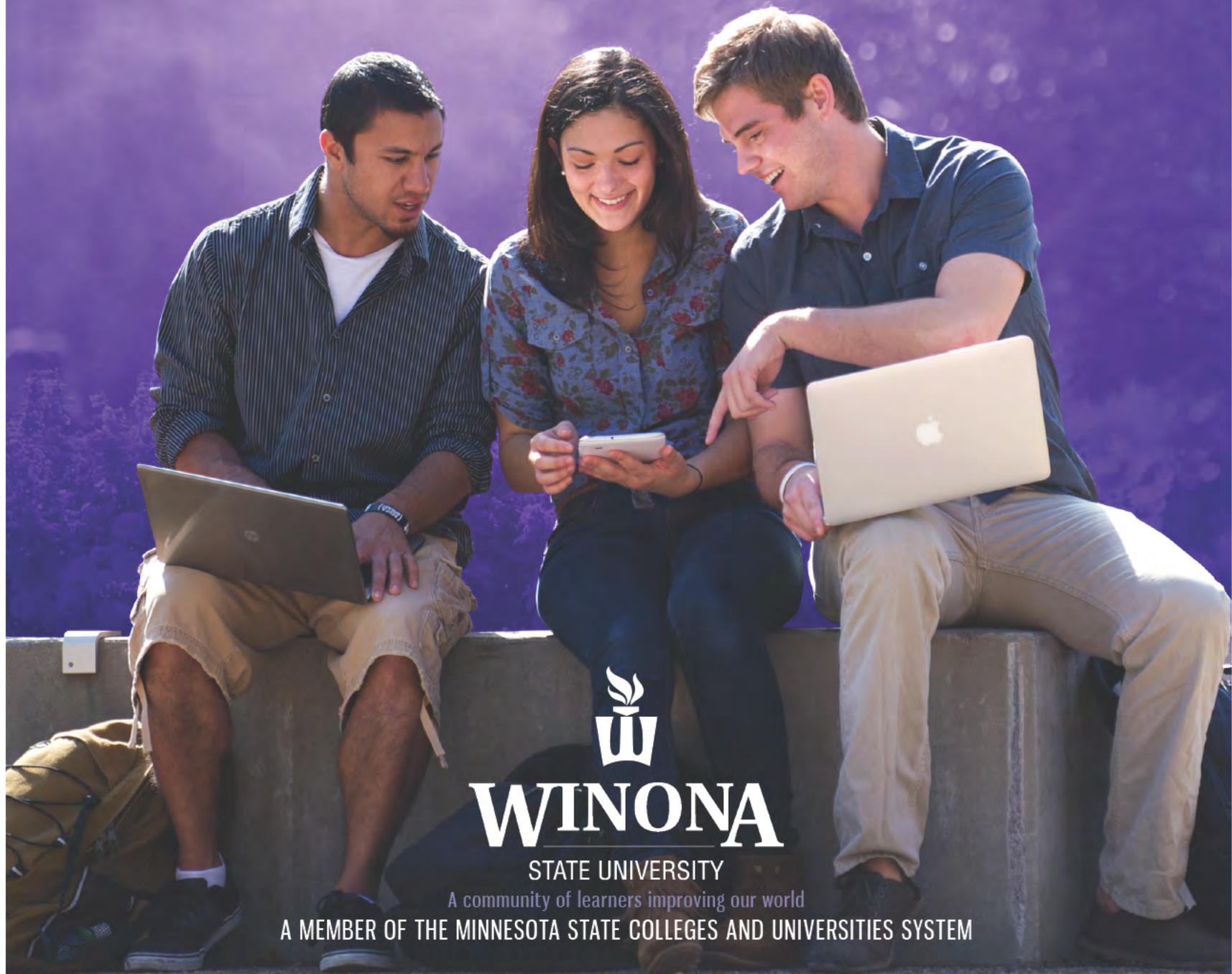


# Annual Financial Report

for the years ended  
June 30, 2013 and 2012  
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, 2013 and 2012**

Prepared by:

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

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WINONA STATE UNIVERSITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

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# INTRODUCTION

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# WINONA

## STATE UNIVERSITY

November 15, 2013

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

Dear Trustees and Chancellor Rosenstone:

We are pleased to submit the financial report of Winona State University for Fiscal Year 2013. The accompanying statements show the university's financial position and results of operations ending on June 30, 2013. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report.

In addition to our financial statements, I am also happy to briefly review the past year and highlight the ways our faculty, staff, students, and more than 50,000 alumni are making a difference on our campus, in our community, and around the world.

As we continue to face a changing environment for higher education, our campus has engaged in two important dialogues about the future of Winona State University. In both, we have remained focused on its shared values and core capabilities.

The first has been "Hopes and Dreams." During the 2013 academic year, much of our campus participated in open sessions to offer their transformational ideas that will shape the future of the university. Thousands were submitted, and after analysis by a group of our educational leadership program students, a clear pattern emerged. The hopes and dreams of the Winona State community focus on people, programs, price, place, and pride.

People are at the center of our vision of the future: building a community that is more welcoming, hospitable, and diverse; offering programs that are relevant and responsive to the emerging needs of our citizens; increasing accessibility by keeping the price of a Winona State education affordable; maintaining our sense of place through deeper engagement with our community; and taking pride in our distinctiveness and academic excellence.

In similar ways, this fall our community responded to *Charting the Future*, the system draft report of strategic workgroups. Again, the discussion was wide-ranging and thoughtful with recommendations centering on developing strategies that build academic excellence and relevance while maintaining institutional distinctiveness, and enhancing affordability and accessibility.

Both of these discussions are examples of the deep sense of responsibility and faith that our students and their families, faculty, staff, alumni, and benefactors hold for Winona State University. In my brief time here as president, I have seen the incredible things this university inspires, and I am confident that our future is bright.

Responsibility for the accuracy, fairness, and completeness of the information in this report rests with the Finance and Administration staff from Winona State University and the Finance Division staff from the Office of the Chancellor. Winona State is a proud member of the Minnesota State Colleges and Universities. Thank you for the trust you have placed in us as good stewards of the public's resources.

