annual financial report

for the years ended
june 30, 2012 and 2011
winona.edu

WINONA
STATE UNIVERSITY

A community of learners improving our world

A MEMBER OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

WINONA STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

Prepared by:

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

WINONA STATE UNIVERSITY

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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INTRODUCTION

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WINONA
STATE UNIVERSITY

December 21, 2012

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

Dear Trustees and Chancellor Rosenstone:

We are pleased to submit the financial report of Winona State University for Fiscal Year 2012. The accompanying statements show the university's financial position and results of operations ending on June 30, 2012. As I begin my first year as president of Winona State, it is a pleasure to review the past academic year and highlight the good things that our faculty, staff, and students are doing to improve our campus, community, and world.

Over the past year, our university continued to confront the same uncertainty about the economy and public commitment to funding higher education that confronted our whole system. Despite the uncertainty, the Winona State community focused efforts on our shared values and core capabilities. This is exemplified by our successful re-accreditation through the Higher Learning Commission, completed shortly before I arrived. Together our community thoughtfully examined what we are doing, how we are doing it, and what we need to do better.

One of the more exciting ideas to emerge from this process was the creation of our "Next Chapter" grants. These grants support student, faculty, and departmental projects that strengthen our unique characteristics, uncover new points of distinction, and build a vision of the future. In the first funding round, nineteen projects were supported with goals as diverse as creating a certificate in entrepreneurship to exploring the creation of a community health outreach clinic.

Because of this kind of innovative thinking, Winona State remains a first choice for our prospective and current students. Last year our new entering freshman and transfer classes were at record levels, and the Fall 2012 class was also strong both in numbers and academic preparation. I believe that a better indication of our success, however, is that our retention rates continue to rise and our graduation rates are at their highest levels ever. This, of course, is good news for the university's financial position.

President's Office
Winona State University
P.O. Box 5838
Winona, MN 55987

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In my short time here, I have seen the incredible, amazing things this university does, and the differences that it makes in the lives of our students and in our region and state. This fall we began an institution-wide visioning and planning process that will, much like our Next Chapter grants, put us further along the path to making an even greater impact on the world. I am excited about the possibilities and proud that Winona State is a strong and contributing member of 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 yours,

Dr. Scott R. Olson
President, Winona State University

President's Office
Winona State University
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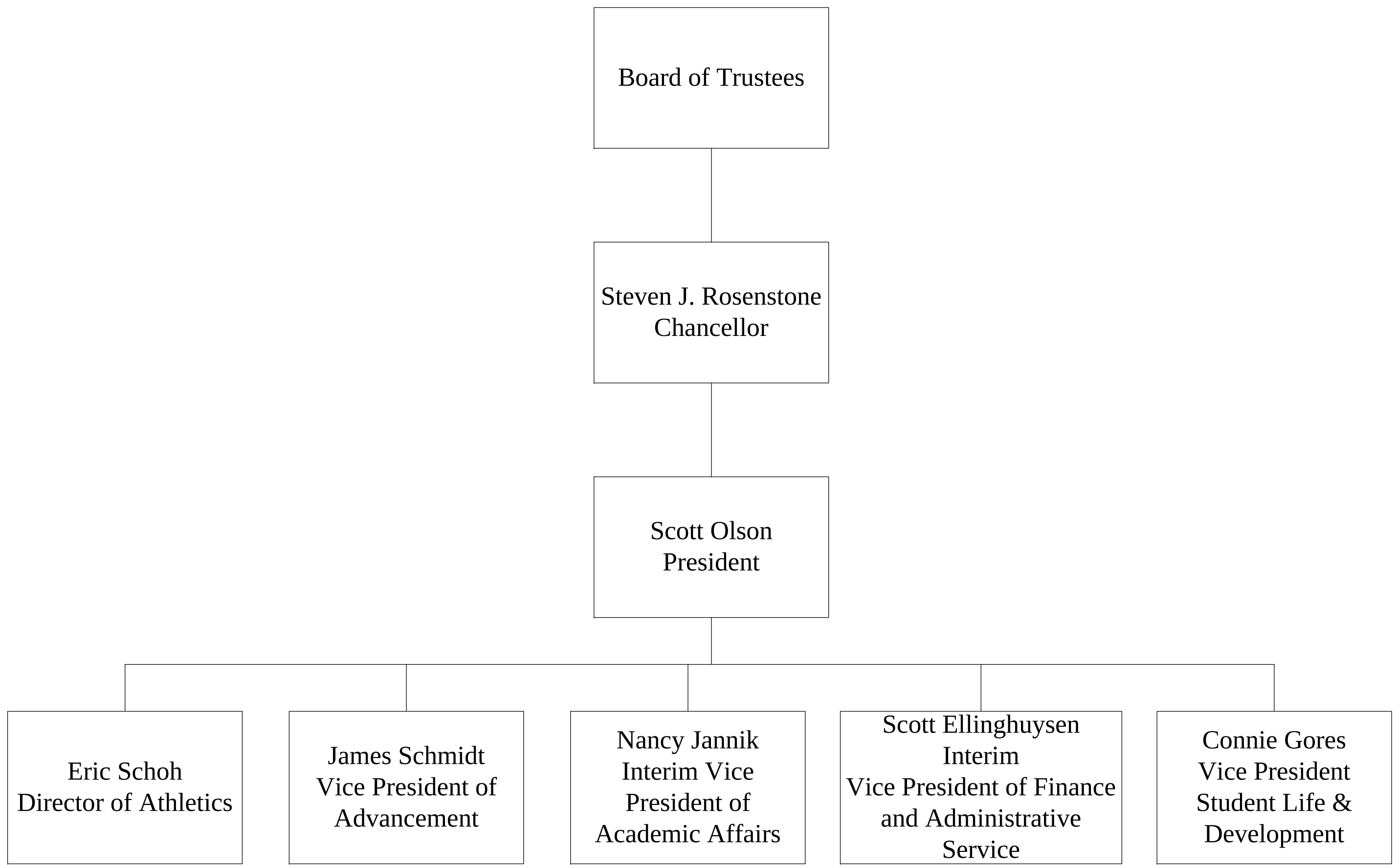
Winona State University
Organizational Chart



The financial activity of Winona State University is included in this report. The University is one of 31 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, 2012 and 2011, 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 $ 31,952,000 and $ 31,607,000 at June 30, 2012 and 2011, respectively, and total revenues of $ 3,455,000 and $ 7,226,000, 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, 2012 and 2011, 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 December 21, 2012, 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
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Winona State University, a member of the Minnesota State Colleges and Universities system at June 30, 2012 and 2011, 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, which follow this section.

