
connected
smart
inspired
hands-on
supported
community

# purple is the new you

# ANNUAL FINANCIAL REPORT
## FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

A Member of Minnesota State Colleges and Universities System

WINONA STATE UNIVERSITY

A community of learners improving our world

# WINONA STATE UNIVERSITY

**A MEMBER OF THE**
**MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM**

# ANNUAL FINANCIAL REPORT

## FOR THE YEARS ENDED JUNE 30, 2011 and 2010

Prepared by:

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

Upon request, this publication is available in alternate formats by calling one of the following:
General number (651) 201-1800
Toll free: 1-888-667-2848
For TTY communication, contact Minnesota Relay Service at 7-1-1 or 1-800-627-3529.

# WINONA STATE UNIVERSITY

## ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2011 and 2010

# TABLE OF CONTENTS

### INTRODUCTION



### FINANCIAL SECTION



### REQUIRED SUPPLEMENTARY INFORMATION SECTION



### SUPPLEMENTARY SECTION

*This page intentionally left blank*

# INTRODUCTION

*This page intentionally left blank*

October 28, 2011

Minnesota State Colleges & Universities
Board of Trustees
Steven J. Rosenstone, Chancellor
500 World Trade Center
30 East Seventh Street
St. Paul, MN 55101

Dear Trustees and Chancellor Rosenstone:

We are pleased to submit the financial report of Winona State University for Fiscal Year 2011. The accompanying statements show the university's financial position and results of operations ending on June 30, 2011.

In addition to presenting our financial report, we are proud to look back over the past academic year and highlight our accomplishments of our faculty, staff, and students, and review our contributions to the goals of the Minnesota State Colleges and Universities.

During a year in which we were all confronted with budget challenges and uncertainty about the economy, Winona State emerged in very good shape. To accomplish this, we focused our efforts on our core capabilities, planned carefully, invested wisely for the future, and trusted in each other and the shared values and principles that guide all members of our community.

Our hard work is paying off. We navigated our way through deep and painful budget cuts by thoughtfully and creatively reducing our expenditures by $2.5 million. It is notable that students now contribute 68 percent of our general fund budget through their tuition, while the state provides 32 percent through its appropriations. A decade ago, this ratio was reversed, with the state appropriating approximately two-thirds of our budget.

Despite this challenge, Winona State continues to be attractive to potential students. Our fall 2011 undergraduate enrollment is at an all-time high as we welcomed 1,873 new freshmen and 628 transfer students (according to our tenth-day enrollment report). Just as important, we are serving and supporting our current students extremely well. Our retention rate from the freshman to sophomore year is also its strongest ever at more than 78 percent.

A number of projects are making this possible. After more than a year of study and modeling, our faculty developed and implemented an updated University Studies curriculum that provides a broad base of knowledge and skills to equip students for informed and responsible work and citizenship in a changing world. In addition, this general education curriculum is more friendly to students transferring from other colleges and universities. We also launched the 120-credit hour undergraduate degree requirements that were mandated by the Minnesota legislature.

To enhance college readiness and student success, we opened our Math Achievement Center this fall on our west campus. This unique collaborative space, funded in part by a grant that we shared with St. Cloud State University, is designed to increase hands-on time with math. Students and instructors can work together on difficult problems at specially designed workstations, while technology gives them immediate feedback. The MAC gives students across all majors and career paths the opportunity for a positive and successful experience with math.

Two of our colleges achieved significant milestones in the past year. The College of Business won accreditation from the Association to Advance Collegiate Schools of Business. One of our largest programs, our College of Business offers unique opportunities for students to hone their "real world" skills. Through the Stage One initiative, developed in partnership with an alumnus, students advise investors on the selection of startup projects for support. Another group of student is learning investment skills as it manages a limited portfolio for the WSU Foundation.

Teacher education is one of our signature programs, the cornerstone of this great institution when it was founded in 1858. Two years ago the College of Education, with other universities in the Upper Midwest, was awarded a grant by the Bush Foundation to spark new ways of thinking about how we recruit, prepare, place, and support a new generation of teachers. At Winona State we are calling this effort "Teach 21" to reflect the impact that effective teachers can have on our society. This fall, our first full cohort of future educators arrived on campus and, starting during their first week on campus, went into area K-12 classrooms to begin experiencing the true meaning of teaching.

Finally, as all of you may know, this will be my final year as president of Winona State. I care deeply about this institution, and am confident that this university is prepared to accomplish its mission, to "enhance the intellectual, social, cultural, and economic vitality of the people and communities we serve." I have been grateful to work with this community of learners, and proud of my service to the Minnesota State Colleges and Universities.

Thank you for the trust you have placed in Winona State University as a good steward of the public's resources.

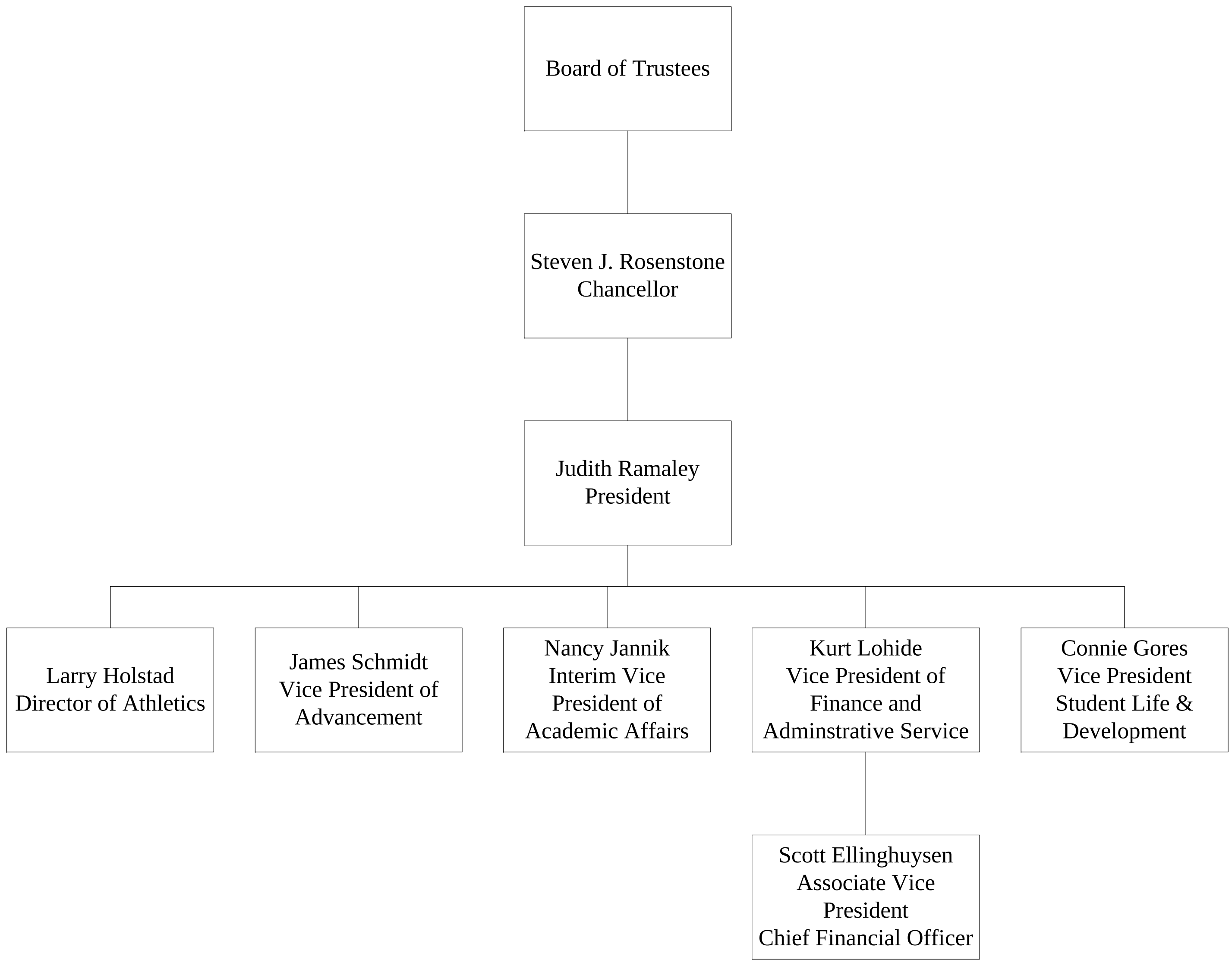
Sincerely,

Judith A. Ramaley

Dr. Judith A. Ramaley
President, Winona State University

# Winona State University

## Organizational Chart



The financial activity of Winona State University is included in this report. The University is one of 32 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 Minnesota State Colleges and Universities is included in the state of Minnesota Comprehensive Annual Financial Report.