Sincerely,



Dr. Scott R. Olson  
President, Winona State University



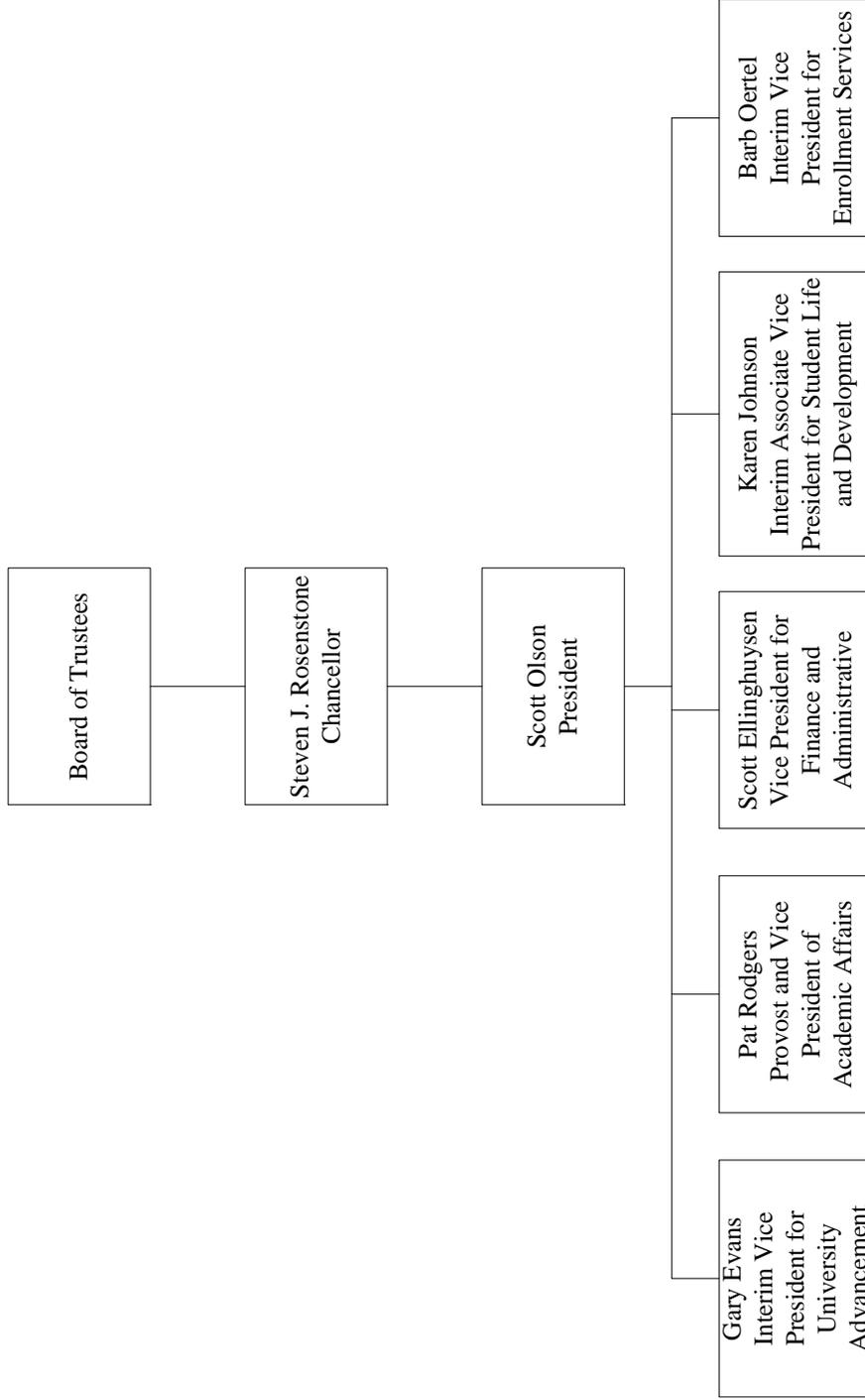
President's Office  
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# Winona State University

## 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



*Expert advice. When you need it.<sup>SM</sup>*

## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2013 and 2012, and the related Notes to the Financial Statements, which collectively comprise the University's basic financial statements as presented.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 \$ 36,488,000 and \$ 31,952,000 at June 30, 2013 and 2012, respectively, and total revenues of \$ 7,216,000 and \$ 3,455,000, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position Winona State University, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

The accompanying introductory sections identified in the Table of Contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the 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 of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the University's internal control over financial reporting and compliance.

KERN, DEWENTER, VIERE, LTD.  
Bloomington, Minnesota  
November 15, 2013

## 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, for the fiscal years ended June 30, 2013 and 2012. 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 8,400 students including 370 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 more than 80 academic and 10 pre-professional, certificate, and licensure, graduate, and doctorate programs between its two campuses: the Main campus, in Winona, MN, and Winona State University-Rochester in Rochester, MN. The University is accredited by 11 national accrediting agencies, including the Association to Advance Collegiate Schools of Business International (AACSB) and the Higher Learning Commission (HLC).

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

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

### FINANCIAL HIGHLIGHTS

The University's financial position remained sound during fiscal year 2013; the University experienced only a slight decrease of \$0.2 million in the state appropriation revenue. The University's sound financial position was strengthened by a slight increase in tuition revenue of \$0.3 million, and an increase in state grant revenue of \$1.1 million. Over the past four 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, 2013, assets totaled \$260.2 million while liabilities totaled \$84.6 million. Net position, which represents the residual interest in the University's assets after liabilities are deducted, is comprised of net investment in capital assets of \$117.9 million, restricted net position of \$20.8 million and unrestricted net position of \$36.9 million. The fiscal year 2013 net position total of \$175.6 million represents an increase of \$6.0 million over fiscal year 2012 and \$17.6 million over fiscal year 2011. The fiscal year 2013 unrestricted net position total of \$36.9 million constitute a \$6.9 million increase over the fiscal year 2012 total of \$30.0 and a \$15.4 million increase over 2011.

Operating revenue decreased \$0.3 million from fiscal year 2012 to fiscal year 2013. This follows a \$6.6 million increase from fiscal year 2011 to fiscal year 2012. The two year total increase of \$6.3 million is due primarily to an 8 percent tuition increase over the period as well as enrollment growth of 2 percent. Operating expenses increased \$5.3 million from fiscal year 2012 to fiscal year 2013. This increase in expenses was primarily due to a \$4.1 million increase in salaries and benefits.

## USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements. 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 POSITION

