted assets	7,119	7,363
Noncurrent Assets		
Student loans, net	2,057	2,086
Capital assets, net	167,719	167,222
Total noncurrent assets	169,776	169,308
Total Assets	252,323	251,763
Deferred Outflows of Resources	6,660	2,537
Total Assets and Deferred Outflows of Resources	258,983	254,300
Liabilities		
Current Liabilities		
Salaries and benefits payable	8,272	7,907
Accounts payable	3,801	4,133
Unearned revenue	2,337	2,725
Payable from restricted assets	308	475
Interest payable	363	381
Funds held for others	324	370
Current portion of long-term debt	3,355	3,342
Other compensation benefits	1,289	1,368
Total current liabilities	20,049	20,701
Noncurrent Liabilities		
Noncurrent portion of long-term debt	41,641	45,068
Other compensation benefits	10,165	9,442
Net pension liability	20,699	18,558
Capital contributions payable	2,714	2,595
Total noncurrent liabilities	75,219	75,663
Total Liabilities	95,268	96,364
Deferred Inflows of Resources	14,492	15,494
Total Liabilities and Deferred Inflows of Resources	109,760	111,858
Net Position		
Net investment in capital assets	126,002	121,870
Restricted expendable, bond covenants	11,316	10,294
Restricted expendable, other	6,488	6,595
Unrestricted	5,417	3,683
Total Net Position	$ 149,223	$ 142,442

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015
(IN THOUSANDS)

		2016		2015
Assets				
Current Assets				
Cash and cash equivalents	$	3,182	$	1,559
Pledges and contributions receivable, net		248		340
Other receivables		78		227
Prepaid expenses		8		8
Accrued investment/Interest income		25		19
Annuities/Remainder interests/Trusts		143		153
Total current assets		3,684		2,306
Noncurrent Assets				
Investments		31,906		31,877
Long-term pledges receivable		437		741
Buildings, property, and equipment, net		8,700		9,048
Other assets		2,278		917
Total noncurrent assets		43,321		42,583
Total Assets	$	47,005	$	44,889
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	124	$	64
Interest payable		12		12
Annuities payable		324		351
Mortgage payable		549		555
Total current liabilities		1,009		982
Noncurrent Liabilities				
Notes payable		1,167		37
Mortgage payable		5,041		5,533
Total noncurrent liabilities		6,208		5,570
Total Liabilities		7,217		6,552
Net Assets				
Unrestricted		2,431		2,167
Temporarily restricted		13,876		14,324
Permanently restricted		23,481		21,846
Total Net Assets		39,788		38,337
Total Liabilities and Net Assets	$	47,005	$	44,889

The notes are an integral part of the financial statements.

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

	2016	2015
Operating Revenues		
Tuition, net	$ 43,708	$ 43,770
Fees, net	5,706	5,236
Sales and room and board, net	16,606	16,170
Restricted student payments, net	21,459	20,474
Other income	1,469	1,596
Total operating revenues	88,948	87,246
Operating Expenses		
Salaries and benefits	86,716	83,876
Purchased services	24,901	24,346
Supplies	7,790	7,810
Repairs and maintenance	2,037	2,252
Depreciation	9,892	9,799
Financial aid, net	1,026	502
Other expense	7,368	6,453
Total operating expenses	139,730	135,038
Operating loss	(50,782)	(47,792)
Nonoperating Revenues (Expenses)		
Appropriations	36,955	34,228
Federal grants	11,506	9,886
State grants	5,531	5,320
Private grants	2,853	2,664
Interest income	765	743
Interest expense	(2,002)	(2,100)
Grants to/from other organizations	49	(23)
Total nonoperating revenues (expenses)	55,657	50,718
Income Before Other Revenues, Expenses, Gains, or Losses	4,875	2,926
Capital appropriations	1,428	762
Donated assets and supplies	388	520
Gain (loss) on disposal of capital assets	90	(65)
Change in net position	6,781	4,143
Total Net Position, Beginning of Year	142,442	172,497
Cumulative Effect of Change in Accounting Principle	-	(34,198)
Total Net Position, Beginning of Year, as Restated	142,442	138,299
Total Net Position, End of Year	$ 149,223	$ 142,442

The notes are an integral part of the financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and Revenue					
Contributions	$ 511	$ 1,387	$ 1,564	$ 3,462	$ 4,073
Investment income	64	874	-	938	979
Realized gain (loss)	(21)	(291)	-	(312)	5,612
Unrealized loss	(56)	(781)	(10)	(847)	(5,731)
Program income	711	247	-	958	873
Fundraising income	-	121	-	121	136
Net assets released from restrictions	1,934	(1,934)	-	-	-
Reclassifications	(10)	(71)	81	-	-
Total support and revenue	3,133	(448)	1,635	4,320	5,942
Expenses					
Program services					
Program services	498	-	-	498	457
Scholarships	1,401	-	-	1,401	1,224
University activities	578	-	-	578	870
Special projects	125	-	-	125	30
Total program services	2,602	-	-	2,602	2,581
Supporting services					
Management and general	139	-	-	139	74
Fundraising	128	-	-	128	87
Total supporting services	267	-	-	267	161
Total expenses	2,869	-	-	2,869	2,742
Change in Net Assets	264	(448)	1,635	1,451	3,200
Net Assets, Beginning of Year	2,167	14,324	21,846	38,337	35,137
Net Assets, End of Year	$ 2,431	$ 13,876	$ 23,481	$ 39,788	$ 38,337