# FINANCIAL SECTION

KDV

*Expert advice. When you need it.*℠

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Winona State University Foundation, a component unit of the University, which statements reflect total assets of $ 31,607,000 and $ 27,529,000 at June 30, 2011 and 2010, respectively, and total revenues of $ 7.226,000 and $ 4,450,000, respectively, for the years then ended. 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 U.S. generally accepted auditing standards 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 of material misstatement. The financial statements of Winona State University Foundation were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit 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, a campus of Minnesota State Colleges and Universities, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of University's internal control over financial reporting and 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 and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress for Net Other Postemployment Benefits, 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 (GASB), 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 U.S. generally accepted auditing standards, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the University. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 28, 2011

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

## INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of Winona State University, a member of Minnesota State Colleges and Universities at June 30, 2011, 2010 and 2009, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes following this section.

Winona State University is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system 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.

The University is a comprehensive public higher education institution with approximately 8,300 students. Approximately 1,100 faculty and staff members are employed by the University. Winona State University is a premier regional university with graduate and undergraduate programs. The University offers more than 80 academic majors and 10 pre-professional programs.

## FINANCIAL HIGHLIGHTS

The University's financial position remained sound at June 30, 2011, with assets of $247.8 million and liabilities of $89.8 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt of $119.6 million, restricted assets of $16.9 million and unrestricted assets of $21.5 million. Total net assets increased 4.9 percent over fiscal year 2010. The increase in net assets is primarily attributable to continued investment in capital assets, net of related debt. This investment is made possible by state appropriation support as well as private fundraising support and student fees.

Operating revenue increased $4.2 million from fiscal year 2010 to fiscal year 2011. This is on top of a $1.3 million increase from fiscal year 2009 to fiscal year 2010. The two year total increase of $5.5 million is due primarily to an 8 percent tuition increase over the period as well as enrollment growth of 1.5 percent.

Operating expenses increased $3.1 million from fiscal year 2010 to fiscal year 2011. This increase in expenses was due to a number of factors such as energy costs related to the new Integrated Wellness Complex and 2010 Residence Halls, software purchases and upgrades and enrollment related advertising and marketing. Total net assets increased $7.4 million for fiscal year 2011.

## USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net assets; the statements of revenues, expenses and changes in net assets; 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.

STATEMENTS OF NET ASSETS

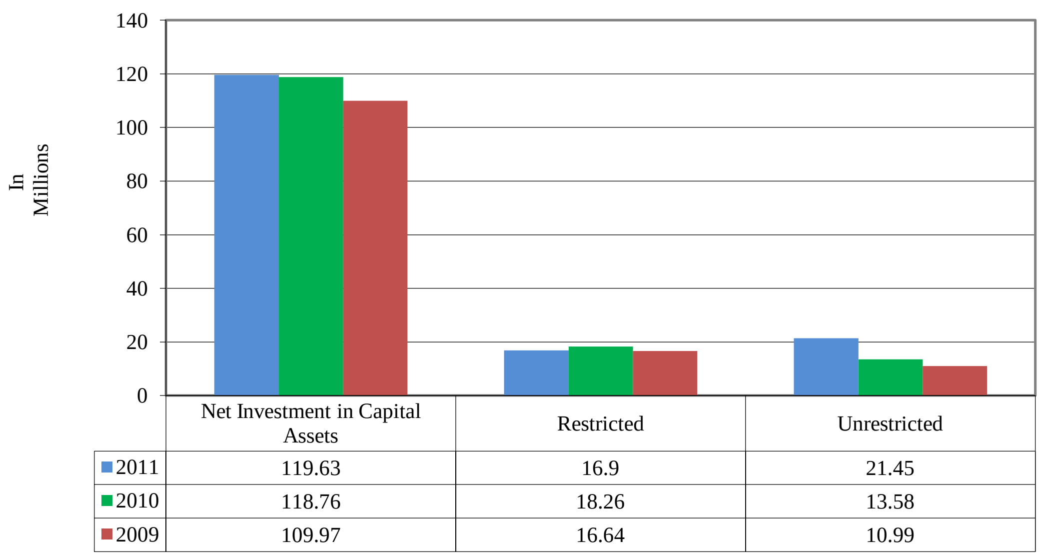
The statements of net assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened 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 assets.

A summary of the University's assets, liabilities and net assets as of June 30, 2011, 2010 and 2009, respectively, is as follows:

(In Thousands)

| | 2011 | 2010 | Increase (Decrease) 2011-2010 | 2009 | Increase (Decrease) 2010-2009 |
|---|---|---|---|---|---|
| Current assets | $ 59,221 | $ 50,991 | $ 8,230 | $ 46,783 | $ 4,208 |
| Current restricted assets | 13,628 | 18,969 | (5,341) | 43,331 | (24,362) |
| Noncurrent restricted assets | 602 | 28,685 | (28,083) | 5,393 | 23,292 |
| Noncurrent assets | 2,101 | 2,100 | 1 | 2,168 | (68) |
| Capital assets, net | 172,253 | 142,148 | 30,105 | 136,084 | 6,064 |
| Total assets | 247,805 | 242,893 | 4,912 | 233,759 | 9,134 |
| | | | | | |
| Current liabilities | 21,278 | 22,871 | (1,593) | 23,282 | (411) |
| Noncurrent liabilities | 68,548 | 69,416 | (868) | 72,883 | (3,467) |
| Total liabilities | 89,826 | 92,287 | (2,461) | 96,165 | (3,878) |
| Net assets | $ 157,979 | $ 150,606 | $ 7,373 | $ 137,594 | $ 13,012 |

Comparison of Net Assets
Fiscal Years 2011, 2010 and 2009



Noncurrent restricted assets decreased by $28.1 million due to the completion of restricted construction in progress projects. Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled $53.0 million as of June 30, 2011. This is an increase of $8.8 million over fiscal year 2010 and represents 5.42 months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.8 times, an indicator of good liquidity.

Capital assets, net, increased by $2.02 million primarily due to the completion of the new Integrated Wellness Complex and the new 2010 residence hall, along with the beginning of an energy savings initiative.

Current liabilities consist primarily of accounts payable and salaries and benefits payable. Salaries and benefits payable totaled $8.0 million at June 30, 2011. Accounts payable increased $0.5 million as the result of an accounts payable timing difference in fiscal year 2011 compared to fiscal year 2010.

Invested in capital assets, net of related debt, 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 assets primarily include donations received for specific purposes, capital projects, bond covenants, and debt service. The University's net assets as of June 2011, 2010, and 2009, respectively, are summarized as follows:

(In Thousands)

| | 2011 | 2010 | Increase 2011-2010 | 2009 | Increase 2010-2009 |
|---|---|---|---|---|---|
| Invested in capital assets, net of related debt | $ 119,627 | $ 118,762 | $ 865 | $ 109,968 | $ 8,794 |
| Restricted | 16,900 | 18,263 | (1,363) | 16,637 | 1,626 |
| Unrestricted | 21,452 | 13,581 | 7,871 | 10,989 | 2,592 |
| Total net assets | $ 157,979 | $ 150,606 | $ 7,373 | $ 137,594 | $ 13,012 |