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

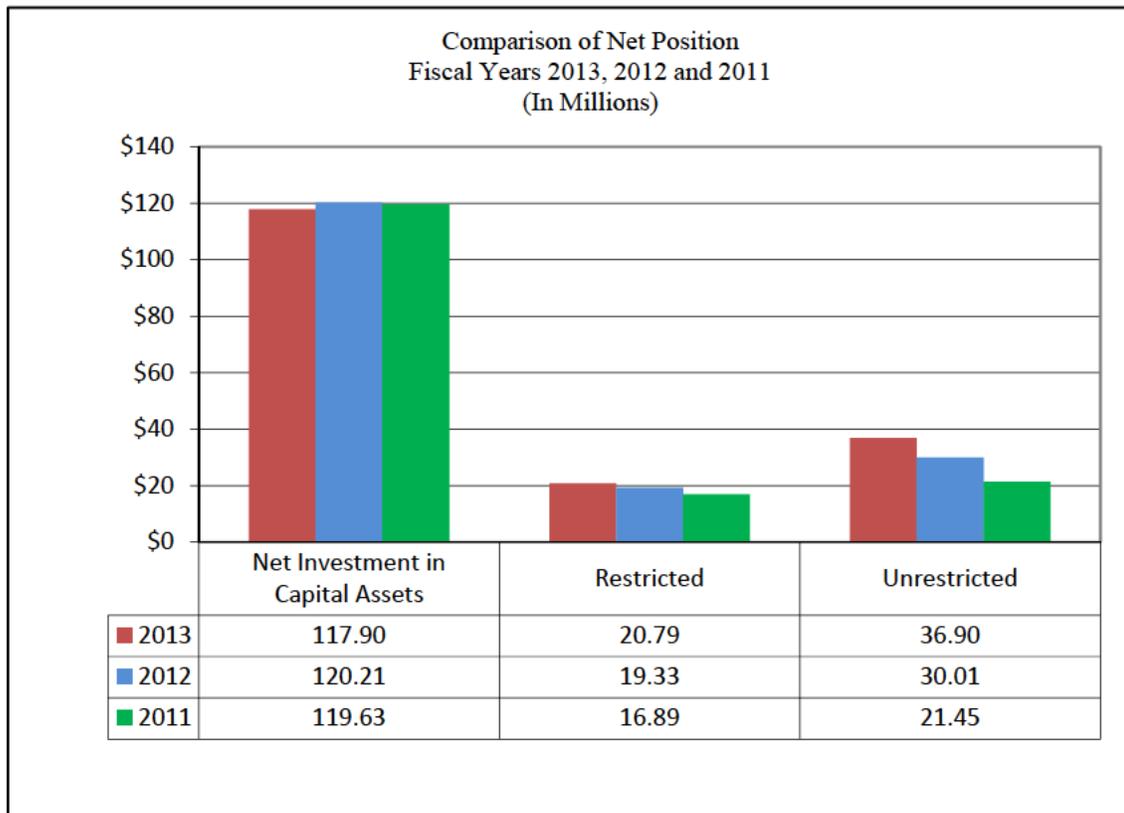
A summary of the University's assets, liabilities and net position as of June 30, 2013, 2012 and 2011, respectively, is as follows:

Summarized Statements of Net Position (In Thousands)			
	2013	2012	2011
<b>Assets</b>			
Current assets	\$ 80,262	\$ 69,695	\$ 59,221
Current restricted assets	9,471	9,519	13,628
Noncurrent restricted assets	74	1,421	602
Student loans, net	2,079	1,997	2,101
Capital assets, net	168,281	171,694	172,253
Total assets	<u>260,167</u>	<u>254,326</u>	<u>247,805</u>
<b>Liabilities</b>			
Current liabilities	20,325	19,931	21,278
Noncurrent liabilities	64,245	64,846	68,548
Total liabilities	<u>84,570</u>	<u>84,777</u>	<u>89,826</u>
<b>Net Position</b>			
Net investment in capital assets	117,904	120,213	119,627
Restricted	20,792	19,325	16,900
Unrestricted	36,901	30,011	21,452
Total net position	<u>\$ 175,597</u>	<u>\$ 169,549</u>	<u>\$ 157,979</u>

Current unrestricted assets consist primarily of cash and cash equivalents and investments totaling \$74.1 million at June 30, 2013. This is an increase of \$10.3 million over fiscal year 2012 and represents 7.3 months of operating expenses (excluding depreciation). This is compared to 6.6 months and 5.4 months for the fiscal years ended June 30, 2012 and 2011, respectively. Noncurrent assets of \$170.4 million, represents the value of land, buildings, construction in progress, equipment, library collections, and federal Perkins loans receivable. 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 \$7.2 million at June 30, 2013, which was \$1.4 million higher 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 increase of \$0.7 million from June 30, 2012 to June 30, 2013 was largely due to an adjustment between cash and salaries and benefits payable for benefit payments due to third party providers that were disbursed on July 1 versus the end of June in prior years. Unearned revenue consists of summer session tuition and grant receipts received, but not yet earned. At June 30, 2013, \$2.8 million was held as unearned revenue. Summer session began in May and ended in August 2013, with tuition being allocated based on the number of session days in fiscal year 2013.

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position as of June 2013, 2012, and 2011, respectively, are summarized as follows:



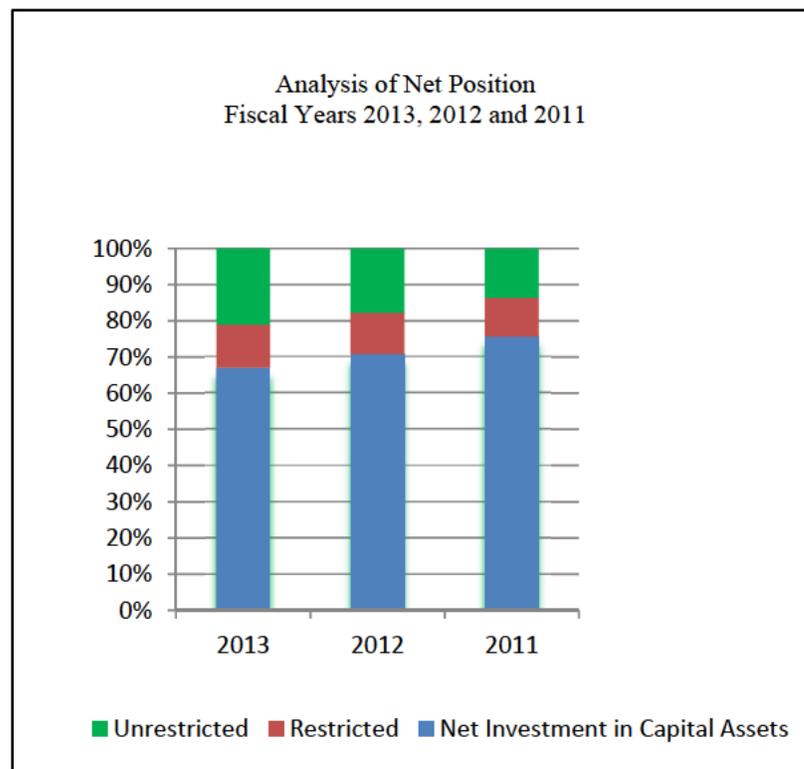
Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net position primarily includes donations received for specific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

## 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, totaled \$168.4 million as of June 30, 2013. This represents a decrease of \$4.7 million and \$4.5 million from June 30, 2012 and 2011, 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 \$4.7 million in 2013, a decrease of \$5.3 million from 2012. Significant capital outlays made in fiscal year 2013 include the renovation of academic facilities, and student residence halls.

Long-term debt payable on June 30, 2013 consisted of \$13.0 million of general obligation bonds, \$39.7 of revenue bonds, bond premiums of \$1.8 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, 67.1 percent of the University's net position is related to the investment in capital assets.