Winona State University is one of 31 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, and policies and procedures.

The University is a comprehensive public higher education institution that serves more than 8,500 students including 360 graduate and professional students. Approximately 1,100 faculty and staff members are employed by the University. Founded in 1858, Winona State University is the oldest member of the Minnesota State Colleges and Universities System. The University is a premier regional university offering close to 80 undergraduate, pre-professional, and licensure, graduate, and doctorate programs between its two campuses: the Main campus, in Winona, MN, and Winona State University-Rochester in Rochester, MN. The University is accredited by 11 national accrediting agencies, including the Association to Advance Collegiate Schools of Business International (AACSB) and the Higher Learning Commission (HLC).

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

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

FINANCIAL HIGHLIGHTS

The University's financial position remained sound during fiscal year 2012, despite the $2.5 million decrease in state appropriation revenue. The University's sound financial position was strengthened by the increase in tuition revenue of $4.1 million, an increase in state grant revenue of $1.3 million and a decrease in salary and benefit expenses of $1.7 million. Over the past three fiscal years, the University has been engaged in an all University budget planning process which has significantly reduced operating costs to help stabilize the University's financial position.

For the fiscal year ended June 30, 2012, assets totaled $254.3 million while liabilities totaled $84.8 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 $120.2 million, restricted assets of $19.3 million and unrestricted assets of $30.0 million. The fiscal year 2012 total net assets of $169.5 million represents an increase of $11.6 million over fiscal year 2011 and $18.9 million over fiscal year 2010. The fiscal year 2012 unrestricted net assets total of $30.0 million constitute an $8.6 million increase over the fiscal year 2011 total of $21.4 and a $16.4 million increase over fiscal year 2010.

Operating revenue increased $6.6 million from fiscal year 2011 to fiscal year 2012. This is on top of a $4.2 million increase from fiscal year 2010 to fiscal year 2011. The two year total increase of $10.8 million is due primarily to a five percent tuition increase each year as well as enrollment growth of 2 percent. Operating expenses decreased $0.9 million from fiscal year 2011 to fiscal year 2012. This decrease in expenses was primarily due to a $1.7 million decrease in salaries and benefits.

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. The University has included a summary of significant accounting policies in Note 1 to the financial statements. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four asset categories.

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, 2012, 2011 and 2010, respectively, is as follows:

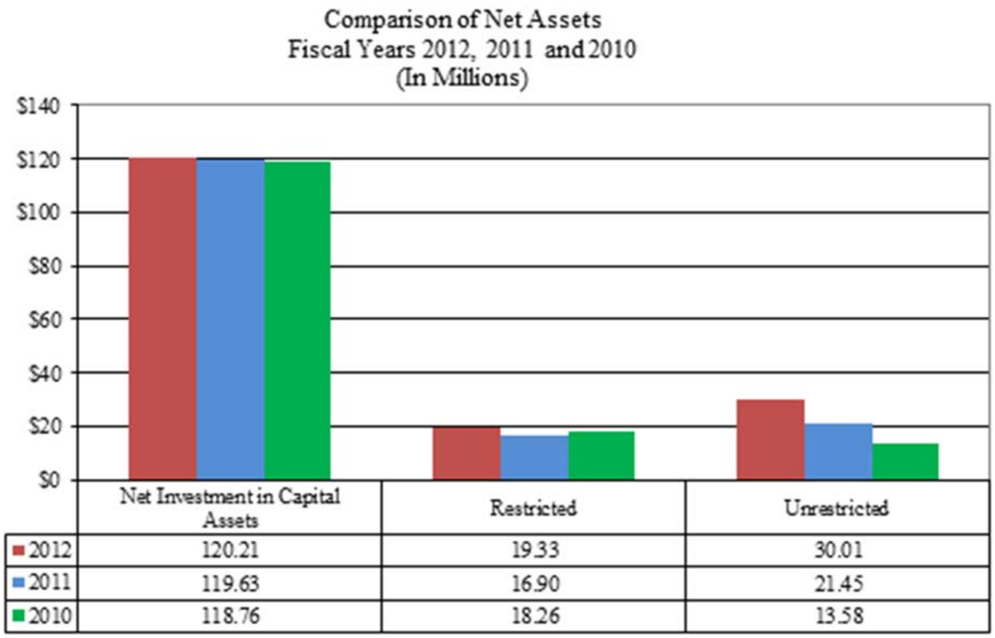
Statement of Net Assets
(In Thousands)

	2012	2011	2010
Assets			
Current assets	$ 69,695	$ 59,221	$ 50,991
Current restricted assets	9,519	13,628	18,969
Noncurrent restricted assets	1,421	602	28,685
Student loans, net	1,997	2,101	2,100
Capital assets, net	171,694	172,253	142,148
Total assets	254,326	247,805	242,893
Liabilities			
Current liabilities	19,931	21,278	22,871
Noncurrent liabilities	64,846	68,548	69,416
Total liabilities	84,777	89,826	92,287
Net assets			
Invested in capital assets, net of related debt	120,213	119,627	118,762
Restricted	19,325	16,900	18,263
Unrestricted	30,011	21,452	13,581
Total net assets	$ 169,549	$ 157,979	$ 150,606

Current unrestricted assets consist primarily of cash and cash equivalents and investments totaling $63.8 million at June 30, 2012. This is an increase of $10.8 million over fiscal year 2011 and represents 6.6 months of operating expenses (excluding depreciation). This is compared to 5.4 months and 4.6 months for the fiscal years ended June 30, 2011 and 2010, respectively. Capital assets, net of $171.7 million, represent the value of land, buildings, construction in progress, equipment and library collections. The total value of noncurrent assets is reduced by accumulated depreciation.