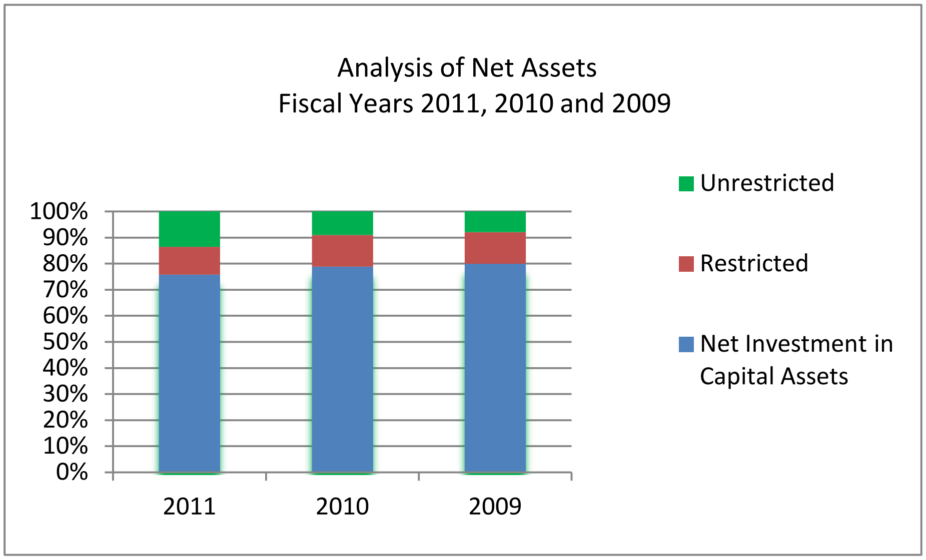
CAPITAL AND DEBT ACTIVITIES

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

Capital assets, as of June 30, 2011, total $172.8 million, net of accumulated depreciation of $87.6 million. Capital assets have shown growth over the past three years. Capital additions, net of retirements, were $9.0 million in 2011. Capital additions primarily consist of the completion of the new Integrated Wellness Complex and the new 2010 residence hall, the renovation of other academic facilities, and student residence halls, and the beginning of an energy savings initiative. The University has also invested in equipment and library materials.

Construction in progress at June 30, 2011, included the pedestrian tunnel, energy savings initiative, and renovation projects.

As the graph illustrates, 76 percent of the University's net assets are related to the investment in capital assets.




STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

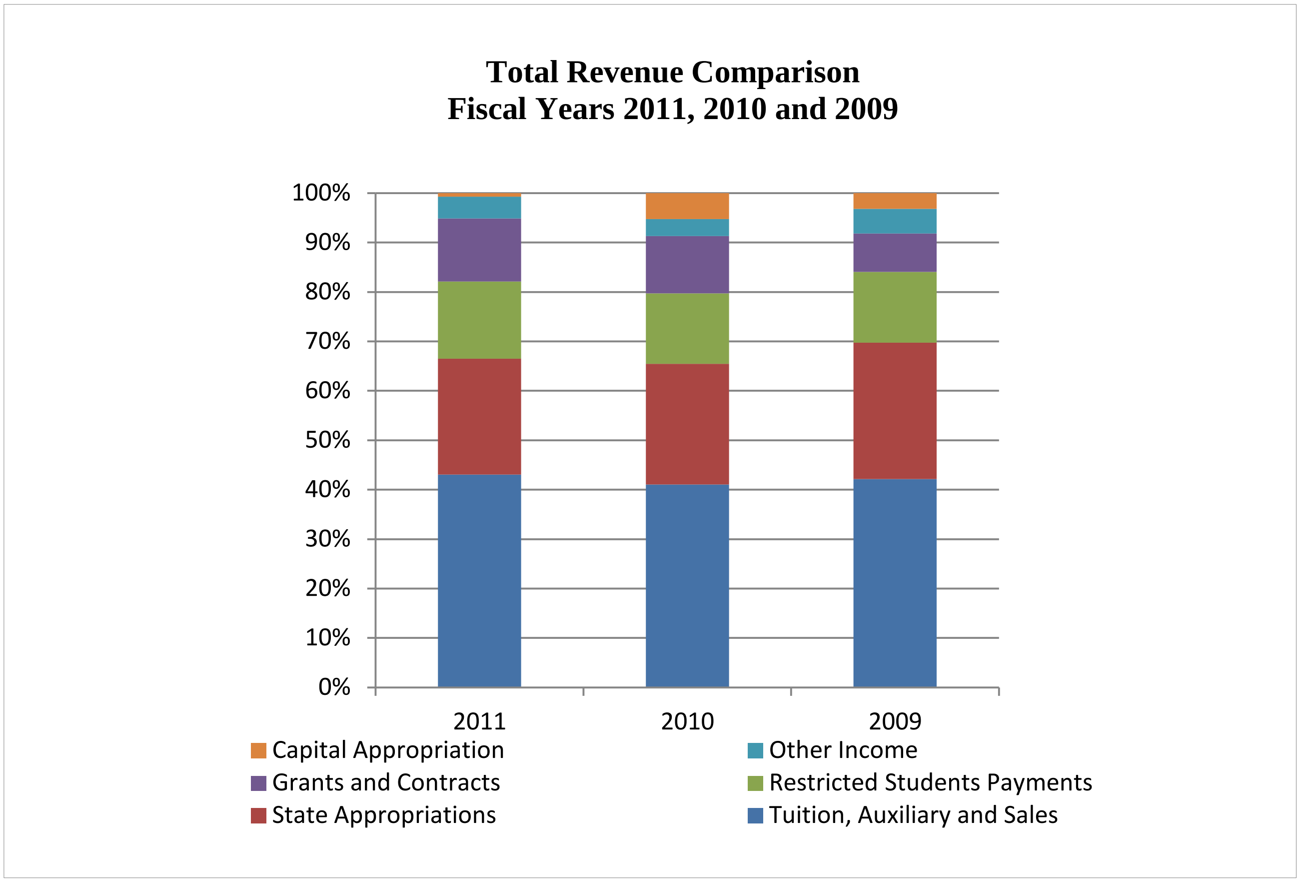
The statements of revenues, expenses and changes in net assets present the University's results of operations for the year. When reviewing the full statement, please note that GASB requires classification of state appropriations as non-operating revenue. A summary table of the information contained in the statement of revenues, expenses and changes in net assets follows:

(In Thousands)

| | 2011 | 2010 | Increase (Decrease) 2011-2010 | 2009 | Increase (Decrease) 2010-2009 |
|---|---|---|---|---|---|
| Operating revenue: | | | | | |
| Tuition, fees and sales, net | $ 59,478 | $ 57,140 | $ 2,338 | $ 56,721 | $ 419 |
| Restricted student payments, net | 21,594 | 19,847 | 1,747 | 19,271 | 576 |
| Other | 1,398 | 1,279 | 119 | 1,005 | 274 |
| Total operating revenue | 82,470 | 78,266 | 4,204 | 76,997 | 1,269 |
| Non-operating revenue: | | | | | |
| State appropriations | 32,447 | 33,929 | (1,482) | 37,081 | (3,152) |
| Capital appropriations | 989 | 7,275 | (6,286) | 4,292 | 2,983 |
| Grants and contracts, net | 17,583 | 16,145 | 1,438 | 10,475 | 5,670 |
| Other | 4,692 | 3,547 | 1,145 | 5,662 | (2,115) |
| Total non-operating revenue | 55,711 | 60,896 | (5,185) | 57,510 | 3,386 |
| Total revenue | 138,181 | 139,162 | (981) | 134,507 | 4,655 |
| Operating expense: | | | | | |
| Salaries and benefits | 76,522 | 76,679 | (157) | 75,681 | 998 |
| Supplies and services | 39,042 | 36,777 | 2,265 | 40,254 | (3,477) |
| Depreciation | 9,071 | 7,830 | 1,241 | 7,375 | 455 |
| Financial aid, net | 1,707 | 1,938 | (231) | 685 | 1,253 |
| Total operating expense | 126,342 | 123,224 | 3,118 | 123,995 | (771) |
| Non-operating expense | 4,466 | 2,926 | 1,540 | 3,588 | (662) |
| Total expense | 130,808 | 126,150 | 4,658 | 127,583 | (1,433) |
| Change in net assets | 7,373 | 13,012 | (5,639) | 6,924 | 6,088 |
| Net assets, beginning of year | 150,606 | 137,594 | 13,012 | 130,670 | 6,924 |
| Net assets, end of year | $ 157,979 | $ 150,606 | $ 7,373 | $ 137,594 | $ 13,012 |

Operating revenue increased $4.2 million which is a result of increased tuition and room and board fees. Tuition, fees, sales and state appropriations remain the primary sources of funding for the University, comprising 67 percent of the total revenue.