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Support and Revenue				
Contributions	$ 815	$ 962	$ 2,296	$ 4,073
Investment income	87	892	-	979
Realized gain	498	5,114	-	5,612
Unrealized loss	(507)	(5,224)	-	(5,731)
Program income	720	153	-	873
Fundraising income	-	136	-	136
Net assets released from restrictions	1,841	(1,841)	-	-
Reclassifications	(31)	(3)	34	-
Total support and revenue	3,423	189	2,330	5,942
Expenses				
Program services				
Program services	457	-	-	457
Scholarships	1,224	-	-	1,224
University activities	870	-	-	870
Special projects	30	-	-	30
Total program services	2,581	-	-	2,581
Supporting services				
Management and general	74	-	-	74
Fundraising	87	-	-	87
Total supporting services	161	-	-	161
Total expenses	2,742	-	-	2,742
Change in Net Assets	681	189	2,330	3,200
Net Assets, Beginning of Year	1,486	14,135	19,516	35,137
Net Assets, End of Year	$ 2,167	$ 14,324	$ 21,846	$ 38,337

The notes are an integral part of the financial statements.

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

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	$ 88,677	$ 86,437
Cash repayment of program loans	374	428
Cash paid to suppliers for goods or services	(42,414)	(40,623)
Cash payments for employees	(88,806)	(89,572)
Financial aid disbursements	(942)	(523)
Cash payments for program loans	(372)	(456)
Net cash flows used in operating activities	(43,483)	(44,309)
Cash Flows from Noncapital Financing Activities		
Appropriations	36,955	34,228
Federal grants	11,022	9,455
State grants	5,531	5,320
Private grants	2,853	2,664
Agency activity	(47)	(162)
Grants to/from other organizations	49	(23)
Net cash flows provided by noncapital financing activities	56,363	51,482
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(10,325)	(6,384)
Capital appropriation	1,428	762
Proceeds from sale of capital assets	184	25
Proceeds from borrowing	259	60
Proceeds from bond premium	44	14
Interest paid	(1,968)	(2,107)
Repayment of note principal	(75)	(67)
Repayment of bond principal	(3,239)	(3,746)
Net cash flows used in capital and related financing activities	(13,692)	(11,443)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	867	381
Purchase of investments	(125)	(135)
Investment earnings	410	337
Net cash flows provided by investing activities	1,152	583
Net Increase (Decrease) In Cash and Cash Equivalents	340	(3,687)
Cash and Cash Equivalents, Beginning of Year	70,323	74,010
Cash and Cash Equivalents, End of Year	$ 70,663	$ 70,323

The notes are an integral part of the financial statements.

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

	2016	2015
Operating Loss	$ (50,782)	$ (47,792)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	9,892	9,799
Provision for loan defaults	(35)	(8)
Loan principal repayments	374	428
Loans issued	(372)	(456)
Loans forgiven	63	35
Donated property not capitalized	9	-
Change in assets and liabilities		
Inventory	22	431
Accounts receivable	(116)	(596)
Accounts payable	58	(502)
Salaries and benefits payable	365	(3,142)
Other compensation benefits	644	428
Deferred inflows/outflows of resources / Net pension liability	(3,106)	(2,676)
Capital contributions payable	86	(21)
Unearned revenues	(155)	(211)
Other	(430)	(26)
Net reconciling items to be added to operating loss	7,299	3,483
Net cash flow used in operating activities	$ (43,483)	$ (44,309)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 308	$ 475
Change in fair market value of investments	109	182
Donated equipment	379	520
Investment earnings on account	63	42
Amortization of bond premium	213	216

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

Financial Reporting Entity — Minnesota State is an agency of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to fund general operations. The university receives a portion of the Minnesota State appropriation. The operations of most student organizations are included in the reporting entity because the board of trustees has certain fiduciary responsibilities for these resources.

Minnesota State may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund included herein. 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 System Director, Minnesota State, 30 7th St. E., Suite 350, St. Paul, MN 55101-7804.

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* The Winona State University Foundation is considered significant to the university and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Winona State University Foundation, Eighth & Johnson Streets, P.O. Box 5838, Winona, MN 55987-5838.

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 double counting of internal activities. Interfund receivables and payables have been eliminated in the statements of net position.

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

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

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

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

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

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

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

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

Investments — Investments are reported at fair value.

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

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

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

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

Estimated useful lives are as follows:

Asset Type	Useful Life
Buildings	35-40 years
Building improvements	15-20 years
Equipment	3-20 years
Library collections	7 years

Equipment includes all items purchased with an original cost of $10,000 and over. Buildings and building improvements includes 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 primarily assets held for student organizations and funds held for students for their campus card.

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

Long Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State facilities as approved through the state's capital budget process. The university is responsible for a portion of the debt service on the bonds sold for some university projects. The university may sell revenue bonds and may also enter into capital lease agreements for certain capital assets. Other long term liabilities include compensated absences, net pension liability, early termination benefits, and net other postemployment benefits.