Current liabilities consist primarily of accounts payable and salaries and benefits payable, compensated absences, workers' compensation, current portion of long-term debt, and unearned revenue. Salaries and benefits payable totaled $5.9 million at June 30, 2012, which was $2.2 million lower than the previous fiscal year. Faculty contracts paid over twelve months on a nine month school year account for a significant portion of salaries payable. The significant decrease from June 30, 2011 to June 30, 2012 was largely the result of one less pay period in the accrual. In fiscal year 2012 the pay period ended prior to June 30, 2012 so those wages and benefits are reflected in cash rather than in salaries and benefits payable. Unearned revenue consists of summer session tuition and grant receipts received, but not yet earned. At June 30, 2012, $3.0 million was held as unearned revenue. Summer session began in May and ended in August 2012, with tuition being allocated based on the number of session days in fiscal year 2012.

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets as of June 30, 2012, 2011, and 2010, respectively, are summarized as follows:



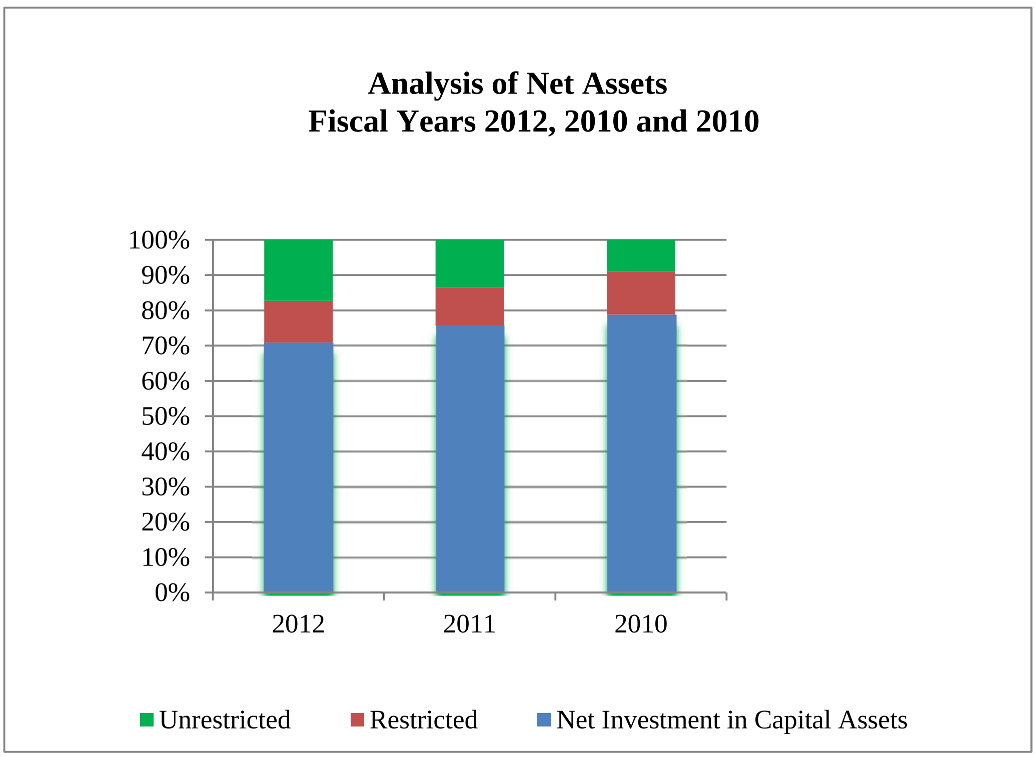
Invested in capital assets, net of related debt, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net assets primarily include donations received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

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in maintaining the quality of the University's academic programs and student life programs is the development and renewal of its property, plant, and equipment. The University continues to implement its long-range plan to modernize its older facilities while planning for new additions and / or construction. Capital assets, net of accumulated depreciation, as of June 30, 2012, totaled $173.1 million, net of accumulated depreciation of $95.6 million. This represents an increase of $0.3 million and $2.3 million from June 30, 2011 and 2010, respectively.
Capital outlays primarily consist of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment and library materials. Capital outlay totaled $10.0 million in fiscal year 2012, a decrease of $1.2 million from fiscal year 2011. Significant capital outlays made in fiscal year 2012 include the renovation of academic facilities, student residence halls, along with an energy savings initiative.

Long-term debt payable on June 30, 2012 consisted of $14.3 million of general obligation bonds, $40.0 million of revenue bonds, bond premiums of $1.3 million and $1.6 million of notes payable. The general obligation bonds are primarily used to finance construction of buildings and repairs. Additional information on capital debt and debt activities can be found in notes 6 and 8 in the financial statements.