Operating expenses as of June 30, 2011 increased by $3.1 million over fiscal year 2010. Compensation related costs remained constant due to minimal salary and health care cost increases offset by early retirement positions not refilled.




Compensation and benefits accounted approximately 61 percent of the University's operating expenses in fiscal year 2011 and for approximately 62 percent for fiscal year 2010.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURES

The political environment in the State of Minnesota continues to be the single greatest risk factor affecting the financial future of the University. The state is facing the prospect of another systemic budget deficit in the fiscal year 2014-15 biennium. While the percentage of funding for the University from the state has decreased over the past twenty years, it still remains a significant portion of the University budget. A sluggish economy coupled with only approximately 60 percent of the forecasted $5 billion deficit solved with permanent solutions creates another challenge in the fiscal year 2014-15 biennium. The end result is that the University will probably face further reductions in the fiscal year 2014-15 biennium as the Legislature attempts to grapple with the deficit once again.

Other challenges facing the University in the coming years will include managing the enrollment in light of a downturn in high school graduates and pressure from collective bargaining units to award salary increases and keeping tuition affordable and increases minimal.

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:

Chief Financial Officer
Winona State University
PO Box 5838
Winona, MN 55987

**WINONA STATE UNIVERSITY**
**STATEMENTS OF NET ASSETS**
**AS OF JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| Assets | 2011 | 2010 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 47,609 | $ 38,272 |
| Investments | 5,402 | 5,952 |
| Grants receivable | 471 | 602 |
| Accounts receivable, net | 2,059 | 2,369 |
| Prepaid expense | 2,000 | 1,962 |
| Inventory | 1,057 | 990 |
| Student loans, net | 400 | 400 |
| Other assets | 223 | 444 |
| Total current assets | 59,221 | 50,991 |
| Current Restricted Assets | | |
| Cash and cash equivalents | 13,628 | 18,969 |
| Total current restricted assets | 13,628 | 18,969 |
| Noncurrent Restricted Assets | | |
| Other assets | 9 | 10 |
| Construction in progress | 593 | 28,675 |
| Total noncurrent restricted assets | 602 | 28,685 |
| Total restricted assets | 14,230 | 47,654 |
| Noncurrent Assets | | |
| Student loans, net | 2,101 | 2,100 |
| Capital assets, net | 172,253 | 142,148 |
| Total noncurrent assets | 174,354 | 144,248 |
| Total Assets | 247,805 | 242,893 |
| Liabilities | | |
| Current Liabilities | | |
| Salaries and benefits payable | 8,038 | 8,237 |
| Accounts payable | 2,667 | 2,161 |
| Unearned revenue | 2,782 | 2,565 |
| Payable from restricted assets | 802 | 2,528 |
| Interest payable | 465 | 481 |
| Other liabilities | - | 265 |
| Funds held for others | 913 | 857 |
| Current portion of long-term debt | 3,558 | 3,518 |
| Other compensation benefits | 2,053 | 2,259 |
| Total current liabilities | 21,278 | 22,871 |
| Noncurrent Liabilities | | |
| Noncurrent portion of long-term debt | 57,481 | 58,728 |
| Other compensation benefits | 8,536 | 8,159 |
| Capital contributions payable | 2,531 | 2,529 |
| Total noncurrent liabilities | 68,548 | 69,416 |
| Total Liabilities | 89,826 | 92,287 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 119,627 | 118,762 |
| Restricted expendable, bond covenants | 9,366 | 8,416 |
| Restricted expendable, other | 7,534 | 9,847 |
| Unrestricted | 21,452 | 13,581 |
| Total Net Assets | $ 157,979 | $ 150,606 |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION**
**STATEMENTS OF FINANCIAL POSITION**
**AS OF JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| | 2011 | 2010 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 2,924 | $ 1,683 |
| Investments | 17,449 | 13,696 |
| Pledges and contributions receivable | 317 | 274 |
| Other receivables | 286 | 341 |
| Prepaid Expenses | 8 | 9 |
| Accrued investment/Interest income | 11 | 15 |
| Annuities/Remainder interests/Trusts | 134 | 120 |
| Total current assets | 21,129 | 16,138 |
| Noncurrent Assets | | |
| Long-term pledges receivable | 737 | 956 |
| Buildings, property, and equipment, net | 9,261 | 9,557 |
| Other assets | 480 | 878 |
| Total noncurrent assets | 10,478 | 11,391 |
| Total Assets | $ 31,607 | $ 27,529 |
| | | |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | $ 48 | $ 693 |
| Interest payable | 31 | 33 |
| Annuities payable | 83 | 35 |
| Notes payable | 323 | 307 |
| Total current liabilities | 485 | 1,068 |
| Noncurrent Liabilities | | |
| Notes payable | 7,456 | 7,780 |
| Total noncurrent liabilities | 7,456 | 7,780 |
| Total Liabilities | 7,941 | 8,848 |
| | | |
| Net Assets | | |
| Unrestricted | 790 | 461 |
| Temporarily restricted | 9,000 | 5,000 |
| Permanently restricted | 13,876 | 13,220 |
| Total Net Assets | 23,666 | 18,681 |
| Total Liabilities and Net Assets | $ 31,607 | $ 27,529 |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| | 2011 | 2010 |
|---|---|---|
| Operating Revenues | | |
| Tuition, net | $ 39,411 | $ 37,188 |
| Fees, net | 4,854 | 4,747 |
| Sales and room and board, net | 15,213 | 15,205 |
| Restricted student payments, net | 21,594 | 19,847 |
| Other income | 1,398 | 1,279 |
| Total operating revenues | 82,470 | 78,266 |
| Operating Expenses | | |
| Salaries and benefits | 76,522 | 76,679 |
| Purchased services | 24,017 | 21,665 |
| Supplies | 8,253 | 8,181 |
| Repairs and maintenance | 1,436 | 1,656 |
| Depreciation | 9,071 | 7,830 |
| Financial aid, net | 1,707 | 1,938 |
| Other expense | 5,336 | 5,275 |
| Total operating expenses | 126,342 | 123,224 |
| Operating loss | (43,872) | (44,958) |
| Nonoperating Revenues (Expenses) | | |
| Appropriations | 32,447 | 33,929 |
| Federal grants | 14,016 | 11,244 |
| State grants | 3,567 | 4,901 |
| Private grants | 3,042 | 2,448 |
| Interest income | 1,650 | 1,039 |
| Interest expense | (2,427) | (2,289) |
| Grants to other organizations | (2,020) | (637) |
| Total nonoperating revenues (expenses) | 50,275 | 50,635 |
| Income Before Other Revenues, Expenses, Gains, or Losses | 6,403 | 5,677 |
| Capital appropriations | 989 | 7,275 |
| Gain (loss) on disposal of capital assets | (19) | 60 |
| Change in net assets | 7,373 | 13,012 |
| Total Net Assets, Beginning of Year | 150,606 | 137,594 |
| Total Net Assets, End of Year | $ 157,979 | $ 150,606 |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION**
**STATEMENTS OF ACTIVITIES**
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 Total | 2010 Total |
|---|---|---|---|---|---|
| Support and Revenue | | | | | |
| Contributions | $ 283 | $ 2,172 | $ 610 | $ 3,065 | $ 1,635 |
| Investment income | 35 | 277 | - | 312 | 235 |
| Realized gains | 11 | 91 | - | 102 | (44) |
| Unrealized gains | 258 | 2,061 | 15 | 2,334 | 1,126 |
| Program income | 723 | 588 | - | 1,311 | 1,368 |
| Fundraising income | - | 102 | - | 102 | 130 |
| Net assets released from restrictions | 1,211 | (1,211) | - | - | - |
| Reclassifications | 49 | (80) | 31 | - | - |
| Total support and revenue | 2,570 | 4,000 | 656 | 7,226 | 4,450 |
| Expenses | | | | | |
| Program Services | | | | | |
| Program services | 703 | - | - | 703 | 714 |
| Scholarships | 865 | - | - | 865 | 903 |
| University activities | 521 | - | - | 521 | 1,240 |
| Special projects | 71 | - | - | 71 | 45 |
| Total program services | 2,160 | - | - | 2,160 | 2,902 |
| Supporting services | | | | | |
| Management and general | 46 | - | | 46 | 46 |
| Fundraising | 35 | - | | 35 | 42 |
| Total supporting services | 81 | - | - | 81 | 88 |
| Total expenses | 2,241 | - | - | 2,241 | 2,990 |
| Change in Net Assets | 329 | 4,000 | 656 | 4,985 | 1,460 |
| Net Assets, Beginning of Year | 461 | 5,000 | 13,220 | 18,681 | 17,221 |
| Net Assets, End of Year | $ 790 | $ 9,000 | $ 13,876 | $ 23,666 | $ 18,681 |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| | 2011 | 2010 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash received from customers | $ 82,660 | $ 78,189 |
| Cash repayment of program loans | 318 | 307 |
| Cash paid to suppliers for goods or services | (38,803) | (37,588) |
| Cash payments for employees | (76,474) | (75,607) |
| Financial aid disbursements | (1,706) | (1,926) |
| Cash payments of program loans | (357) | (261) |
| Net cash flows used in operating activities | (34,362) | (36,886) |
| Cash Flows from Noncapital Financing Activities | | |
| Appropriations | 32,447 | 33,929 |
| Agency activity | 56 | 89 |
| Federal grants | 14,086 | 10,914 |
| State grants | 3,567 | 4,901 |
| Private grants | 3,042 | 2,448 |
| Grants to other organizations | (2,020) | (637) |
| Net cash flows from noncapital financing activities | 51,178 | 51,644 |
| Cash Flows from Capital and Related Financing Activities | | |
| Investment in capital assets | (11,035) | (36,790) |
| Capital appropriation | 989 | 7,275 |
| Capital grants | 375 | 2,625 |
| Proceeds from sale of capital assets | (1,684) | (1,452) |
| Proceeds from borrowing | 1,700 | 98 |
| Proceeds from bond premium | 773 | 92 |
| Interest paid | (2,444) | (2,306) |
| Repayment of lease principal | (276) | (261) |
| Repayment of bond principal | (3,283) | (3,195) |
| Net cash flows used in capital and related financing activities | (14,885) | (33,914) |
| Cash Flows from Investing Activities | | |
| Proceeeds from sales and maturities of investments | 1,777 | 1,000 |
| Purchase of investments | (172) | (169) |
| Investment earnings | 460 | 515 |
| Net cash flows from investment activities | 2,065 | 1,346 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 3,996 | (17,810) |
| Cash and Cash Equivalents, Beginning of Year | 57,241 | 75,051 |
| Cash and Cash Equivalents, End of Year | $ 61,237 | $ 57,241 |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**
**(IN THOUSANDS)**