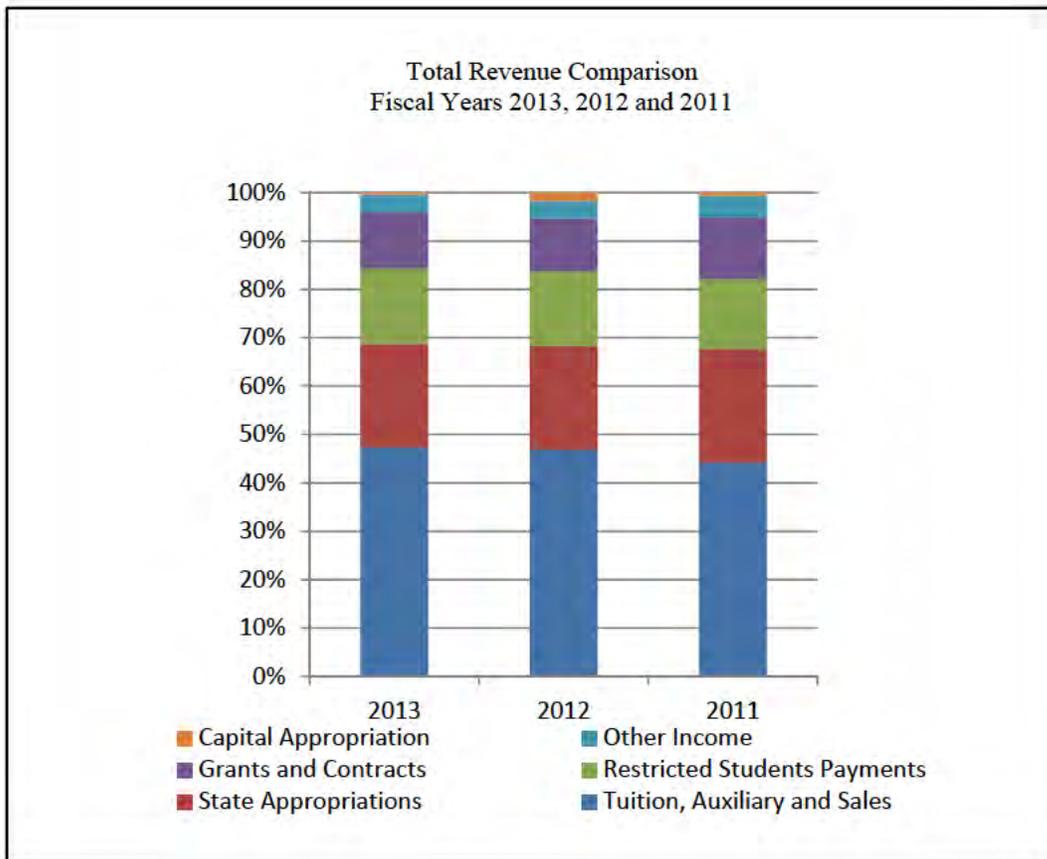
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statements of revenues, expenses and changes in net position present the University's results of operations for the year. 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, 2013, 2012 and 2011, respectively, follows:

### Summarized Statements of Revenues, Expenses, and Changes in Net Position (In Thousands)

	2013	2012	2011
<b>Operating revenues:</b>			
Tuition, net	\$ 43,826	\$ 43,483	\$ 39,411
Fees, net	5,381	5,535	4,854
Sales, net	16,704	16,638	16,808
Restricted student payments, net	21,756	21,678	19,999
Other income	1,085	1,732	1,398
Total operating revenues	<u>88,752</u>	<u>89,066</u>	<u>82,470</u>
<b>Non-operating revenues:</b>			
State appropriations	29,752	29,957	32,447
Federal, state, and private grants	18,857	18,186	20,625
Capital appropriations	639	2,439	989
Other	1,285	485	1,650
Total non-operating revenues	<u>50,533</u>	<u>51,067</u>	<u>55,711</u>
Total revenues	<u>139,285</u>	<u>140,133</u>	<u>138,181</u>
<b>Operating expenses:</b>			
Salaries and benefits	78,909	74,798	76,522
Supplies, services and other	40,783	40,118	39,042
Depreciation	9,564	9,456	9,071
Financial aid, net	1,482	1,113	1,707
Total operating expenses	<u>130,738</u>	<u>125,485</u>	<u>126,342</u>
<b>Non-operating expenses:</b>			
Loss on disposal of assets	-	169	19
Grants to other organizations	127	374	2,020
Interest expense	2,372	2,535	2,427
Total nonoperating expenses	<u>2,499</u>	<u>3,078</u>	<u>4,466</u>
Total expenses	<u>133,237</u>	<u>128,563</u>	<u>130,808</u>
Change in net position	6,048	11,570	7,373
Net position, beginning of year	169,549	157,979	150,606
Net position, end of year	<u>\$ 175,597</u>	<u>\$ 169,549</u>	<u>\$ 157,979</u>

Tuition and state appropriations are the primary sources of funding for the University's operations. Enrollment fell by 84 full year equivalents (FYE) from fiscal year 2012 to fiscal year 2013 which represents a 1.0 percent decrease. Enrollment levels totaled 8,460, 8,544, and 8,294 FYE for fiscal years ended June 30, 2013, 2012 and 2011, respectively. Although the enrollment decreased during fiscal year 2013, tuition revenue increased in fiscal years 2013 and 2012 as a result of tuition rate increase in each of the last two fiscal years. Tuition rates increased 5 percent from 2011 to 2012 and 3 percent from 2012 to 2013.



Operating expenses as of June 30, 2013 increased by \$5.3 million over fiscal year 2012. The resources expended for employee compensation and benefits totaled \$78.9 million for the fiscal year ended June 30, 2013, which represents an increase of \$4.1 million over 2012. Filling vacant positions and contract settlements both contributed to the slight increase in employee compensation for the fiscal year ended June 30, 2013.

#### 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

Management believes the University is well positioned financially to continue its high level of service to its students and the State of Minnesota. In an effort to address rising student debt levels, the Minnesota Legislature has enacted a two year tuition freeze and appropriated an approximate equivalent amount. While concerning that the tuition rate adjustment factor has been taken away from the University for a two year period, it is encouraging to see the Legislature acknowledge the student debt problem and take steps to address it.

Certain collective bargaining agreements remain unsettled for the fiscal year 2014-2015 biennium. Concern exists that the negotiations may produce structural salary increases beyond what the University has budgeted. To address this concern the University has reviewed its enrollment and base budget projections and is prepared to take steps that will balance the budget while minimizing the impact to the student experience. Shifting demographics within our target student population continue to force the University to closely monitor enrollment activities and make adjustments to our recruitment and retention efforts.