As the graph illustrates, 71 percent of the University's net assets are related to the investment in capital assets.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

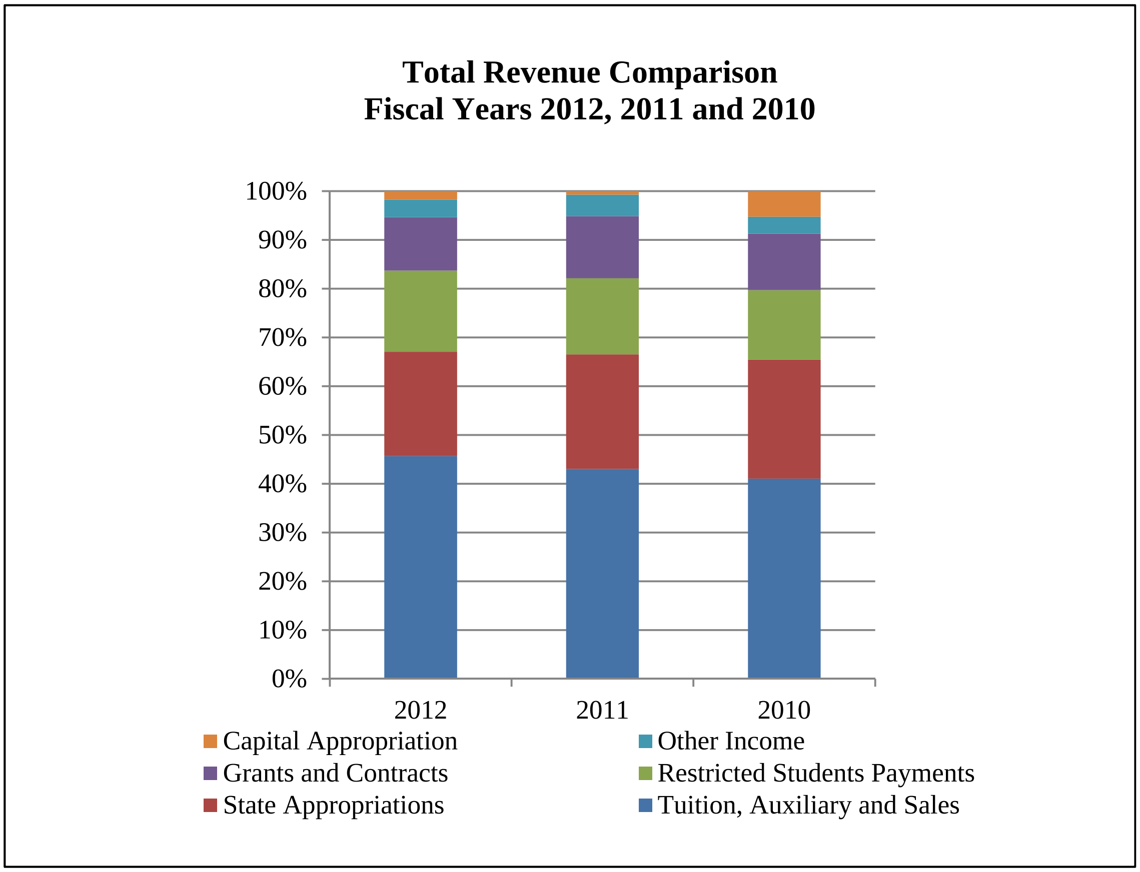
The statements of revenues, expenses and changes in net assets present the University's results of operations for the year. When reviewing the full statement, please note that GASB requires classification of state appropriations as non-operating revenue. A summarized statement for the years ended June 30, 2012, 2011 and 2010, respectively, follows:

Summarized Statements of Revenues, Expenses, and Changes in Net Assets

(In Thousands)

	2012	2011	2010
Operating revenue:			
Tuition, net	$ 43,483	$ 39,411	$ 37,188
Fees, net	5,535	4,854	4,747
Sales, net	14,973	15,213	15,205
Restricted student payments, net	23,343	21,594	19,847
Other income	1,732	1,398	1,279
Total operating revenues	89,066	82,470	78,266
Nonoperating revenue:			
State appropriations	29,957	32,447	33,929
Federal, state, and private grants	18,186	20,625	18,593
Capital appropriations	2,439	989	7,275
Other	485	1,650	1,099
Total nonoperating revenues	51,067	55,711	60,896
Total revenues	140,133	138,181	139,162
Operating expense:			
Salaries and benefits	74,798	76,522	76,679
Supplies and services	40,118	39,042	36,777
Depreciation	9,456	9,071	7,830
Financial aid, net	1,113	1,707	1,938
Total operating expenses	125,485	126,342	123,224
Nonoperating expense:			
Loss on disposal of assets	169	19	—
Grants to other organizations	374	2,020	637
Interest expense	2,535	2,427	2,289
Total nonoperating expenses	3,078	4,466	2,926
Total expenses	128,563	130,808	126,150
Increase in net assets	11,570	7,373	13,012
Net assets, beginning of year	157,979	150,606	137,594
Net assets, end of year	$ 169,549	$ 157,979	$ 150,606

Tuition and state appropriations are the primary sources of funding for the University's operations. Enrollment grew by 250 full year equivalents (FYE) from fiscal year 2011 to fiscal year 2012 which represents a 3.0 percent increase. Enrollment levels totaled 8,544, 8,294, and 8,391 FYE for fiscal years ended June 30, 2012, 2011 and 2010, respectively. In addition to the enrollment increase seen during fiscal year 2012, tuition revenue also increased in fiscal years 2012 and 2011 as a result of tuition rate increase in each of the last two fiscal years. Tuition rates increased 5 percent from 2010 to 2011 and 5 percent from 2011 to 2012.



Operating expenses as of June 30, 2012 decreased by $0.9 million over fiscal year 2011. The resources expended for employee compensation and benefits totaled $74.8 million for the fiscal year ended June 30, 2012, which represents a decrease of $1.7 million over fiscal year 2011. Employee retirements and attrition both contributed to the slight decrease in employee compensation for the fiscal year ended June 30, 2012.