| | 2011 | 2010 |
|---|---|---|
| Operating Loss | $ (43,872) | $ (44,958) |
| | | |
| Adjustment to Reconcile Operating Loss to | | |
| Net Cash Flows used in Operating Activities | | |
| Depreciation | 9,071 | 7,830 |
| Provision for loan defaults | (1) | (19) |
| Loan principal repayments | 318 | 307 |
| Loans issued | (357) | (261) |
| Loans forgiven | 39 | 40 |
| Change in assets and liabilities | | |
| Inventory | (67) | 143 |
| Accounts receivable | (88) | (661) |
| Accounts payable | 506 | (948) |
| Salaries and benefits payable | (199) | 368 |
| Other compensation benefits | 170 | 703 |
| Capital contributions payable | 2 | 12 |
| Unearned revenues | 278 | 576 |
| Other | (162) | (18) |
| Net reconciling items to be added to operating loss | 9,510 | 8,072 |
| Net cash flows used in operating activities | $ (34,362) | $ (36,886) |
| | | |
| Non-Cash Transactions Investing, Capital, and Financing Activities | | |
| Capital projects on account | $ 802 | $ 2,609 |
| Change in fair market value of investments | 1,055 | 526 |
| Investment earnings on account | 39 | 39 |
| Amortization of bond premium | 162 | 103 |

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

*Financial Reporting Entity* — Minnesota State Colleges and Universities 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. Winona State University receives a portion of the Minnesota State Colleges and Universities 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.

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 assets.

Minnesota State Colleges and Universities apply all applicable Financial Accounting Standards Board (FASB) statements issued prior to November 30, 1989, and GASB statements issued since that date.

*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 Colleges and Universities 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 Colleges and Universities 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 Colleges and Universities 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 Colleges and Universities as capital appropriation revenue when the related expenses are incurred. Individual colleges and universities are allocated cash, capital appropriation revenue, and debt based on capital project expenses.

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

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 assets 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* — The Minnesota State Board of Investment invests the University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is allocated to the colleges and universities.

Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment and U.S. Bank, N.A. for investment management services. Investments are reported at fair value. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

*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:

| | |
|---|---|
| Buildings | 35-40 years |
| Building improvements | 15-20 years |
| Equipment | 3-20 years |
| Internally developed software | 7 years |
| Library collections | 7 years |

Equipment includes all items with an original cost of $10,000 and over for items purchased since July 1, 2008; $5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and $2,000 and over for items purchased prior to July 1, 2003. Buildings, building improvements, and internally developed software 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.

*Long Term Liabilities* — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities 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. It may also enter into capital lease agreements for certain capital assets. Other long term liabilities include capital leases, compensated absences, net other postemployment benefits, workers' compensation claims, early termination benefits, and capital contributions associated with Perkins Loan agreements with the United States Department of Education.

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

*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.

*Operating Activities* — Operating activities as reported in the statements of revenues, expenses, and changes in net assets 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. See Note 12 for 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. See Note 12 for additional information.

*Federal Grants* — Winona State 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 Transactions.* During fiscal years 2011 and 2010, $2,608,757 and $2,103,169 of federal aid was received through the American Recovery and Reinvestment Act of 2009. Of this amount, $846,071and $846,070 was used to mitigate tuition increases that would have otherwise been necessary. 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.

*Capital Grants* — The University receives federal, state, and private grants which are restricted for the acquisition or construction of capital assets.

*Reclassifications*— Certain prior year amounts have been reclassified to conform with current year presentation. These classifications had no effect on net assets previously reported. Cost of goods sold in the amount of $3,276,752, reported in fiscal year 2010 as a reduction to sales revenue, was reclassified to an operating expense. Capital appropriation revenue in the amount of $461,364 was reclassified as state appropriation revenue. Additionally, fiscal year 2010 restricted expendable net assets restriction in the amount of $687,743 was reclassified to invested in capital assets, net of related debt.

*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 allowances for uncollectible accounts, scholarship allowances, workers' compensation claims, and compensated absences.

*Net Assets* — The difference between assets and liabilities is net assets. Net assets are further classified for accounting and reporting purposes into the following three net asset categories:

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

- *Restricted expendable*: net assets subject to externally imposed stipulations. Net asset restrictions for Winona State University are as follows:

  *Restricted for bond covenants* — revenue bond restrictions.

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

  *Donations* — restricted per donor requests.

  *Loans* — University contributed capital for Perkins loans.

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

  *Debt services* — legally restricted for bond debt repayments.

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

Restricted for Other (In Thousands)

| | 2011 | 2010 |
|---|---|---|
| Donations | $ — | $ 846 |
| Loans | 306 | 306 |
| Capital projects | 781 | 2,261 |
| Debt service | 5,673 | 5,619 |
| Faculty contracts | 774 | 815 |
| Total | $ 7,534 | $ 9,847 |

- *Unrestricted:* net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the System Office, or the Board of Trustees.

## 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 one checking and two 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 | 2011 | 2010 |
| Cash, in bank | $ 848 | $ 48 |
| Change fund | 12 | 13 |
| Money markets | 3,232 | 1,580 |
| Cash, trustee account (US Bank) | 7,269 | 13,195 |
| Total local cash and cash equivalents | 11,361 | 14,836 |
| Total treasury cash accounts | 49,876 | 42,405 |
| Grand Total | $ 61,237 | $ 57,241 |

At June 30, 2011 and 2010, the University's bank balances were $5,708,189 and $1,951,712, 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.