Minnesota State may finance the construction, renovation, and acquisition of facilities for student residences, student unions, and parking facilities through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund included herein. 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 System Director, Minnesota State, 30 7th St. E., Suite 350, St. Paul, Minnesota 55101-7804.

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

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

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ 2,966	$ 5,701
Changes in actuarial assumptions	938	5,004
Contributions paid to pension plans subsequent to the measurement date	1,627	-
Differences between expected and actual experience	615	2,376
Changes in proportion	514	1,260
Total related to pensions	6,660	14,341
Related to Refunding:		
Economic gain on refunding of general obligation bonds	-	151
Total	$ 6,660	$ 14,492

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions:		
Differences between projected and actual investment earnings	$ -	$ 7,805
Changes in actuarial assumptions	5	7,038
Contributions paid to pension plans subsequent to the measurement date	1,574	-
Differences between expected and actual experience	757	210
Changes in proportion	196	441
Total related to pensions	2,532	15,494
Related to Refunding:		
Economic loss on refunding of revenue bonds	5	-
Total	$ 2,537	$ 15,494

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 for services or goods received. Nearly all of the university's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

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

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

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

Defined Benefit Pensions — For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, plan contributions are recognized as of the employer payroll paid dates and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The actuarially derived net pension liability, deferred outflows, and deferred inflows of resources can vary between years due to actuarial assumption changes, which can result in significant variability between years.

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

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

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

- *Restricted expendable*: net position that is subject to externally imposed stipulations. Net position restrictions for the university are as follows:

  Restricted for bond covenants — revenue bond restrictions.

  Restricted for other — includes restrictions for the following:

  Donations — restricted per donor requests.

  Capital projects/Debt service — restricted for completion of capital projects or bond debt repayments.

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

  Loans — university contributed capital for Perkins loans.

Net Position Restricted for Other
(In Thousands)

	2016	2015
Donations	$ 57	$ 114
Capital projects/Debt service	5,035	5,140
Faculty contract obligations	1,072	1,027
Loans	324	314
Total	$ 6,488	$ 6,595

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

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the university has two checking and one savings accounts in local banks. 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. This statute further requires that such insurance and collateral shall be at least ten percent greater than the amount on deposit.

The following table summarizes cash and cash equivalents:

Year Ended June 30 (In Thousands) Carrying Amount	2016	2015
Cash, in bank	$ 4,140	$ 665
Change fund	13	13
Money markets	-	4,370
Cash, trustee account (US Bank)	3,512	3,506
Total local cash and cash equivalents	7,665	8,554
Total treasury cash accounts	62,998	61,769
Grand Total	$ 70,663	$ 70,323

At June 30, 2016 and 2015, the university's bank balances were $4,262,886 and $4,837,920, respectively. These balances were adjusted by items in transit to arrive at the university's cash in bank balance.
The university's balance in the treasury, except for the Revenue Fund, is invested by the Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent. The cash accounts are invested in short term, liquid, high quality debt securities.

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

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

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

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

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

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

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

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

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

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

The university had the following investments and maturities:

Year Ended June 30, 2016
(In Thousands)

Investment Type		Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$	1,067	6.55		x	
U.S. agencies		989	7.27		x	
Asset backed security		158	3.33		x	
Total		2,214				
Portfolio weighted average maturity			6.30			
Stock		3,105			x	
Total	$	5,319				

Year Ended June 30, 2015
(In Thousands)

Investment Type		Fair Value	Weighted Maturity (Years)	Level 1	Level 2	Level 3
Corporate/municipal bonds	$	948	6.86		x	
U.S. agencies		768	9.12		x	
Asset backed security		113	4.12		x	
Total		1,829				
Portfolio weighted average maturity			6.32			
Stock		4,123			x	
Total	$	5,952				

3. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and federal and state grant receivables. At June 30, 2016 and 2015, total accounts receivable balances for the university were $4,235,216 and $3,893,124, respectively, less an allowance for uncollectible receivables of $1,334,469 and $1,108,427, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2016	2015
Sales and service	$ 1,392	$ 1,260
Tuition	1,032	819
Fees	387	326
Room and board	623	533
Third party obligations	29	397
Other	772	558
Total accounts receivable	4,235	3,893
Allowance for doubtful accounts	(1,334)	(1,108)
Net accounts receivable	$ 2,901	$ 2,785

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

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 $1,537,635 and $1,631,960 for fiscal years 2016 and 2015, respectively. Minnesota Statutes, Section 16A.641 requires all state agencies to have on hand on December 1 of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year. Also, included in prepaid expense for fiscal years 2016 and 2015 was $176,647 and $73,830, respectively, stemming from prepaid software maintenance agreements and prepaid contractual support.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The university is responsible for loan collections. As of June 30, 2016 and 2015, the total loans receivable for this program were $2,713,400 and $2,777,912, respectively, less an allowance for uncollectible loans of $311,467 and $346,529, respectively.