FOUNDATION

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes the University is positioned to continue its strong level of excellence. Conservative budget planning in the current biennium has provided adequate cash reserves which will help to address future unforeseen budget events. Collective bargaining unit contracts remain unsettled for the fiscal year 2012-2013 biennium. The University is confident it has adequate cash reserves to fund the contracts when they are settled.

The University will continue to face challenges in maintaining adequate state appropriation support in future years while attempting to minimize tuition increase for our students. Concern over the levels of student indebtedness related to funding their education continues to grow in the media and the public. The prospect of limited state appropriation increases and minimal tuition increases will force the University to maintain a keen eye on all expenses.

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

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WINONA STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011
(IN THOUSANDS)

Assets	2012	2011
Current Assets		
Cash and cash equivalents	$ 58,724	$ 47,609
Investments	5,081	5,402
Grants receivable	249	471
Accounts receivable, net	2,310	2,059
Prepaid expense	1,924	2,000
Inventory	833	1,057
Student loans, net	400	400
Other assets	174	223
Total current assets	69,695	59,221
Current Restricted Assets		
Cash and cash equivalents	9,519	13,628
Total current restricted assets	9,519	13,628
Noncurrent Restricted Assets		
Other assets	9	9
Construction in progress	1,412	593
Total noncurrent restricted assets	1,421	602
Total restricted assets	10,940	14,230
Noncurrent Assets		
Student loans, net	1,997	2,101
Capital assets, net	171,694	172,253
Total noncurrent assets	173,691	174,354
Total Assets	254,326	247,805
Liabilities		
Current Liabilities		
Salaries and benefits payable	5,858	8,038
Accounts payable	4,081	2,667
Unearned revenue	3,001	2,782
Payable from restricted assets	841	802
Interest payable	447	465
Funds held for others	931	913
Current portion of long-term debt	3,390	3,558
Other compensation benefits	1,382	2,053
Total current liabilities	19,931	21,278
Noncurrent Liabilities		
Noncurrent portion of long-term debt	53,842	57,481
Other compensation benefits	8,461	8,536
Capital contributions payable	2,543	2,531
Total noncurrent liabilities	64,846	68,548
Total Liabilities	84,777	89,826
Net Assets		
Invested in capital assets, net of related debt	120,213	119,627
Restricted expendable, bond covenants	12,516	9,366
Restricted expendable, other	6,809	7,534
Unrestricted	30,011	21,452
Total Net Assets	$ 169,549	$ 157,979

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 1,126	$ 2,924
Pledges and contributions receivable, net	239	317
Other receivables	204	286
Prepaid expenses	8	8
Accrued investment/Interest income	19	11
Annuities/Remainder interests/Trusts	131	134
Total current assets	1,727	3,680
Noncurrent Assets		
Investments	20,111	17,449
Long-term pledges receivable	599	737
Buildings, property, and equipment, net	9,035	9,261
Other assets	480	480
Total noncurrent assets	30,225	27,927
Total Assets	$ 31,952	$ 31,607
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 65	$ 48
Interest payable	30	31
Annuities payable	278	83
Notes payable	340	323
Total current liabilities	713	485
Noncurrent Liabilities		
Notes payable	7,114	7,456
Total noncurrent liabilities	7,114	7,456
Total Liabilities	7,827	7,941
Net Assets		
Unrestricted	815	790
Temporarily restricted	7,902	9,000
Permanently restricted	15,408	13,876
Total Net Assets	24,125	23,666
Total Liabilities and Net Assets	$ 31,952	$ 31,607

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, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Operating Revenues		
Tuition, net	$ 43,483	$ 39,411
Fees, net	5,535	4,854
Sales, net	14,973	15,213
Restricted student payments, net	23,343	21,594
Other income	1,732	1,398
Total operating revenues	89,066	82,470
Operating Expenses		
Salaries and benefits	74,798	76,522
Purchased services	23,104	24,017
Supplies	8,259	8,253
Repairs and maintenance	2,888	1,436
Depreciation	9,456	9,071
Financial aid, net	1,113	1,707
Other expense	5,867	5,336
Total operating expenses	125,485	126,342
Operating loss	(36,419)	(43,872)
Nonoperating Revenues (Expenses)		
Appropriations	29,957	32,447
Federal grants	10,460	14,016
State grants	4,891	3,567
Private grants	2,835	3,042
Interest income	485	1,650
Interest expense	(2,535)	(2,427)
Grants to other organizations	(374)	(2,020)
Total nonoperating revenues (expenses)	45,719	50,275
Income Before Other Revenues, Expenses, Gains, or Losses	9,300	6,403
Capital appropriations	2,439	989
Loss on disposal of capital assets	(169)	(19)
Change in net assets	11,570	7,373
Total Net Assets, Beginning of Year	157,979	150,606
Total Net Assets, End of Year	$ 169,549	$ 157,979

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Support and Revenue					
Contributions	$ 273	$ 1,345	$ 589	$ 2,207	$ 3,065
Investment income	348	35	-	383	312
Realized gains	104	10	-	114	102
Unrealized gains (losses)	(462)	(54)	(3)	(519)	2,334
Program income	735	461	-	1,196	1,311
Fundraising income	-	74	-	74	102
Net assets released from restrictions	1,953	(1,953)	-	-	-
Reclassifications	70	(1,016)	946	-	-
Total support and revenue	3,021	(1,098)	1,532	3,455	7,226
Expenses					
Program services					
Program services	684	-	-	684	703
Scholarships	921	-	-	921	865
University activities	1,220	-	-	1,220	521
Special projects	58	-	-	58	71
Total program services	2,883	-	-	2,883	2,160
Supporting services					
Management and general	48	-	-	48	46
Fundraising	65	-	-	65	35
Total supporting services	113	-	-	113	81
Total expenses	2,996	-	-	2,996	2,241
Change in Net Assets	25	(1,098)	1,532	459	4,985
Net Assets, Beginning of Year	790	9,000	13,876	23,666	18,681
Net Assets, End of Year	$ 815	$ 7,902	$ 15,408	$ 24,125	$ 23,666