As of June 30, the University had the following investments and maturities:

| Year Ended June 30 (in Thousands) | 2011 Fair Value | Weighted Maturity (In Years) | 2010 Fair Value | Weighted Maturity (In Years) |
|---|---|---|---|---|
| State investment pool cash equivalents | $ 476 | — | $ 579 | 0.21 |
| Corporate/municipal bonds | 723 | 6.80 | 690 | 6.52 |
| US agencies | 1,276 | 11.07 | 1,329 | 19.76 |
| US treasuries | — | — | 42 | 0.25 |
| Asset backed | 9 | 1.16 | 1 | 23.25 |
| Total | 2,484 | | 2,641 | |
| Portfolio weighted average maturity | | 7.67 | | 11.70 |
| Mutual stock funds | 1,189 | | 875 | |
| Corporate stock | 1,729 | | 2,403 | |
| Real estate | — | | 33 | |
| Total | $ 5,402 | | $ 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, 2011 and 2010, total accounts receivable balances for the University were $2,910,772 and $3,117,999, respectively, less an allowance for uncollectible receivables of $851,685 and $749,229, respectively.

| Summary of Accounts Receivable at June 30 (In Thousands) | 2011 | 2010 |
|---|---|---|
| Sales and services | $ 1,043 | $ 1,089 |
| Tuition | 889 | 820 |
| Fees | 384 | 366 |
| Room and board | 360 | 338 |
| Interest | 3 | 3 |
| Third party obligations | 78 | 11 |
| Other | 154 | 491 |
| Total accounts receivable | 2,911 | 3,118 |
| Less: allowance for uncollectible accounts | 852 | 749 |
| Net accounts receivable | $ 2,059 | $ 2,369 |

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 $1,933,599 and $1,893,293 for fiscal years 2011 and 2010, 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 2011 and 2010 was $66,054 and $68,720, 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, 2011 and 2010, the total loans receivable for this program were $2,948,707 and $2,949,191, respectively, less an allowance for uncollectible loans of $447,554 and $448,808, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Completed Construction | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 9,451 | $ 288 | $ — | $ — | $ 9,739 |
| Construction in progress | 43,545 | 9,484 | — | (50,202) | 2,827 |
| Total capital assets, not depreciated | 52,996 | 9,772 | — | (50,202) | 12,566 |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 175,796 | — | 46 | 50,202 | 225,952 |
| Equipment | 15,662 | 486 | 1,196 | — | 14,952 |
| Library collections | 6,996 | 866 | 884 | — | 6,978 |
| Total capital assets, depreciated | 198,454 | 1,352 | 2,126 | 50,202 | 247,882 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 65,133 | 6,943 | — | — | 72,076 |
| Equipment | 11,542 | 1,131 | 1,212 | — | 11,461 |
| Library collections | 3,952 | 997 | 884 | — | 4,065 |
| Total accumulated depreciation | 80,627 | 9,071 | 2,096 | — | 87,602 |
| Total capital assets, depreciated, net | 117,827 | (7,719) | 30 | 50,202 | 160,280 |
| Total capital assets, net | $ 170,823 | $ 2,053 | $ 30 | $ — | $ 172,846 |

Year Ended June 30, 2010
(In Thousands)

| | Beginning Balance | Increases | Decreases | Completed Construction | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 9,451 | $ — | $ — | $ — | $ 9,451 |
| Construction in progress | 12,273 | 35,532 | — | (4,260) | 43,545 |
| Total capital assets, not depreciated | 21,724 | 35,532 | — | (4,260) | 52,996 |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 171,536 | — | — | 4,260 | 175,796 |
| Equipment | 15,493 | 895 | 726 | — | 15,662 |
| Library collections | 6,876 | 976 | 856 | — | 6,996 |
| Total capital assets, depreciated | 193,905 | 1,871 | 1,582 | 4,260 | 198,454 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 59,423 | 5,710 | — | — | 65,133 |
| Equipment | 10,931 | 1,121 | 510 | — | 11,542 |
| Library collections | 3,809 | 999 | 856 | — | 3,952 |
| Total accumulated depreciation | 74,163 | 7,830 | 1,366 | — | 80,627 |
| Total capital assets, depreciated, net | 119,742 | (5,959) | 216 | 4,260 | 117,827 |
| Total capital assets, net | $ 141,466 | $ 29,573 | $ 216 | $ — | $ 170,823 |

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)

| | 2011 | 2010 |
|---|---|---|
| Purchased services | $ 1,247 | $ 374 |
| Repairs and maintenance | 31 | 104 |
| Supplies | 142 | 246 |
| Employee benefits | 76 | 82 |
| Capital expenditures | 401 | 679 |
| Capital projects | 25 | 82 |
| Other | 745 | 594 |
| Total | $ 2,667 | $ 2,161 |

In addition, as of June 30, 2011 and 2010, the University had payable from restricted assets in the amounts of $801,906 and $2,527,528, 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 assets.

The changes in long term debt for fiscal years 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Bond premium | $ 839 | $ 773 | $ 162 | $ 1,450 | $ — |
| Capital leases | 519 | — | 276 | 243 | 243 |
| General obligation bonds | 17,160 | — | 1,405 | 15,755 | 1,407 |
| Revenue bonds | 43,728 | — | 1,837 | 41,891 | 1,908 |
| Note Payable | — | 1,700 | — | 1,700 | — |
| Total long term debt | $ 62,246 | $ 2,473 | $ 3,680 | $ 61,039 | $ 3,558 |

Year Ended June 30, 2010
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Bond premium | $ 850 | $ 92 | $ 103 | $ 839 | $ — |
| Capital leases | 780 | — | 261 | 519 | 277 |
| General obligation bonds | 18,472 | 98 | 1,410 | 17,160 | 1,404 |
| Revenue bonds | 45,519 | — | 1,791 | 43,728 | 1,837 |
| Total long term debt | $ 65,621 | $ 190 | $ 3,565 | $ 62,246 | $ 3,518 |

The changes in other compensation benefits for fiscal years 2011 and 2010 follow:

Year Ended June 30, 2011
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Compensated absences | $ 8,363 | $ 950 | $ 903 | $ 8,410 | $ 925 |
| Early termination benefits | 1,252 | 892 | 1,252 | 892 | 892 |
| Net other postemployment benefits | 556 | 635 | 441 | 750 | — |
| Workers' compensation | 247 | 359 | 69 | 537 | 236 |
| Total other compensation benefits | $ 10,418 | $ 2,836 | $ 2,665 | $ 10,589 | $ 2,053 |

Year Ended June 30, 2010
(In Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Liabilities for: | | | | | |
| Compensated absences | $ 8,400 | $ 2,109 | $ 2,146 | $ 8,363 | $ 903 |
| Early termination benefits | 560 | 1,207 | 515 | 1,252 | 1,252 |
| Net other postemployment benefits | 401 | 488 | 333 | 556 | — |
| Workers' compensation | 354 | 70 | 177 | 247 | 104 |
| Total other compensation benefits | $ 9,715 | $ 3,874 | $ 3,171 | $ 10,418 | $ 2,259 |

*Bond Premium* — In fiscal year 2011 and 2010, bonds were issued resulting in premiums of $773,521 and $91,744, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

*Capital Leases* — Liabilities for capital leases include those leases that meet the criteria in FASB Accounting Standards Codification (ACS) 840, *Leases*. See Note 11 for additional information.

*General Obligation Bonds* — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.0 to 5.5 percent. Minnesota State Colleges and Universities 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 $300,000,000 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 universities. Revenue bonds currently outstanding have interest rates between 3.5 percent and 6.5 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 2029. Annual principal and interest payments on the bonds are expected to require less than 16.67 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $60,482,747. Principal and interest paid for the current year and total customer net revenues were $3,712,117 and $22,274,289, respectively.

*Note Payable* — The note payable consists of an energy savings initiative loan with McKinstry Capital in the amount of $1,700,210 at an interest rate of 4.92 percent for 15 years with the first payment due on December 15, 2011.

*Compensated Absences* — University employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated 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. See Note 9 for details.

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

*Workers' Compensation* — The state of Minnesota Management and Budget manages the self insured workers compensation claims activities. The reported liabilities for workers' compensation of $536,995 and $247,380 at June 30, 2011 and 2010, respectively, are based on claims filed for injuries to state employees occurring prior to the fiscal year end. It is an undiscounted estimate of future payments.