6. CAPITAL ASSETS

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

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 11,482	$ 185	$ -	$ -	$ 11,667
Construction in progress	4,497	8,187	193	(3,240)	9,251
Total capital assets, not depreciated	15,979	8,372	193	(3,240)	20,918
Capital assets, depreciated:					
Buildings and improvements	249,647			3,240	252,887
Equipment	15,020	856	3,124	-	12,752
Library collections	6,685	996	1,036	-	6,645
Total capital assets, depreciated	271,352	1,852	4,160	3,240	272,284
Less accumulated depreciation:					
Buildings and improvements	103,599	8,283	-	-	111,882
Equipment	12,677	660	3,482	-	9,855
Library collections	3,833	949	1,036	-	3,746
Total accumulated depreciation	120,109	9,892	4,518	-	125,483
Total capital assets depreciated, net	151,243	(8,040)	(358)	3,240	146,801
Total capital assets, net	$ 167,222	$ 332	$ (165)	$ -	$ 167,719

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 10,571	$ 911	$ -	$ -	$ 11,482
Construction in progress	3,308	4,316	768	(2,359)	4,497
Total capital assets, not depreciated	13,879	5,227	768	(2,359)	15,979
Capital assets, depreciated:					
Buildings and improvements	246,913	375	-	2,359	249,647
Equipment	14,676	850	506	-	15,020
Library collections	6,754	974	1,043	-	6,685
Total capital assets, depreciated	268,343	2,199	1,549	2,359	271,352
Less accumulated depreciation:					
Buildings and improvements	95,395	8,204	-	-	103,599
Equipment	12,461	640	424	-	12,677
Library collections	3,921	955	1,043	-	3,833
Total accumulated depreciation	111,777	9,799	1,467	-	120,109
Total capital assets, depreciated, net	156,566	(7,600)	82	2,359	151,243
Total capital assets, net	$ 170,445	$ (2,373)	$ 850	$ -	$ 167,222

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2016	2015
Purchased services	$ 1,946	$ 1,271
Supplies	420	550
Repairs and maintenance	284	206
Employee benefits	205	198
Other payables	349	920
Capital expenditures	597	988
Total accounts payable	$ 3,801	$ 4,133

In addition, as of June 30, 2016 and 2015, the university had payable from restricted assets in the amounts of $308,310 and $475,483, which were related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

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

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

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 1,377	$ 44	$ 213	$ 1,208	$ -
General obligation bonds	10,445	259	1,420	9,284	1,203
Revenue bonds	35,155	-	2,009	33,146	2,069
Note payable	1,433	-	75	1,358	83
Total long-term debt	$ 48,410	$ 303	$ 3,717	$ 44,996	$ 3,355

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 1,579	$ 14	$ 216	$ 1,377	$ -
General obligation bonds	11,664	60	1,279	10,445	1,258
Revenue bonds	37,623	-	2,468	35,155	2,009
Note payable	1,500	-	67	1,433	75
Total long-term debt	$ 52,366	$ 74	$ 4,030	$ 48,410	$ 3,342

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

Year Ended June 30, 2016
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 9,105	$ 1,657	$ 1,266	$ 9,496	$ 1,204
Early termination benefits	160	85	160	85	85
Net other postemployment benefits	1,545	635	307	1,873	-
Total other compensation benefits	$ 10,810	$ 2,377	$ 1,733	$ 11,454	$ 1,289

Year Ended June 30, 2015
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 8,989	$ 1,426	$ 1,310	$ 9,105	$ 1,208
Early termination benefits	155	160	155	160	160
Net other postemployment benefits	1,238	607	300	1,545	-
Total other compensation benefits	$ 10,382	$ 2,193	$ 1,765	$ 10,810	$ 1,368

Bond Premium — Bonds were issued in fiscal year 2016 and 2015 resulting in net premiums of $44,269 and $14,116, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

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

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for residence hall, food service, student union, and other revenue-producing and related facilities at the state colleges and universities. Revenue bonds currently outstanding have interest rates between 1.0 percent and 5.0 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 15.83 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $43,847,345. Principal and interest paid for the current year and total customer net revenues were $3,496,400 and $21,987,077, respectively.

Note Payable — The note payable consists of an energy savings initiative loan with Bank of America at an interest rate of 4.92 percent. The total principal and interest remaining to be paid on the loan is $1,756,700 and $1,900,654 at June 30, 2016 and 2015, respectively.

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

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

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

Net Pension Liability — The net pension liability of $20,698,511 and $18,558,432 at June 30, 2016 and 2015, is the proportionate share of the unfunded pension liability of the defined benefit pension plans as required by GASB Statement No. 68. Note 14 to the financial statements provides additional information.

Capital Contributions — The liabilities of $2,713,715 and $2,594,538 at June 30, 2016 and 2015, respectively, represent the amount the university would owe the federal government if it were to discontinue the Perkins Loan program. The net change is $119,177 and $(21,871) for the fiscal years 2016 and 2015, respectively.