## REQUESTS FOR INFORMATION

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

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

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**WINONA STATE UNIVERSITY  
STATEMENTS OF NET POSITION  
AS OF JUNE 30, 2013 AND 2012  
(IN THOUSANDS)**

Assets	2013	2012
<b>Current Assets</b>		
Cash and cash equivalents	\$ 68,508	\$ 58,724
Investments	5,628	5,081
Grants receivable	296	249
Accounts receivable, net	2,315	2,310
Prepaid expense	1,847	1,924
Inventory	1,175	833
Student loans, net	306	400
Other assets	187	174
Total current assets	<u>80,262</u>	<u>69,695</u>
<b>Current Restricted Assets</b>		
Cash and cash equivalents	9,471	9,519
Total current restricted assets	<u>9,471</u>	<u>9,519</u>
<b>Noncurrent Restricted Assets</b>		
Other assets	-	9
Construction in progress	74	1,412
Total noncurrent restricted assets	<u>74</u>	<u>1,421</u>
Total restricted assets	<u>9,545</u>	<u>10,940</u>
<b>Noncurrent Assets</b>		
Student loans, net	2,079	1,997
Capital assets, net	168,281	171,694
Total noncurrent assets	<u>170,360</u>	<u>173,691</u>
Total Assets	<u>260,167</u>	<u>254,326</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Salaries and benefits payable	7,238	5,858
Accounts payable	4,024	4,081
Unearned revenue	2,839	3,001
Payable from restricted assets	522	841
Interest payable	427	447
Funds held for others	561	931
Current portion of long-term debt	3,420	3,390
Other compensation benefits	1,294	1,382
Total current liabilities	<u>20,325</u>	<u>19,931</u>
<b>Noncurrent Liabilities</b>		
Noncurrent portion of long-term debt	52,580	53,842
Other compensation benefits	9,016	8,461
Capital contributions payable	2,649	2,543
Total noncurrent liabilities	<u>64,245</u>	<u>64,846</u>
Total Liabilities	<u>84,570</u>	<u>84,777</u>
<b>Net Position</b>		
Net investment in capital assets	117,904	120,213
Restricted expendable, bond covenants	14,173	12,516
Restricted expendable, other	6,619	6,809
Unrestricted	36,901	30,011
Total Net Position	<u>\$ 175,597</u>	<u>\$ 169,549</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2013 AND 2012  
(IN THOUSANDS)**

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,205	\$ 1,126
Pledges and contributions receivable, net	339	239
Other receivables	135	204
Prepaid expenses	8	8
Accrued investment/Interest income	18	19
Annuities/Remainder interests/Trusts	140	131
Total current assets	<u>2,845</u>	<u>1,727</u>
Noncurrent Assets		
Investments	23,066	20,111
Long-term pledges receivable	1,201	599
Buildings, property, and equipment, net	8,731	9,035
Other assets	645	480
Total noncurrent assets	<u>33,643</u>	<u>30,225</u>
Total Assets	<u>\$ 36,488</u>	<u>\$ 31,952</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 65	\$ 65
Interest payable	29	30
Annuities payable	275	278
Notes payable	356	340
Total current liabilities	<u>725</u>	<u>713</u>
Noncurrent Liabilities		
Notes payable	6,758	7,114
Total noncurrent liabilities	<u>6,758</u>	<u>7,114</u>
Total Liabilities	<u>7,483</u>	<u>7,827</u>
Net Assets		
Unrestricted	1,075	815
Temporarily restricted	10,230	7,902
Permanently restricted	17,700	15,408
Total Net Assets	<u>29,005</u>	<u>24,125</u>
Total Liabilities and Net Assets	<u>\$ 36,488</u>	<u>\$ 31,952</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
**(IN THOUSANDS)**

	2013	2012
Operating Revenues		
Tuition, net	\$ 43,826	\$ 43,483
Fees, net	5,381	5,535
Sales, net	16,704	16,638
Restricted student payments, net	21,756	21,678
Other income	1,085	1,732
Total operating revenues	<u>88,752</u>	<u>89,066</u>
Operating Expenses		
Salaries and benefits	78,909	74,798
Purchased services	24,671	23,104
Supplies	8,065	8,259
Repairs and maintenance	2,834	2,888
Depreciation	9,564	9,456
Financial aid, net	1,482	1,113
Other expense	5,213	5,867
Total operating expenses	<u>130,738</u>	<u>125,485</u>
Operating loss	<u>(41,986)</u>	<u>(36,419)</u>
Nonoperating Revenues (Expenses)		
Appropriations	29,752	29,957
Federal grants	10,150	10,460
State grants	6,002	4,891
Private grants	2,705	2,835
Interest income	1,271	485
Interest expense	(2,372)	(2,535)
Grants to other organizations	(127)	(374)
Total nonoperating revenues (expenses)	<u>47,381</u>	<u>45,719</u>
Income Before Other Revenues, Expenses, Gains, or Losses	5,395	9,300
Capital appropriations	639	2,439
Donated assets and supplies	2	-
Gain (loss) on disposal of capital assets	12	(169)
Change in net position	<u>6,048</u>	<u>11,570</u>
Total Net Position, Beginning of Year	<u>169,549</u>	<u>157,979</u>
Total Net Position, End of Year	<u>\$ 175,597</u>	<u>\$ 169,549</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>Support and Revenue</b>					
Contributions	\$ 303	\$ 1,421	\$ 1,946	\$ 3,670	\$ 2,207
Investment income	18	426	-	444	383
Realized gains	4	88	-	92	114
Unrealized gains (losses)	78	1,882	9	1,969	(519)
Program income	833	34	-	867	1,196
Fundraising income	-	174	-	174	74
Net assets released from restrictions	1,304	(1,304)	-	-	-
Reclassifications	56	(393)	337	-	-
Total support and revenue	<u>2,596</u>	<u>2,328</u>	<u>2,292</u>	<u>7,216</u>	<u>3,455</u>
<b>Expenses</b>					
Program services					
Program services	674	-	-	674	684
Scholarships	1,023	-	-	1,023	921
University activities	442	-	-	442	1,220
Special projects	45	-	-	45	58
Total program services	<u>2,184</u>	<u>-</u>	<u>-</u>	<u>2,184</u>	<u>2,883</u>
Supporting services					
Management and general	73	-	-	73	48
Fundraising	79	-	-	79	65
Total supporting services	<u>152</u>	<u>-</u>	<u>-</u>	<u>152</u>	<u>113</u>
Total expenses	<u>2,336</u>	<u>-</u>	<u>-</u>	<u>2,336</u>	<u>2,996</u>
Change in Net Assets	260	2,328	2,292	4,880	459
Net Assets, Beginning of Year	<u>815</u>	<u>7,902</u>	<u>15,408</u>	<u>24,125</u>	<u>23,666</u>
Net Assets, End of Year	<u>\$ 1,075</u>	<u>\$ 10,230</u>	<u>\$ 17,700</u>	<u>\$ 29,005</u>	<u>\$ 24,125</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
**(IN THOUSANDS)**

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	\$ 88,849	\$ 88,852
Cash repayment of program loans	339	312
Cash paid to suppliers for goods or services	(41,452)	(38,209)
Cash payments for employees	(77,061)	(77,800)
Financial aid disbursements	(1,376)	(1,101)
Cash payments for program loans	(248)	(255)
Net cash flows used in operating activities	<u>(30,949)</u>	<u>(28,201)</u>
Cash Flows from Noncapital Financing Activities		
Appropriations	29,752	29,957
Federal grants	9,839	10,861
State grants	6,002	4,891
Private grants	2,705	2,835
Agency activity	(370)	19
Grants to other organizations	(127)	(374)
Net cash flows provided by noncapital financing activities	<u>47,801</u>	<u>48,189</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(5,010)	(9,931)
Capital appropriation	639	2,439
Proceeds from sale of capital assets	44	67
Proceeds from borrowing	4,791	-
Proceeds from bond premium	698	-
Interest paid	(2,392)	(2,553)
Repayment of lease principal	-	(243)
Repayment of note principal	(54)	(86)
Repayment of bond principal	(6,371)	(3,306)
Net cash flows used in capital and related financing activities	<u>(7,655)</u>	<u>(13,613)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	-	410
Purchase of investments	(133)	(144)
Investment earnings	672	365
Net cash flows provided by investment activities	<u>539</u>	<u>631</u>
Net Increase in Cash and Cash Equivalents	9,736	7,006
Cash and Cash Equivalents, Beginning of Year	68,243	61,237
Cash and Cash Equivalents, End of Year	<u>\$ 77,979</u>	<u>\$ 68,243</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)**