*Capital Contributions* — The liabilities of $2,530,625 and $2,529,132 at June 30, 2011 and 2010, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $1,493 and $11,671 for the fiscal years 2011 and 2010, respectively.

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

Long Term Debt Repayment Schedule
(In Thousands)

| Fiscal Years | Capital Leases | | Notes Payable | | General Obligation Bonds | | Revenue Bonds | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | $ 243 | $ 6 | $ — | $ 87 | $ 1,407 | $ 746 | $ 1,908 | $ 1,823 |
| 2013 | — | — | 58 | 83 | 1,367 | 686 | 1,970 | 1,749 |
| 2014 | — | — | 66 | 80 | 1,317 | 618 | 2,038 | 1,671 |
| 2015 | — | — | 73 | 76 | 1,279 | 554 | 2,121 | 1,586 |
| 2016 | — | — | 82 | 72 | 1,255 | 491 | 2,205 | 1,493 |
| 2017-2021 | — | — | 553 | 290 | 5,388 | 1,585 | 10,924 | 6,111 |
| 2022-2026 | — | — | 817 | 119 | 3,320 | 454 | 12,354 | 3,518 |
| 2027-2031 | — | — | 51 | 1 | 422 | 23 | 8,371 | 641 |
| Total | $ 243 | $ 6 | $ 1,700 | $ 808 | $ 15,755 | $ 5,157 | $ 41,891 | $ 18,592 |

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Minnesota Statutes section 136F.481 authorized the Minnesota State Colleges and Universities Board of Trustees to implement an early separation incentive program (BESI) in fiscal year 2010. Additionally, the bargaining unit contract for Inter Faculty Organization (IFO), provide for this benefit. The following is a description of the different benefit arrangements, including number of retired employees receiving the benefit, and the amount of future liability as of the end of fiscal years 2011 and 2010.

*MnSCU Board Early Separation Incentive Program* — Employees of the University accepted incentives in the form of contributions to a health care savings plan and cash payments in return for voluntarily separating from employment by the University. The number of employees who received this benefit and the amount of future liability for those employees as of the end of fiscal years 2011 and 2010 follow:

| Fiscal Year | Number Of Employees | Future Liability (In Thousands) |
|---|---|---|
| 2011 | 10 | $ 670 |
| 2010 | 19 | 899 |

*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 2011 and 2010 follow:

| Fiscal Year | Number of Faculty | Future Liability (In Thousands) |
|---|---|---|
| 2011 | 8 | $ 222 |
| 2010 | 8 | 353 |

## 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, 2010 there were approximately 56 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 Post Employment 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 2011and 2010, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

| | 2011 | 2010 |
|---|---|---|
| Annual required contribution (ARC) | $ 631 | $ 485 |
| Interest on net OPEB obligation | 26 | 19 |
| Adjustment to ARC | (22) | (16) |
| Annual OPEB cost | 635 | 488 |
| Contributions during the year | (441) | (333) |
| Increase in net OPEB obligation | 194 | 155 |
| Net OPEB obligation, beginning of year | 556 | 401 |
| Net OPEB obligation, end of year | $ 750 | $ 556 |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2011 and 2010 were:

For Year Ended June 30
(In Thousands)

| | 2011 | 2010 |
|---|---|---|
| Beginning of year net OPEB obligation | $ 556 | $ 401 |
| Annual OPEB cost | 635 | 488 |
| Employer contribution | (441) | (333) |
| End of Year net OPEB obligation | $ 750 | $ 556 |
| Percentage contributed | 69.45% | 68.24% |

*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 (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| July 1, 2010 | — | $ 6,120 | $ 6,120 | 0.00% | $ 60,436 | 10.13% |

*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, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 6.25 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

## 11. LEASE AGREEMENTS

*Capital Leases* — Winona State University leased a generator with final payment occurring in fiscal year 2012. Liabilities for capital leases include those leases that meet the criteria in the FASB ASC 840, *Leases* (previously FAS No. 13). Which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of the agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

*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, 2011 and 2010, totaled approximately $6,506 and $7,228, respectively. Included is a lease with the Foundation for the East Lake Apartments. Future minimum lease payments for existing lease agreements are as follow:

Year Ended June 30
(In Thousands)

| Fiscal Year | Amount |
|---|---|
| 2012 | $ 6,531 |
| 2013 | 5,840 |
| 2014 | 1,145 |
| 2015 | 691 |
| 2016 | 691 |
| 2017-2021 | 3,454 |
| 2022-2026 | 3,454 |
| 2027-2031 | 887 |
| Total | $ 22,693 |

*Income Leases* — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2011 and 2010, totaled $68,465 and $47,465, respectively, and is included in other income on the statements of revenues, expenses, and changes in net assets. Future expected income receipts for existing lease agreements are $36,365 in fiscal year 2012.

## 12. TUITION, FEES, AND SALES, NET

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

For the Year Ended June 30
(In Thousands)

| Description | 2011 Gross | 2011 Scholarship Allowance | 2011 Net | 2010 Gross | 2010 Scholarship Allowance | 2010 Net |
|---|---|---|---|---|---|---|
| Tuition | $ 52,826 | $ (13,415) | $ 39,411 | $ 49,618 | $ (12,430) | $ 37,188 |
| Fees | 5,681 | (827) | 4,854 | 5,628 | (881) | 4,747 |
| Sales | 15,213 | — | 15,213 | 15,205 | — | 15,205 |
| Restricted student payments | 22,151 | (557) | 21,594 | 20,622 | (775) | 19,847 |
| Total | $ 95,871 | $ (14,799) | $ 81,072 | $ 91,073 | $ (14,086) | $ 76,987 |

## 13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2011
(In Thousands)

| Description | Salaries | Benefits | Other | Interest | Total |
|---|---|---|---|---|---|
| Academic support | $ 7,554 | $ 2,251 | $ 5,149 | $ 92 | $ 15,046 |
| Institutional support | 8,255 | 2,232 | 5,619 | 98 | 16,204 |
| Instruction | 29,811 | 9,269 | 8,425 | 447 | 47,952 |
| Public service | 215 | 66 | 178 | 3 | 462 |
| Research | 110 | 21 | 307 | 1 | 439 |
| Student services | 6,345 | 1,732 | 4,126 | 76 | 12,279 |
| Auxiliary enterprises | 6,539 | 2,122 | 24,309 | 1,710 | 34,680 |
| Scholarships & fellowships | — | — | 1,707 | — | 1,707 |
| Less interest expense | — | — | — | (2,427) | (2,427) |
| Total operating expenses | $ 58,829 | $ 17,693 | $ 49,820 | $ — | $ 126,342 |

For the Year Ended June 30, 2010
(In Thousands)

| Description | Salaries | Benefits | Other | Interest | Total |
|---|---|---|---|---|---|
| Academic support | $ 6,643 | $ 1,999 | $ 4,645 | $ 258 | $ 13,545 |
| Institutional support | 7,556 | 2,066 | 5,301 | 287 | 15,210 |
| Instruction | 32,036 | 9,578 | 8,576 | 1,244 | 51,434 |
| Public service | 114 | 32 | 175 | 4 | 325 |
| Research | 100 | 11 | 345 | 3 | 459 |
| Student services | 6,482 | 1,775 | 4,223 | 246 | 12,726 |
| Auxiliary enterprises | 6,291 | 1,996 | 21,342 | 247 | 29,876 |
| Scholarships & fellowships | — | — | 1,938 | — | 1,938 |
| Less interest expense | — | — | — | (2,289) | (2,289) |
| Total operating expenses | $ 59,222 | $ 17,457 | $ 46,545 | $ — | $ 123,224 |

14. EMPLOYEE PENSION PLANS

Winona State University participates in three retirement plans: the State Employees Retirement Fund, administered by the Minnesota State Retirement System; the Teachers Retirement Fund, administered by the Minnesota Teachers Retirement Association; and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

*State Employees Retirement Fund (SERF)*

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

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, are liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal year 2009 the funding requirement for both employer and employee was 4.5 percent. For fiscal year 2010 the funding requirement was 4.75 percent for both employer and employee. For fiscal year 2011 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for Winona State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2011 | $ 683 |
| 2010 | 610 |
| 2009 | 601 |

*Teachers Retirement Fund (TRF)*

Pension fund information is provided by the Minnesota Teachers Retirement Association, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from Teachers Retirement Association at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-3000.