Principal and interest payment schedules are provided in the following table for note payable, general obligation bonds, and revenue bonds. There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, net pension liability, or capital contributions.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Note Payable		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 83	$ 65	$ 1,203	$ 429	$ 2,069	$ 1,411
2018	92	61	1,203	369	2,139	1,331
2019	101	56	1,085	311	2,220	1,247
2020	111	51	979	260	2,302	1,159
2021	122	45	950	212	2,400	1,065
2022-2026	761	120	3,318	455	12,676	3,715
2027-2031	88	1	469	50	8,940	755
2032-2036	-	-	77	11	400	18
Total	$ 1,358	$ 399	$ 9,284	$ 2,097	$ 33,146	$ 10,701

9. EARLY TERMINATION BENEFITS

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

Certain bargaining unit contracts, 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 benefit arrangements for each contract, including number of retired employees receiving the benefit, and the amount of future liability as of the end of fiscal years 2016 and 2015.

Inter Faculty Organization (IFO) contract

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

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	2	$ 45
2015	3	137

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

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2016	2	$ 40
2015	1	23

10. NET OTHER POSTEMPLOYMENT BENEFITS

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

As of July 1, 2014 there were approximately 37 retirees receiving health benefits from the health plan.

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

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

Components of the Annual OPEB Cost
(In Thousands)

	2016	2015
Annual required contribution (ARC)	$ 629	$ 601
Interest on net OPEB obligation	63	51
Adjustment to ARC	(57)	(45)
Annual OPEB cost	635	607
Contributions during the year	(307)	(300)
Increase in net OPEB obligation	328	307
Net OPEB obligation, beginning of year	1,545	1,238
Net OPEB obligation, end of year	$ 1,873	$ 1,545

The university's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2016 and 2015 were:

Year Ended June 30
(In Thousands)

	2016	2015
Beginning of year net OPEB obligation	$ 1,545	$ 1,238
Annual OPEB cost	635	607
Employer contribution	(307)	(300)
End of year net OPEB obligation	$ 1,873	$ 1,545
Percentage contributed	48.35%	49.42%

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2014	$ -	$ 5,166	$ 5,166	0.00	$ 66,506	7.77

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

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

In the July 1, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.1 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3.0 percent. The annual healthcare cost trend rate is 6.8 percent initially, reduced incrementally to an ultimate rate of 4.0 percent after sixty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Operating Leases — The university is committed under various leases primarily for building space and laptops. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2016 and 2015, totaled approximately $7,435,000 and $6,798,000, respectively. Included is a lease with the foundation for the East Lake Apartments.

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

Year Ended June 30 (In Thousands)		
Fiscal Year		Amount
2017	$	6,463
2018		3,861
2019		1,204
2020		691
2021		691
2022-2026		3,453
2027-2031		886
Total	$	17,249

Income Leases — The university has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2016 and 2015, totaled $35,061 and $48,279, respectively, and is included in other income on the statements of revenues, expenses, and changes in net position. Future expected income receipts for existing lease agreements are $150,989 in fiscal year 2016.

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

Year Ended June 30 (In Thousands)		
Fiscal Year		Amount
2017	$	46
2018		34
2019		35
2020		36
Total	$	151

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

	2016			2015		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 59,510	$ (15,802)	$ 43,708	$ 59,227	$ (15,457)	$ 43,770
Fees	6,500	(794)	5,706	5,957	(721)	5,236
Sales and room and board	16,606	-	16,606	16,170	-	16,170
Restricted student payments	21,887	(428)	21,459	20,898	(424)	20,474
Total	$ 104,503	$ (17,024)	$ 87,479	$ 102,252	$ (16,602)	$ 85,650

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2016
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 8,643	$ 2,298	$ 5,102	$ 72	$ 16,115
Institutional support	7,034	2,341	6,376	62	15,813
Instruction	35,956	9,715	9,429	371	55,471
Public service	214	66	103	2	385
Research	6	60	440	-	506
Student services	7,921	2,055	5,065	66	15,107
Auxiliary enterprises	7,928	2,479	25,473	1,429	37,309
Scholarships & fellowships	-	-	1,026	-	1,026
Less interest expense	-	-	-	(2,002)	(2,002)
Total operating expenses	$ 67,702	$ 19,014	$ 53,014	$ -	$ 139,730

Year Ended June 30, 2015
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 8,675	$ 2,367	$ 4,822	$ 79	$ 15,943
Institutional support	6,499	2,216	6,022	62	14,799
Instruction	34,427	9,377	9,605	386	53,795
Public service	231	75	112	2	420
Research	56	6	225	-	287
Student services	7,497	1,984	4,268	67	13,816
Auxiliary enterprises	8,047	2,419	25,606	1,504	37,576
Scholarships & fellowships	-	-	502	-	502
Less interest expense	-	-	-	(2,100)	(2,100)
Total operating expenses	$ 65,432	$ 18,444	$ 51,162	$ -	$ 135,038

14. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund

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

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

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

Contributions - Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5 percent of their annual covered salary in fiscal years 2016 and 2015. The university's contribution to the General Plan for the fiscal years ending June 30, 2016 and 2015 were $879,080 and $840,273, respectively. These contributions were equal to the contractually required contributions for each year as set by state statute.

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

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

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

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2015 was 2014, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2015, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 3.80 percent. A similar analysis was performed as of July 1, 2013, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 4.63 percent.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of $8,690,266 and $9,655,962, respectively, for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on the employer contributions received by MSRS during the measurement periods July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.56 percent and 0.60 percent, respectively.