	2013	2012
Operating Loss	\$ <u>(41,986)</u>	\$ <u>(36,419)</u>
Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities		
Depreciation	9,564	9,456
Provision for loan defaults	(119)	26
Loan principal repayments	339	312
Loans issued	(248)	(255)
Forgiven loans	40	21
Donated and lease equipment not capitalized	2	-
Change in assets and liabilities		
Inventory	(342)	224
Accounts receivable	(5)	(254)
Accounts payable	(65)	1,414
Salaries and benefits payable	1,380	(2,181)
Other compensation benefits	467	(746)
Capital contributions payable	106	13
Unearned revenues	103	40
Other	(185)	148
Net reconciling items to be added to operating loss	<u>11,037</u>	<u>8,218</u>
Net cash flows used in operating activities	<u>\$ (30,949)</u>	<u>\$ (28,201)</u>
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	\$ 530	\$ 841
Change in fair market value of investments	414	(56)
Investment earnings on account	43	52
Amortization of bond premium	193	162

**WINONA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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 position; statements of revenues, expenses and changes in net position; 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 position.

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

The state of Minnesota operates on a two year (biennial) budget cycle ending on June 30 of odd numbered years. Minnesota State 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 position of revenue producing facilities which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

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

*Investments* — 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 7<sup>th</sup> 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 position are those that generally result from exchange transactions such as payments received for providing services and payments for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, federal, state and private grants, and investment income.

*Tuition, Fees, and Sales, Net* — Tuition, fees, and sales are reported net of scholarship allowances. 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.

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

- *Net investment in capital assets*: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable*: net position that is subject to externally imposed stipulations. Net position restrictions for 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/Debt service* — restricted for completion of capital projects or bond debt repayments.

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

Net Position Restricted for Other (In Thousands)		
	2013	2012
Loans	\$ 320	\$ 307
Capital projects/Debt service	5,321	5,588
Faculty contract obligations	978	914
Total	\$ 6,619	\$ 6,809

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

*New Accounting Pronouncements* — The Minnesota State Colleges and Universities adopted GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements, retroactive to July 1, 2011. This statement requires that revenue be recognized in a systematic manner over the term of contracts when applicable. There was no impact on the financial statements as a result of this adoption.

The Minnesota State Colleges and Universities adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, retroactive to July 1, 2011. This statement amends the net asset reporting requirements in Statement No. 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of residual measure and by renaming the measure as net position, rather than net assets. There was no impact on the financial statements as a result of this adoption.

The Minnesota State Colleges and Universities adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. More specifically, the statement requires costs related to the issuance of debt to no longer be recorded as a deferred charge and amortized, but to be recognized as an expense in the period incurred. An insignificant amount of costs related to prior year bond issuance costs were expensed in fiscal year 2013. Additionally the fiscal year 2013 income statement reflects another \$.07 million of expense related to current year bond issuance costs.

## 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:

Carrying Amount	Year Ended June 30 (In Thousands)	
	2013	2012
Cash, in bank	\$ (156)	\$ 168
Change fund	13	13
Money markets	4,542	3,182
Cash, trustee account (US Bank)	5,605	4,827
Total local cash and cash equivalents	10,004	8,190
Total treasury cash accounts	67,975	60,053
Grand Total	\$ 77,979	\$ 68,243

At June 30, 2013 and 2012, the University’s bank balances were \$5,142,008 and \$3,502,782, 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)			
	2013 Fair Value	Weighted Maturity (In Years)	2012 Fair Value	Weighted Maturity (In Years)
State investment pool cash equivalents	\$ 743	—	\$ 563	—
Corporate/municipal bonds	905	7.09	832	7.04
US agencies	547	4.05	1,061	3.35
Stocks	17	6.87	14	8.42
Asset backed	4	2.53	13	1.24
Total	<u>2,216</u>		<u>2,483</u>	
Portfolio weighted average maturity		3.95		3.85
Mutual stock funds	—		1,030	
Corporate stock	3,412		1,568	
Total	<u>\$ 5,628</u>		<u>\$ 5,081</u>	

### 3. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and federal and state grant receivables. At June 30, 2013 and 2012, total accounts receivable balances for the University were \$3,193,832 and \$3,179,335, respectively, less an allowance for uncollectible receivables of \$878,606 and \$869,296, respectively.

Summary of Accounts Receivable at June 30 (In Thousands)		
	2013	2012
Sales and services	\$ 880	\$ 976
Tuition	675	857
Fees	365	394
Room and board	387	364
Third party obligations	13	162
Capital projects	496	118
Other	378	308
Total accounts receivable	3,194	3,179
Allowance for uncollectible accounts	(879)	(869)
Net accounts receivable	<u>\$ 2,315</u>	<u>\$ 2,310</u>

The capital project related receivables of \$496,496 and \$118,424 at June 30, 2013 and 2012 respectively, are for bond proceeds spent on capital projects, but not yet collected from the state of Minnesota.

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 \$1,758,492 and \$1,862,326 for fiscal years 2013 and 2012, 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 2013 and 2012 was \$89,007 and \$61,248, 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, 2013 and 2012, the total loans receivable for this program were \$2,738,872 and \$2,870,300, respectively, less an allowance for uncollectible loans of \$354,378 and \$473,696, respectively.

#### 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2013 and 2012 follow:

	Year Ended June 30, 2013 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 9,739	\$ —	\$ —	\$ —	\$ 9,739
Construction in progress	3,963	3,533	—	(5,264)	2,232
Total capital assets, not depreciated	<u>13,702</u>	<u>3,533</u>	<u>—</u>	<u>(5,264)</u>	<u>11,971</u>
Capital assets, depreciated:					
Buildings and improvements	233,374	—	—	5,264	238,638
Equipment	14,690	307	472	—	14,525
Library collections	6,897	858	1,030	—	6,725
Total capital assets, depreciated	<u>254,961</u>	<u>1,165</u>	<u>1,502</u>	<u>5,264</u>	<u>259,888</u>
Less accumulated depreciation:					
Buildings and improvements	79,535	7,761	—	—	87,296
Equipment	11,996	842	587	—	12,251
Library collections	4,026	961	1,030	—	3,957
Total accumulated depreciation	<u>95,557</u>	<u>9,564</u>	<u>1,617</u>	<u>—</u>	<u>103,504</u>
Total capital assets, depreciated, net	<u>159,404</u>	<u>(8,399)</u>	<u>(115)</u>	<u>5,264</u>	<u>156,384</u>
Total capital assets, net	<u>\$ 173,106</u>	<u>\$ (4,866)</u>	<u>\$ (115)</u>	<u>\$ —</u>	<u>\$ 168,355</u>