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 percent and 1.7 percent for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. For fiscal years 2009, 2010 and 2011 the funding requirement was 5.5 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases will be phased in with a 0.5 percent increase, occurring every July 1 over four years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.

Required contributions for Winona State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2011 | $ 506 |
| 2010 | 531 |
| 2009 | 522 |

*Minnesota State Colleges and Universities Defined Contribution Retirement Fund*

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

| (In Thousands) | | |
|---|---|---|
| Fiscal Year | Employer | Employee |
| 2011 | $ 1,649 | $ 1,229 |
| 2010 | 1,618 | 1,208 |
| 2009 | 1,634 | 1,220 |

*Supplemental Retirement Plan (SRP)*

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

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

| Member Group | Eligible Compensation | Annual Maximum |
|---|---|---|
| Inter Faculty Organization | $6,000 to $51,000 | $2,250 |
| Minnesota State University Association of Administrative and Service Faculty | 6,000 to 50,000 | 2,200 |
| Administrators | 6,000 to 60,000 | 2,700 |

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 Winona State University were:

| (In Thousands) | |
|---|---|
| Fiscal Year | Amount |
| 2011 | $ 989 |
| 2010 | 920 |
| 2009 | 906 |

15. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance the University dormitories and buildings.

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

| | 2011 | 2010 |
|---|---|---|
| CONDENSED STATEMENTS OF NET ASSETS | | |
| Assets | | |
| Current assets | $ 12,381 | $ 10,700 |
| Current restricted assets | 11,998 | 18,368 |
| Noncurrent restricted assets | 602 | 28,685 |
| Noncurrent assets | 61,124 | 29,216 |
| Total assets | 86,105 | 86,969 |
| Liabilities | | |
| Current liabilities | 4,629 | 5,974 |
| Noncurrent liabilities | 40,313 | 42,214 |
| Total liabilities | 44,942 | 48,188 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 27,278 | 24,377 |
| Restricted | 13,885 | 14,044 |
| Total net assets | $ 41,163 | $ 38,781 |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | | |
| Operating revenues | $ 22,287 | $ 20,769 |
| Operating expenses | (17,473) | (15,897) |
| Net operating income | 4,814 | 4,872 |
| Nonoperating revenues (expenses) | (2,468) | (1,159) |
| Gain (loss) on disposal of capital assets | 36 | (2) |
| Change in net assets | 2,382 | 3,711 |
| Net assets, beginning of year | 38,781 | 35,070 |
| Net assets, end of year | $ 41,163 | $ 38,781 |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| Net cash provided (used) by: | | |
| Operating activities | $ 7,484 | $ 6,431 |
| Investing activities | 117 | 273 |
| Noncapital and related financing activities | (873) | — |
| Capital and related financing activities | (11,375) | (28,358) |
| Net decrease | (4,647) | (21,654) |
| Cash, beginning of year | 28,064 | 49,718 |
| Cash, end of year | $ 23,417 | $ 28,064 |

## 16. COMMITMENTS

Future commitments consist of construction projects that are funded by revenue bond proceeds and operating revenues. The University has incurred costs of approximately $0.52 million towards the construction of an underground pedestrian tunnel. which has an estimated completion date of October 2012. This project is partially funded through the Minnesota Department of Transportation and Winona State University with an estimated cost of $3 million.

New commitments made by the University during fiscal year 2011 include multiple building improvement projects. New commitment projects are estimated to cost a total of $1.9 million and include projects such as residence hall renovations and roof repairs. As of June 30, 2011 the University has expended approximately $0.5 million for these improvement projects.

17. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities 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 Colleges and Universities 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 $50,000 |
| Fund responsibility | $1,000,000 |
| Primary re insurer coverage | $1,000,000 to $25,000,000 |
| Catastrophic reinsurance | $25,000,00 to $1,000,000,000 |
| Bodily injury and property damage per person | $500,000 |
| Bodily injury and property damage per occurrence | $1,500,000 |
| Annual maximum paid by fund, excess by reinsurer | $4,000,000 |
| Maintenance deductible for additional claims | $25,000 |

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

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2011 and 2010.

(In Thousands)

| | Beginning Liability | Additions | Payments & Other Reductions | Ending Liability |
|---|---|---|---|---|
| Fiscal Year Ended 6/30/11 | $ 247 | $ 359 | $ 69 | $ 537 |
| Fiscal Year Ended 6/30/10 | 354 | 70 | 177 | 247 |

## 18. COMPONENT UNITS

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with Winona State 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 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 $2,160,248 and $2,902,942 from its Foundation for scholarships and other University support in fiscal years 2011 and 2010, respectively. In addition, the University received $3,000,000 from its Foundation for a portion of the Wellness Center in fiscal year 2009. 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 position.

Schedule of Investments at June 30
(In Thousands)

| Investments | 2011 | 2010 |
|---|---|---|
| Money market & certificate of deposit | $ 250 | $ 250 |
| Fixed Income/bonds/US treasuries | 2,782 | 2,062 |
| Equity based mutual funds | 13,868 | 10,775 |
| Equity securities | 549 | 609 |
| Total investments | $17,449 | $13,696 |

*Capital Assets* — The Foundation has developed student housing to be used by the students of Winona State University.

Schedule of Capital Assets at June 30
(In Thousands)

| Investments | 2011 | 2010 |
|---|---|---|
| Capital assets, not depreciated: | | |
| Land | $ 552 | $ 552 |
| Total capital assets, not depreciated | 552 | 552 |
| Capital assets, depreciated | | |
| Buildings and improvements | 10,745 | 10,745 |
| Equipment | 281 | 281 |
| Total capital assets, depreciated | 11,026 | 11,026 |
| Total accumulated depreciation | (2,317) | (2,021) |
| Total capital assets depreciated, net | 8,709 | 9,005 |
| Total capital assets, net | $ 9,261 | $ 9,557 |

*Long Term Obligations* — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of $7.8 million.

Future scheduled debt payments table follows:

Year Ended June 30
(In Thousands)

| | |
|---|---|
| 2012 | $ 323 |
| 2013 | 339 |
| 2014 | 356 |
| 2015 | 373 |
| 2016 | 392 |
| Thereafter | 5,996 |
| Total | $ 7,779 |

*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, 2011 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2011
(In Thousands)

| | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---|---|---|---|
| Net assets, beginning of year | $ 2,366 | $ 13,100 | $ 15,466 |
| Contributions | 88 | 611 | 699 |
| Investment income | 2,495 | — | 2,495 |
| Amounts appropriated for expenditures | (306) | — | (306) |
| Other transfers | (25) | 31 | 6 |
| Net assets, end of year | $ 4,618 | $ 13,742 | $ 18,360 |

Changes in endowment net assets as of June 30, 2010 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2010
(In Thousands)

| | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---|---|---|---|
| Net assets, beginning of year | $ 894 | $ 12,928 | $ 13,822 |
| Contributions | 432 | 380 | 812 |
| Investment income | 1,305 | — | 1,305 |
| Amounts appropriated for expenditures | (420) | — | (420) |
| Other transfers | 155 | (208) | (53) |
| Net assets, end of year | $ 2,366 | $ 13,100 | $ 15,466 |

*This page intentionally left blank*

# REQUIRED SUPPLEMENTARY INFORMATION SECTION

*This page intentionally left blank*

**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 (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 |

*This page intentionally left blank*

# SUPPLEMENTARY SECTION

KDV

*Expert advice. When you need it.*℠

# 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
Winona State University
Minnesota State Colleges and Universities
St. Paul, Minnesota

We have audited the financial statements of Winona State University, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We did not audit the financial statements of Winona State University Foundation, a component unit of the University. These statements were audited by other auditors for the years ended June 30, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Foundation were not audited in accordance with *Government Auditing Standards.*

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KDV

**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 tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, the Board of Trustees and state regulatory agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 28, 2011

*This page intentionally left blank*