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

A change was made in assumptions that affect the measurement of the total pension liability since the prior measurement date. The assumed post-retirement benefit increase rate was changed from 2 percent through 2015, and 2.5 percent thereafter, to 2.0 percent per year through 2043, and 2.5 percent per year thereafter.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	One Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	One Percent Increase in Discount Rate (8.9%)
June 30, 2016	$ 17,789	$ 8,691	$ 1,118
June 30, 2015	19,487	9,656	1,487

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university recognized a reduction in pension expense of $2,268,340 and $1,486,541, respectively, related to pensions. At June 30, 2016 and 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ 1,775	$ 3,561
Changes in actuarial assumptions	-	5,004
Contributions paid to MSRS subsequent to the measurement date	879	-
Differences between expected and actual economic experience	-	2,376
Changes in proportion	147	911
Total	$ 2,801	$ 11,852

	2015 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 5,008
Changes in actuarial assumptions	-	7,038
Contributions paid to MSRS subsequent to the measurement date	840	-
Differences between expected and actual economic experience	-	210
Changes in proportion	196	-
Total	$ 1,036	$ 12,256

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

(In Thousands)		
Fiscal Year		Amount
2017	$	(3,196)
2018		(3,196)
2019		(3,196)
2020		(342)
Total	$	(9,930)

Teachers Retirement Fund

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

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

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent per year 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 or beneficiaries by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

Contributions - Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. TRA Basic Plan members and Coordinated Plan members were required to contribute 11.0 percent and 7.50 percent, respectively, of their annual covered salary in fiscal years 2016 and 2015. In fiscal years 2016 and 2015, the employer was required to contribute 11.50 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. The university's contributions to the TRA for the fiscal years ended June 30, 2016 and 2015, were $747,992 and $733,890, respectively. These contributions were equal to the required contributions for each year as set by state statute.

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

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

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

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 8.00 percent and 8.25 percent, respectively. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of $12,007,005 and $8,865,653, respectively for its proportionate share of TRA net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of those dates. The university's proportion of the net pension liability was based on the employer contributions received by TRF during the measurement periods July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of TRF's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.19 percent.

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

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

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1 Percent Increase in Discount Rate (9.00%)
June 30, 2016	$ 18,276	$ 12,007	$ 6,775

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (7.25%)	Discount Rate (8.25%)	1 Percent Increase in Discount Rate (9.25%)
June 30, 2015	$ 14,652	$ 8,865	$ 4,042

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university's recognized pension expense of $780,692 and $381,816, respectively, related to pensions. At June 30, 2016 and 2015, the university's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ 1,191	$ 2,132
Changes in actuarial assumptions	935	-
Contributions paid to TRA subsequent to the measurement date	748	-
Differences between expected and actual economic experience	615	-
Changes in proportion	367	349
Total	$ 3,856	$ 2,481

		2015 (In Thousands)		
		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between projected and actual investment earnings	$	-	$	2,787
Contributions paid to TRA subsequent to the measurement date		734		-
Differences between expected and actual economic experience		757		-
Changes in proportion		-		441
Total	$	1,491	$	3,228

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

(In Thousands)		
Fiscal Year		Amount
2017	$	(67)
2018		(67)
2019		(67)
2020		685
2021		143
Total	$	627

General Employees Retirement Fund

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

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

GERF Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year.

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Contributions - Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. GERF Contributions Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in calendar years 2016 and 2015. In calendar years 2016 and 2015, the employer was required to contribute 11.78 percent of pay for Basic Plan members and 7.5 percent for Coordinated Plan members. The university contributions to the GERF for the plan's fiscal years ended June 30, 2016 and 2015, were $0 and $104, respectively. These contributions were equal to the required contributions for each year as set by state statute.

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

Measurement Date	June 30, 2015	June 30, 2016
Inflation	2.75 percent per year	2.75 percent per year
Active member payroll growth	3.50 percent per year	3.50 percent per year
Investment rate of return	8.00 percent	7.90 percent

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

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

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

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

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

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

Net Pension Liability - At June 30, 2016 and 2015, the university reported a liability of $1,247 and $36,817, respectively, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on the university's contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2014 through June 30, 2015 and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015 and 2014, the university's proportion was 0.0007 and 0.0008 percent, respectively.

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

	Proportionate Share of Net Pension Liability (In Thousands)		
	1 Percent Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1 Percent Increase in Discount Rate (8.9%)
June 30, 2016	$ 2	$ 1	$ 1
June 30, 2015	59	37	18

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2016 and 2015, the university recognized (reduction in) pension expense of $(915) and $2,733, respectively, related to pensions. At June 30, 2016 and 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 (In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ -	$ 8
Changes in actuarial assumptions	3	-
Total	$ 3	$ 8

		2015 (In Thousands)		
		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between projected and actual investment earnings	$	-	$	10
Changes in actuarial assumptions		5		-
Total	$	5	$	10

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

(In Thousands)		
Fiscal Year		Amount
2017	$	(1)
2018		(1)
2019		(3)
Total	$	(5)