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	$ 88,852	$ 82,660
Cash repayment of program loans	312	318
Cash paid to suppliers for goods or services	(38,209)	(38,803)
Cash payments for employees	(77,800)	(76,474)
Financial aid disbursements	(1,101)	(1,706)
Cash payments for program loans	(255)	(357)
Net cash flows used in operating activities	(28,201)	(34,362)
Cash Flows from Noncapital Financing Activities		
Appropriations	29,957	32,447
Federal grants	10,861	14,086
State grants	4,891	3,567
Private grants	2,835	3,042
Agency activity	19	56
Grants to other organizations	(374)	(2,020)
Net cash flows provided by noncapital financing activities	48,189	51,178
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(9,931)	(12,802)
Capital appropriation	2,439	989
Capital grants	-	375
Proceeds from sale of capital assets	67	83
Proceeds from borrowing	-	1,700
Proceeds from bond premium	-	773
Interest paid	(2,553)	(2,444)
Repayment of lease principal	(243)	(276)
Repayment of note principal	(86)	-
Repayment of bond principal	(3,306)	(3,283)
Net cash flows used in capital and related financing activities	(13,613)	(14,885)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	410	1,777
Purchase of investments	(144)	(172)
Investment earnings	365	460
Net cash flows provided by investment activities	631	2,065
Net Increase in Cash and Cash Equivalents	7,006	3,996
Cash and Cash Equivalents, Beginning of Year	61,237	57,241
Cash and Cash Equivalents, End of Year	$ 68,243	$ 61,237

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Operating Loss	$ (36,419)	$ (43,872)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	9,456	9,071
Provision for loan defaults	26	(1)
Loan principal repayments	312	318
Loans issued	(255)	(357)
Forgiven loans	21	39
Change in assets and liabilities		
Inventory	224	(67)
Accounts receivable	(254)	(88)
Accounts payable	1,414	506
Salaries and benefits payable	(2,181)	(199)
Other compensation benefits	(746)	170
Capital contributions payable	13	2
Unearned revenues	40	278
Other	148	(162)
Net reconciling items to adjust operating loss	8,218	9,510
Net cash flows used in operating activities	$ (28,201)	$ (34,362)
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	$ 841	$ 802
Change in fair market value of investments	(56)	1,055
Investment earnings on account	52	39
Amortization of bond premium	162	162

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 System 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 Transaction.* Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

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

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:

  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.

Net Assets Restricted for Other
(In Thousands)

	2012	2011
Loans	$ 307	$ 306
Capital projects	—	781
Debt service	5,588	5,673
Faculty contracts	914	774
Total	$ 6,809	$ 7,534

- *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.

New Accounting Pronouncements — In December 2010, the GASB issued Statement No. 60, *Accounting and Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by establishing recognition, measurement, and disclosure requirements for Service Concession Arrangements (SCA's) for both transferors and governmental operators, and by requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. In addition, it is designed to alleviate the confusion that can arise when determining what guidance should be applied in complex circumstances not previously specifically addressed in GASB literature. The requirements of this statement are effective for Minnesota State Colleges and Universities for the year ended June 30, 2013. The effect GASB Statement No. 60 will have on the fiscal year 2013 basic financial statements has not been determined.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has 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	2012	2011
Cash, in bank	$ 168	$ 848
Change fund	13	12
Money markets	3,182	3,232
Cash, trustee account (US Bank)	4,827	7,269
Total local cash and cash equivalents	8,190	11,361
Total treasury cash accounts	60,053	49,876
Grand Total	$ 68,243	$ 61,237

At June 30, 2012 and 2011, the University's bank balances were $3,502,782 and $5,708,189, 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)

	2012 Fair Value	Weighted Maturity (In Years)	2011 Fair Value	Weighted Maturity (In Years)
State investment pool cash equivalents	$ 563	—	$ 476	—
Corporate/municipal bonds	832	7.04	723	6.80
US agencies	1,061	3.35	1,276	11.07
Stocks	14	8.42	—	—
Asset backed	13	1.24	9	1.16
Total	2,483		2,484	
Portfolio weighted average maturity		3.85		7.67
Mutual stock funds	1,030		1,189	
Corporate stock	1,568		1,729	
Total	$ 5,081		$ 5,402	

3. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and federal and state grant receivables. At June 30, 2012 and 2011, total accounts receivable balances for the University were $3,179,335 and $2,910,772, respectively, less an allowance for uncollectible receivables of $869,296 and $851,685, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2012	2011
Sales and services	$ 976	$ 1,043
Tuition	857	889
Fees	394	384
Room and board	364	360
Interest	1	3
Third party obligations	162	78
Other	425	154
Total accounts receivable	3,179	2,911
Less: allowance for uncollectible accounts	(869)	(852)
Net accounts receivable	$ 2,310	$ 2,059

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 $1,862,326 and $1,933,599 for fiscal years 2012 and 2011, 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 2012 and 2011 was $61,248 and $66,054, 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, 2012 and 2011, the total loans receivable for this program were $2,870,300 and $2,948,707, respectively, less an allowance for uncollectible loans of $473,696 and $447,554, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 9,739	$ —	$ —	$ —	$ 9,739
Construction in progress	2,827	8,558	—	(7,422)	3,963
Total capital assets, not depreciated	12,566	8,558	—	(7,422)	13,702
Capital assets, depreciated:					
Buildings and improvements	225,952	—	—	7,422	233,374
Equipment	14,952	472	734	—	14,690
Library collections	6,978	943	1,024	—	6,897
Total capital assets, depreciated	247,882	1,415	1,758	7,422	254,961
Less accumulated depreciation:					
Buildings and improvements	72,076	7,459	—	—	79,535
Equipment	11,461	1,012	477	—	11,996
Library collections	4,065	985	1,024	—	4,026
Total accumulated depreciation	87,602	9,456	1,501	—	95,557
Total capital assets, depreciated, net	160,280	(8,041)	257	7,422	159,404
Total capital assets, net	$ 172,846	$ 517	$ 257	$ —	$ 173,106