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	<u>12,566</u>	<u>8,558</u>	<u>—</u>	<u>(7,422)</u>	<u>13,702</u>
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	<u>247,882</u>	<u>1,415</u>	<u>1,758</u>	<u>7,422</u>	<u>254,961</u>
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	<u>87,602</u>	<u>9,456</u>	<u>1,501</u>	<u>—</u>	<u>95,557</u>
Total capital assets, depreciated, net	<u>160,280</u>	<u>(8,041)</u>	<u>257</u>	<u>7,422</u>	<u>159,404</u>
Total capital assets, net	<u>\$ 172,846</u>	<u>\$ 517</u>	<u>\$ 257</u>	<u>\$ —</u>	<u>\$ 173,106</u>

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)

	2013	2012
Purchased services	\$ 2,168	\$ 2,170
Repairs and maintenance	109	60
Supplies	322	347
Employee benefits	9	162
Capital expenditures	642	862
Capital projects	8	7
Other	766	473
Total	<u>\$ 4,024</u>	<u>\$ 4,081</u>

In addition, as of June 30, 2013 and 2012, the University had payable from restricted assets in the amounts of \$521,872 and \$841,342, which were related to capital projects financed by general obligation bonds and revenue bonds.

## 8. LONG TERM OBLIGATIONS

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

The changes in long term debt for fiscal years 2013 and 2012 follow:

	Year Ended June 30, 2013 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	\$ 1,288	\$ 698	\$ 193	\$ 1,793	\$ —
General obligation bonds	14,348	—	1,367	12,981	1,317
Revenue bonds	39,982	4,791	5,107	39,666	2,043
Note payable	1,614	—	54	1,560	60
Total long term debt	<u>\$ 57,232</u>	<u>\$ 5,489</u>	<u>\$ 6,721</u>	<u>\$ 56,000</u>	<u>\$ 3,420</u>

	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	<u>\$ 61,039</u>	<u>\$ —</u>	<u>\$ 3,807</u>	<u>\$ 57,232</u>	<u>\$ 3,390</u>

The changes in other compensation benefits for fiscal years 2013 and 2012 follow:

	Year Ended June 30, 2013 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	\$ 8,402	\$ 1,585	\$ 1,081	\$ 8,906	\$ 1,118
Early termination benefits	96	28	96	28	28
Net other postemployment benefits	890	466	289	1,067	—
Workers' compensation	455	207	353	309	148
Total other compensation benefits	<u>\$ 9,843</u>	<u>\$ 2,286</u>	<u>\$ 1,819</u>	<u>\$ 10,310</u>	<u>\$ 1,294</u>

	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	<u>\$ 10,589</u>	<u>\$ 1,888</u>	<u>\$ 2,634</u>	<u>\$ 9,843</u>	<u>\$ 1,382</u>

*Bond Premium* — Bonds were issued in fiscal years 2013 and 2012, resulting in net premiums of \$698,424 and \$0, 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 \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for residence hall, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates between 0.45 percent and 5.0 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 17.04 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$55,107,768. Principal and interest paid for the current year and total customer net revenues were \$6,830,996 and \$22,200,000, 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 \$2,176,098 and \$2,307,835 at June 30, 2013 and 2012, respectively.

*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 \$309,209 and \$455,592 at June 30, 2013 and 2012, 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 \$2,648,757 and \$2,542,905 at June 30, 2013 and 2012, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is \$105,852 and \$12,280 for the fiscal years 2013 and 2012, respectively.

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

Fiscal Years	Note Payable		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 60	\$ 76	\$ 1,317	\$ 618	\$ 2,043	\$ 1,666
2015	67	72	1,279	554	2,203	1,581
2016	75	69	1,255	491	2,274	1,494
2017	83	65	1,186	429	2,069	1,411
2018	92	61	1,187	370	2,139	1,331
2019-2023	613	222	4,853	1,072	12,053	5,287
2024-2028	570	51	1,887	191	13,195	2,526
2029-2033	—	—	17	—	3,555	144
2034-2038	—	—	—	—	135	2
Total	\$ 1,560	\$ 616	\$ 12,981	\$ 3,725	\$ 39,666	\$ 15,442

#### 9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts, Inter Faculty Organization (IFO), provide for this benefit. The following is a description of the benefit arrangements, including number of retired employees receiving the benefit, and the amount of future liability as of the end of fiscal years 2013 and 2012.

##### *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 2013 and 2012 follow:

Fiscal Year	Number of Faculty	Future Liability (In Thousands)
2013	2	\$ 28
2012	6	96

#### 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, 2012 there were approximately 39 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 2013 and 2012, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2013	2012
Annual required contribution (ARC)	\$ 460	\$ 660
Interest on net OPEB obligation	42	36
Adjustment to ARC	(36)	(29)
Annual OPEB cost	466	667
Contributions during the year	(289)	(527)
Increase in net OPEB obligation	177	140
Net OPEB obligation, beginning of year	890	750
Net OPEB obligation, end of year	<u>\$ 1,067</u>	<u>\$ 890</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2013 and 2012 were:

	2013	2012
Beginning of year net OPEB obligation	\$ 890	\$ 750
Annual OPEB cost	466	667
Employer contribution	(289)	(527)
End of year net OPEB obligation	<u>\$ 1,067</u>	<u>\$ 890</u>
Percentage contributed	62.02%	79.01%

*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.

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, 2012	\$ —	\$ 4,278	\$ 4,278	0.00%	\$ 58,082	7.37%

*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, 2012 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 8.10 percent initially, reduced incrementally to an ultimate rate of 5 percent after seventeen years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

## 11. LEASE AGREEMENTS

*Capital Leases* — The 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, 2013 and 2012, totaled approximately \$6,293 and \$6,311, 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)	
<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 6,102
2015	3,971
2016	1,160
2017	691
2018	691
2019-2023	3,454
2024-2028	2,959
Total	<u>\$ 19,028</u>

*Income Leases* — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2013 and 2012, totaled \$98,925 and \$69,909, respectively, and is included in other income on the statements of revenues, expenses, and changes in net position. Future expected income receipts for existing lease agreements are \$134,991 in fiscal year 2013. Future minimum lease payments for existing lease agreements are as follow:

Year Ended June 30 (In Thousands)	
<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 55
2015	43
2016	33
2017	4
Total	<u>\$ 135</u>

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

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

Description	Year Ended June 30 (In Thousands)					
	2013			2012		
	Gross	Scholarship Allowance	Net	Gross	Scholarship Allowance	Net
Tuition	\$ 59,867	\$ (16,041)	\$ 43,826	\$ 58,761	\$ (15,278)	\$ 43,483
Fees	6,093	(712)	5,381	6,273	(738)	5,535
Sales	16,704	—	16,704	16,638	—	16,638
Restricted student payments	22,141	(385)	21,756	22,110	(432)	21,678
Total	<u>\$ 104,805</u>	<u>\$ (17,138)</u>	<u>\$ 87,667</u>	<u>\$ 103,782</u>	<u>\$ (16,448)</u>	<u>\$ 87,334</u>