Minnesota State Defined Contribution Retirement Fund

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

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

Individual Retirement Account Plan (IRAP)

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

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

Required contributions for the university were:

(In Thousands)		
Fiscal Year	Employer	Employee
2016	$ 2,034	$ 1,525
2015	2,014	1,511
2014	1,871	1,391

Supplemental Retirement Plan (SRP)

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

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

Member Group	Eligible Compensation	Maximum Annual Contributions
Administrators	$ 6,000 to 60,000	$ 2,700
Inter Faculty Organization	6,000 to 51,000	2,250
Middle Management Association Unclassified	6,000 to 40,000	1,700
Minnesota Association of Professional Employees Unclassified	6,000 to 40,000	1,700
Minnesota State University Association of Administrative & Service Faculty	6,000 to 50,000	2,200
Other Unclassified Members	6,000 to 40,000	1,700

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

Required contributions for the university were:

(In Thousands)	
Fiscal Year	Amount
2016	$ 972
2015	948
2014	935

Voluntary Retirement Savings Plans

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

Minnesota Deferred Compensation Plan is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2016, the plan had 230 participants.

In addition, to the state's Deferred Compensation program, Minnesota State also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2016, the plan had 299 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 and losses, assets, deferred outflows, liabilities, and deferred inflows that are required by an external party to be accounted for separately.

Minnesota State issues revenue bonds to finance the university dormitories and buildings.

Winona State University Portion of the Revenue Fund
(In Thousands)

	2016	2015
CONDENSED STATEMENTS OF NET POSITION		
Assets		
Current assets	$ 15,329	$ 15,109
Restricted assets	7,007	7,014
Noncurrent assets	64,319	65,554
Total assets	86,655	87,677
Deferred Outflows of Resources	466	183
Total assets and deferred outflows of resources	87,121	87,860
Liabilities		
Current liabilities	3,656	4,605
Noncurrent liabilities	33,517	35,433
Total liabilities	37,173	40,038
Deferred Inflows of Resources	1,004	1,085
Total liabilities and deferred inflows of resources	38,177	41,123
Net Position		
Net investment in capital assets	34,131	32,935
Restricted	14,813	13,802
Total net position	$ 48,944	$ 46,737
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 21,987	$ 20,947
Other operating expenses	(18,484)	(18,065)
Net operating income	3,503	2,882
Nonoperating revenues (expenses)	(1,296)	(1,409)
Change in net position	2,207	1,473
Total net position, beginning of year	46,737	47,658
Cumulative effect of change in accounting principle	-	(2,394)
Total net position, beginning of year, as restated	46,737	45,264
Total net position, end of year	$ 48,944	$ 46,737
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided by (used in)		
Operating activities	$ 6,188	$ 5,658
Capital and related financing activities	(5,807)	(6,283)
Investing activities	109	36
Net increase (decrease) in cash and cash equivalents	490	(589)
Cash and cash equivalents, beginning of year	21,001	21,590
Cash and cash equivalents, end of year	$ 21,491	$ 21,001

16. COMMITMENTS AND CONTINGENCIES

Future commitments consist of construction projects that are funded by revenue bond proceeds and operating revenues. The university has incurred costs of approximately $4.5 million towards the construction of an underground pedestrian tunnel, which has an estimated completion date of spring 2017. This project is partially funded through the Minnesota Department of Transportation and Winona State University with an estimated cost of $10.0 million.

As of June 30, 2016 the university has incurred costs of approximately $2.8 million toward the Education Village. This project has an estimated cost of $5.9 million in the first phase. If funded, an additional $25.3 million will be incurred in the second phase. The total cost is estimated at $31.2 million.

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 Risk Management Fund. The university also purchased optional physical damage coverage for their newest or most expensive vehicles.

Property and casualty coverage is required by Minnesota State policy. The university also purchased professional liability for employed physicians and student health services professional liability insurance. Property coverage offered by the Minnesota Risk Management Fund are as follows:

Coverage Type	Amount
Institution deductible	$500 to $50,0000
Fund responsibility	$1,000,000
Primary re-insurer coverage	$1,000,001 to $25,000,000
Multiple re-insurers' coverage	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by re-insurer	$2,500,000
Maintenance deductible for additional claims	$25,000

The university retains the risk of loss. The university did not have any settlements in excess of coverage in the last three years. The Risk Management Fund purchased student intern professional liability insurance on the open market for the university.

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

Workers' compensation liability is covered through self-insurance in which Minnesota State pays the cost of claims through the State of Minnesota Workers' Compensation Revolving Fund. A Minnesota State workers' compensation premium pool helps our institutions budget for the volatility of claims. Annual premiums for the pool are assessed to our institutions based on salary dollars and claims history. The pool pays the claims. The State of Minnesota is reinsured by the Workers' Compensation Reinsurance Association for catastrophic workers' compensation claims. Annual premiums for the university for fiscal years 2016 and 2015 were $275,749 and $366,993, respectively.

18. COMPONENT UNITS

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with the university is a legally separate, tax exempt entity and reported as a component unit.

The Winona State University Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the university. The university does not appoint any members of the board and the resources held by the foundation can only be used by, or for, the benefit of the university.