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

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)

	2012	2011
Purchased services	$ 2,170	$ 1,247
Repairs and maintenance	60	31
Supplies	347	142
Employee benefits	162	76
Capital expenditures	862	401
Capital projects	7	25
Other	473	745
Total	$ 4,081	$ 2,667

In addition, as of June 30, 2012 and 2011, the University had payable from restricted assets in the amounts of $841,342 and $801,906, 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 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 1,450	$ —	$ 162	$ 1,288	$ —
Capital leases	243	—	243	—	—
General obligation bonds	15,755	—	1,407	14,348	1,367
Revenue bonds	41,891	—	1,909	39,982	1,970
Note payable	1,700	—	86	1,614	53
Total long term debt	$ 61,039	$ —	$ 3,807	$ 57,232	$ 3,390

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

The changes in other compensation benefits for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 8,410	$ 917	$ 925	$ 8,402	$ 1,081
Early termination benefits	892	96	892	96	96
Net other postemployment benefits	750	667	527	890	—
Workers' compensation	537	208	290	455	205
Total other compensation benefits	$ 10,589	$ 1,888	$ 2,634	$ 9,843	$ 1,382

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

Bond Premium — In fiscal years 2012 and 2011, bonds were issued resulting in premiums of $0 and $773,521, 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 3.625 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 15.58 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $56,751,721. Principal and interest paid for the current year and total customer net revenues were $3,731,026 and $23,874,362, respectively.

Note Payable — The note payable consists of an energy savings initiative loan with Bank of America at an interest rate of 4.92. The total principal and interest remaining to be paid on the loan is $2,307,835 at June 30, 2012.

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 $455,592 and $536,995 at June 30, 2012 and 2011, 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 $2,542,905 and $2,530,625 at June 30, 2012 and 2011, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $12,280 and $1,493 for the fiscal years 2012 and 2011, respectively.

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

Fiscal Years	Notes Payable		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 53	$ 78	$ 1,367	$ 686	$ 1,970	$ 1,749
2014	60	76	1,317	618	2,038	1,671
2015	67	72	1,279	554	2,121	1,586
2016	75	69	1,255	491	2,205	1,493
2017	83	65	1,186	429	2,009	1,403
2018-2022	560	251	5,138	1,322	11,405	5,634
2023-2027	716	83	2,615	304	12,518	2,944
2028-2032	—	—	191	7	5,716	289
Total	$ 1,614	$ 694	$ 14,348	$ 4,411	$ 39,982	$ 16,769

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 2012 and 2011.

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 2012 and 2011 follow:

Fiscal Year	Number of Employees	Future Liability (In Thousands)
2012	—	$ —
2011	10	670

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 2012 and 2011 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2012	6	$ 96
2011	8	222

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 2012 and 2011, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2012	2011
Annual required contribution (ARC)	$ 660	$ 631
Interest on net OPEB obligation	36	26
Adjustment to ARC	(29)	(22)
Annual OPEB cost	667	635
Contributions during the year	(527)	(441)
Increase in net OPEB obligation	140	194
Net OPEB obligation, beginning of year	750	556
Net OPEB obligation, end of year	$ 890	$ 750

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2012 and 2011 were:

Year Ended June 30
(In Thousands)

	2012	2011
Beginning of year net OPEB obligation	$ 750	$ 556
Annual OPEB cost	667	635
Employer contribution	(527)	(441)
End of Year net OPEB obligation	$ 890	$ 750
Percentage contributed	79.01%	69.45%

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; the final payment was made 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, 2012 and 2011, totaled approximately $6,311 and $6,506, 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
2013	$ 5,846
2014	3,931
2015	1,169
2016	693
2017	691
2018-2022	3,453
2023-2027	3,453
2028-2031	119
Total	$ 19,355

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2012 and 2011, totaled $66,909 and $68,465, 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 $180,749 in fiscal year 2012. Future minimum lease payments for existing lease agreements are as follow:

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2013	$ 52
2014	53
2015	40
2016	32
2017	4
Total	$ 181

12. TUITION, FEES, AND SALES, NET

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

Year Ended June 30
(In Thousands)

	2012			2011		
Description	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	$ 58,761	$ (15,278)	$ 43,483	$ 52,826	$ (13,415)	$ 39,411
Fees	6,273	(738)	5,535	5,681	(827)	4,854
Sales	14,973	—	14,973	15,213	—	15,213
Restricted student payments	23,775	(432)	23,343	22,151	(557)	21,594
Total	$ 103,782	$ (16,448)	$ 87,334	$ 95,871	$ (14,799)	$ 81,072

13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Year Ended June 30, 2012
(In Thousands)

Description	Salaries	Benefits	Other	Interest	Total
Academic support	$ 7,054	$ 2,104	$ 5,232	$ 310	$ 14,700
Institutional support	6,387	2,100	5,577	288	14,352
Instruction	29,711	9,317	9,993	1,323	50,344
Public service	181	55	107	8	351
Research	194	26	433	7	660
Student services	6,730	1,785	4,620	289	13,424
Auxiliary enterprises	6,940	2,214	23,612	310	33,076
Scholarships & fellowships	—	—	1,113	—	1,113
Less interest expense	—	—	—	(2,535)	(2,535)
Total operating expenses	$ 57,197	$ 17,601	$ 50,687	$ —	$ 125,485

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

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 2010 the funding requirement for both employer and employee was 4.75 percent. For fiscal years 2011 and 2012 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
2012	$ 687
2011	683
2010	610

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 2010 and 2011 the funding requirement was 5.5 percent for both employer and employee coordinated members. For fiscal year 2012 the funding requirement was 6 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases were and will continue to be phased in with a 0.5 percent increase, occurring every July 1 over three 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
2012	$ 536
2011	506
2010	531

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
2012	$ 1,635	$ 1,217
2011	1,649	1,229
2010	1,618	1,208

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
2012	$ 935
2011	989
2010	920

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)

	2012	2011
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 14,621	$ 12,381
Current restricted assets	9,513	11,998
Noncurrent restricted assets	1,421	602
Noncurrent assets	62,629	61,124
Total assets	88,184	86,105
Liabilities		
Current liabilities	5,155	4,629
Noncurrent liabilities	38,353	40,313
Total liabilities	43,508	44,942
Net Assets:		
Invested in capital assets, net of related debt	28,433	27,278
Restricted	16,243	13,885
Total net assets	$ 44,676	$ 41,163
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 23,877	$ 22,287
Operating expenses	(18,694)	(17,473)
Net operating income	5,183	4,814
Nonoperating revenues (expenses)	(1,641)	(2,468)
Gain (loss) on disposal of capital assets	(29)	36
Change in net assets	3,513	2,382
Net assets, beginning of year	41,163	38,781
Net assets, end of year	$ 44,676	$ 41,163
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$ 8,497	$ 7,484
Investing activities	81	117
Noncapital and related financing activities	—	(873)
Capital and related financing activities	(7,989)	(11,375)
Net increase (decrease)	589	(4,647)
Cash, beginning of year	23,417	28,064
Cash, end of year	$ 24,006	$ 23,417

16. COMMITMENTS AND CONTINGENCIES

Minnesota State Colleges and Universities is in negotiations with the faculty bargaining units for the 2011-2013 contract period. Furthermore, the legislative sub-committee on employee relations rejected the settlements reached by the State with MAPE and AFSCME for the same period. As a result, these contracts have not been approved nor implemented. It is possible that the full legislature will consider and approve the settlements during the regular legislative session. Whether there will be retroactive pay owed to state employees as a result of negotiated settlements, and the impact such settlements may have on the fiscal year 2012 financials, remains unknown. Therefore, no provision for related expense or liability, if any, has been reflected in these financial statements.

Future commitments consist of construction projects that are funded by revenue bond proceeds and operating revenues. The University has incurred costs of approximately $0.60 million towards the construction of an underground pedestrian tunnel, which has an estimated completion date of December 2013. 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 2012 include multiple building improvement projects. New commitment projects are estimated to cost a total of $4.2 million and include projects such as residence hall renovations and Sustainable House. As of June 30, 2012 the University has expended approximately $2.4 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	$1,000,001 to $25,000,000
Catastrophic reinsurance	$25,000,001 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by reinsurer	$2,000,000
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, 2012 and 2011.

(In Thousands)

	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/12	$ 537	$ 208	$ 290	$ 455
Fiscal Year Ended 6/30/11	247	359	69	537

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 $2,883,183 and $2,160,248 from its Foundation for scholarships and other University support in fiscal years 2012 and 2011, 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.

- *Permanently Restricted*: Net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

The University has an agreement with the Minnesota State University, Mankato Foundation, Inc. whereby the University has agreed to furnish services for the operation of the Foundation. The values of such services are estimated at $1,397,595 and $1,404,418, for fiscal years 2012 and 2011, respectively, and are included in the university's expenses.

During fiscal years 2012 and 2011, the foundation expended $3,306,565 and $3,036,683, respectively, for University educational program purposes. Approximately $1,017,186 and $956,416 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2012 and 2011, respectively.

In addition to providing the University with supplemental funds for current operations, the Foundation's net assets decreased by $1,492,891 and increased by $7,384,885, for fiscal years 2012 and 2011, respectively.

An estimated $750,885 and $754,567, of revenues and expenditures in fiscal years 2012 and 2011, respectively, are included in both the Foundation's and the University's revenues and expenditures. This situation results from planned transfers of Foundation funds to the University, whereby actual subsequent purchases are made from University accounts.

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

Schedule of Investments at June 30
(In Thousands)

	2012	2011
Equity mutual funds	$ 24,269	$ 23,765
Fixed income mutual funds	10,752	11,764
Exchange traded funds	3,633	3,951
Common stock	227	265
Other investments	219	228
Life insurance contracts	135	125
Government obligations	84	85
Fixed income securities	3	3
Total investments	$ 39,322	$ 40,186

Capital Assets—Summaries of the foundations' capital assets for fiscal years 2012 and 2011 are:

Schedule of Capital Assets at June 30
(In Thousands)

	2012	2011
Capital assets, not depreciated:		
Land	$ 1,004	$ 1,004
Total capital assets, not depreciated	1,004	1,004
Capital assets, depreciated:		
Equipment	246	246
Total capital assets, depreciated	246	246
Total accumulated depreciation	(246)	(246)
Total capital assets depreciated, net	—	—
Total capital assets, net	$ 1,004	$ 1,004

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, 2012 are as follows:

Schedule of Endowment Net Assets
As of June 30, 2012
(In Thousands)

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	$ 4,618	$ 13,742	$ 18,360
Contributions	373	590	963
Investment income	182	—	182
Amounts appropriated for expenditures	(367)	—	(367)
Other transfers	9	945	954
Net assets, end of year	$ 4,815	$ 15,277	$ 20,092

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 Endowment Net 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

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REQUIRED SUPPLEMENTARY INFORMATION SECTION

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (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

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SUPPLEMENTARY SECTION

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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, 2012, and have issued our report thereon dated December 21, 2012. 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, 2012. 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.

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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
December 21, 2012

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