The foundation's relationship with the institution is such that exclusion of the foundations' financial statements would cause the university financial statements to be misleading or incomplete. The foundation is considered a component unit of the university, and their statements are discretely presented in the university's financial statements.

The foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the FASB ASC 958-205, *Presentations of Financial Statements*.

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

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

The university received $2,601,600 and $2,580,479 from its foundation for scholarships and other university support in fiscal years 2016 and 2015, respectively. Also, the university operates the East Lake Apartments which are owned by the foundation and leased by the university. The university collects the revenue and pays the expenses for the apartments. The residual goes to the foundation as operating lease payments.

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

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

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

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Mutual funds	$ 26,688	$ 26,027	$ -	$ 661
Equity securities	3,831	3,531	300	-
Bonds/U.S treasuries	1,387	1,387	-	-
Total	$ 31,906	$ 30,945	$ 300	$ 661

Schedule of Investments
As of June 30
(In Thousands)

		Fair Value Measurements Using		
	2015	Level 1	Level 2	Level 3
Mutual funds	$ 24,676	$ 24,180	$ -	$ 496
Equity securities	4,954	4,654	300	-
Bonds/U.S treasuries	2,247	2,247	-	-
Total	$ 31,877	$ 31,081	$ 300	$ 496

Property and Equipment — The foundation has developed student housing to be used by the students of the university.

Schedule of Property and Equipment
As of June 30
(In Thousands)

	2016	2015
Property and equipment, not depreciated		
Land	$ 552	$ 552
Total property and equipment, not depreciated	552	552
Property and equipment, depreciated:		
Buildings and improvements	10,745	10,745
Equipment	1,319	1,319
Total property and equipment, depreciated	12,064	12,064
Total accumulated depreciation	(3,916)	(3,568)
Total property and equipment depreciated, net	8,148	8,496
Total property and equipment, net	$ 8,700	$ 9,048

Long Term Obligations — The foundation has entered into a loan agreement with a local bank that allows the foundation to borrow up to $3,000,000. The foundation has borrowed $1,167,279 under this agreement. Borrowings under this agreement carry an interest rate of 2.39 percent and are secured by investments with a fair market value of $12,041,746.

The foundation has a mortgage payable to finance the construction and startup operations of the student housing project of $6.1 million.

Future scheduled debt payments are as follows:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2017	$ 549
2018	564
2019	579
2020	595
2021	610
Thereafter	2,693
Total	$ 5,590

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

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

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 9,933	$ 21,693	$ 31,626
Contributions	541	1,565	2,106
Investment income (loss)	(172)	-	(172)
Amounts appropriated for expenditures	(870)	-	(870)
Other transfers	49	80	129
Net assets, end of year	$ 9,481	$ 23,338	$ 32,819

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

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 9,999	$ 19,360	$ 29,359
Contributions	194	2,299	2,493
Investment income	733	-	733
Amounts appropriated for expenditures	(807)	-	(807)
Other transfers	(186)	34	(152)
Net assets, end of year	$ 9,933	$ 21,693	$ 31,626

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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WINONA STATE UNIVERSITY
SCHEDULE OF FUNDING PROGRESS FOR NET OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	$ —	$ 4,936	$ 4,936	0.00	$ 52,706	9.37
July 1, 2008	—	5,155	5,155	0.00	54,009	9.54
July 1, 2010	—	6,120	6,120	0.00	60,436	10.13
July 1, 2012	—	4,278	4,278	0.00	58,082	7.37
July 1, 2014	—	5,166	5,166	0.00	66,506	7.77

WINONA STATE UNIVERSITY
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.60	$ 9,656	$15,249	63.32	87.64
June 30, 2015	0.56	8,691	15,278	56.88	88.32

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By MSRS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 840	$ 840	$ —	$ 15,278	5.50
June 30, 2016	879	879	—	15,983	5.50

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

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

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

WINONA STATE UNIVERSITY
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
TEACHERS RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.19	$ 8,865	$ 8,780	100.97	81.50
June 30, 2015	0.19	12,007	9,785	122.71	76.77

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By TRA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ 734	$ 734	$ —	$ 9,785	7.50
June 30, 2016	748	748	—	9,973	7.50

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

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

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

WINONA STATE UNIVERSITY
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND

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

Measurement Date	Proportionate Share as a Percentage of Net Pension Liability	Proportionate Share	Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.0008	$ 37	$ 41	89.48	78.75
June 30, 2015	0.0007	1	1	89.93	78.19

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended	Statutorily Required Contributions	Contributions Recognized By PERA	Contribution Deficiency (Excess)	Covered Payroll	Contributions as A Percentage of Covered Payroll
June 30, 2015	$ —	$ —	$ —	$ —	0.00
June 30, 2016	—	—	—	—	0.00

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

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

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

SUPPLEMENTARY SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Winona State University (the University), a campus of Minnesota State Colleges and Universities, and the discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Winona State University's basic financial statements, and have issued our report thereon dated November 8, 2016. Our report includes a reference to other auditors who audited the financial statements of the Winona State University Foundation. The financial statements of the Winona State University Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Board of Trustees
Minnesota State Colleges and Universities

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 8, 2016

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