## 13. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

Description	Year Ended June 30, 2013 (In Thousands)				
	Salaries	Benefits	Other	Interest	Total
Academic support	\$ 7,500	\$ 2,304	\$ 5,047	\$ 93	\$ 14,944
Institutional support	6,362	2,241	5,528	82	14,213
Instruction	31,925	9,766	9,559	485	51,735
Public service	195	65	84	2	346
Research	123	45	323	2	493
Student services	6,895	1,990	4,191	84	13,160
Auxiliary enterprises	7,164	2,334	25,615	1,624	36,737
Scholarships & fellowships	—	—	1,482	—	1,482
Less interest expense	—	—	—	(2,372)	(2,372)
Total operating expenses	<u>\$ 60,164</u>	<u>\$ 18,745</u>	<u>\$ 51,829</u>	<u>\$ —</u>	<u>\$ 130,738</u>

Description	Year Ended June 30, 2012 (In Thousands)				
	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	<u>\$ 57,197</u>	<u>\$ 17,601</u>	<u>\$ 50,687</u>	<u>\$ —</u>	<u>\$ 125,485</u>

#### 14. EMPLOYEE PENSION PLANS

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

##### *State Employees Retirement Fund (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 the 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. 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. The University, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal years 2011, 2012, and 2013 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)	
<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 719
2012	687
2011	683

##### *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 the Teachers Retirement Association at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-3000.

The Teachers Retirement Fund is a cost sharing, multiple employers, defined benefit plan. Teachers and other related professionals may participate in TRF. 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 range from 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. The University, as 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 year 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. For fiscal year 2013 the funding requirement was 6.5 percent for both employer and employee coordinated members. Thereafter, a contribution rate increase will be phased in with a 0.5 percent increase, occurring every July 1 over two 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
2013	\$ 615
2012	536
2011	506

*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 unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators, and certain other staff. The plans are mandatory for qualified employees and vesting occurs immediately.

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

*Individual Retirement Account Plan (IRAP)*

Participation — Every employee who is in unclassified service is required to participate in TRF or IRAP upon achieving eligibility. An unclassified employee is one who serves in a position deemed unclassified according to Minnesota Statutes. This includes presidents, vice presidents, deans, administrative or service faculty, teachers and other managers, and professionals in academic and academic support programs. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 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
2013	\$ 1,772	\$ 1,318
2012	1,635	1,217
2011	1,649	1,229

*Supplemental Retirement Plan (SRP)*

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

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

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

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

Required contributions for Winona State University were:

<u>(In Thousands)</u>	
<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 940
2012	935
2011	989

*Voluntary Retirement Savings Plans*

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

Minnesota Deferred Compensation Plan is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. As of June 30, 2013, the plan had 199 participants.

In addition, to the state's Deferred Compensation program, Minnesota State Colleges and Universities also participates in a 403(b) Tax Sheltered Annuity (TSA) program. The plan consists of both pre-tax and after-tax contributions and accumulated investment gains or losses. As of June 30, 2013, the plan had 198 participants.

## 15. SEGMENT INFORMATION

A segment is an identifiable activity reported as a standalone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, 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.

A summary table of the University's portion of the Revenue Fund follows:

Winona State University Portion of the Revenue Fund (In Thousands)		
	2013	2012
<b>CONDENSED STATEMENTS OF NET POSITION</b>		
Assets		
Current assets	\$ 16,047	\$ 14,621
Current restricted assets	9,449	9,513
Noncurrent restricted assets	74	1,421
Noncurrent assets	63,892	62,629
Total assets	<u>89,462</u>	<u>88,184</u>
Liabilities		
Current liabilities	3,847	5,155
Noncurrent liabilities	38,664	38,353
Total liabilities	<u>42,511</u>	<u>43,508</u>
Net Position		
Net investment in capital assets	29,216	28,433
Restricted	17,735	16,243
Total net position	<u>\$ 46,951</u>	<u>\$ 44,676</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Operating revenues	\$ 22,199	\$ 23,877
Operating expenses	(18,393)	(18,694)
Net operating income	3,806	5,183
Nonoperating revenues (expenses)	(1,522)	(1,641)
Loss on disposal of capital assets	(9)	(29)
Change in net position	2,275	3,513
Net position, beginning of year	44,676	41,163
Net position, end of year	<u>\$ 46,951</u>	<u>\$ 44,676</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
Net cash provided (used) by		
Operating activities	\$ 5,817	\$ 8,497
Investing activities	75	81
Capital and related financing activities	(5,195)	(7,989)
Net increase	697	589
Cash, beginning of year	24,006	23,417
Cash, end of year	<u>\$ 24,703</u>	<u>\$ 24,006</u>

## 16. COMMITMENTS AND CONTINGENCIES

Future commitments consist of construction projects that are funded by revenue bond proceeds and operating revenues. The University has incurred costs of approximately \$0.7 million towards the construction of an underground pedestrian tunnel, which has an estimated completion date of December 2015. This project is partially funded through the Minnesota Department of Transportation and Winona State University with an estimated cost of \$3.0 million.

New commitments made by the University during fiscal year 2013 include a remodel of the Krysko student center. This project has an estimated cost of \$2.0 million. As of June 30, 2013 the University has expended approximately \$0.1 million for this project.

## 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	\$2,500,000
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, 2013 and 2012.

(In Thousands)				
	Beginning Liability	Additions	Payments & Other Reductions	Ending Liability
Fiscal Year Ended 6/30/13	\$ 455	\$ 207	\$ 353	\$ 309
Fiscal Year Ended 6/30/12	537	208	290	455

## 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 are to be used.

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

The University received \$2,184,173 and \$2,883,183 from its Foundation for scholarships and other University support in fiscal years 2013 and 2012, respectively. Also, the University operates the East Lake Apartments which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

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

Schedule of Investments at June 30  
(In Thousands)

	2013	2012
Money market & certificate of deposit	\$ 25	\$ —
Fixed income/Bonds/US treasuries	6,187	5,989
Equity based mutual funds	15,992	13,328
Equity securities	862	794
Total investments	\$ 23,066	\$ 20,111

*Property and Equipment* — The Foundation has developed student housing to be used by the students of Winona State University.

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

	2013	2012
Property and equipment, not depreciated:		
Land	\$ 552	\$ 552
Total property and equipment, not depreciated	552	552
Property and equipment, depreciated:		
Buildings and improvements	10,745	10,745
Equipment	357	357
Total property and equipment, depreciated	11,102	11,102
Total accumulated depreciation	(2,923)	(2,619)
Total property and equipment depreciated, net	8,179	8,483
Total property and equipment, net	\$ 8,731	\$ 9,035

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

Future scheduled debt payments table follows:

Year Ended June 30 (In Thousands)	
2014	\$ 356
2015	374
2016	392
2017	411
2018	432
Thereafter	5,149
Total	\$ 7,114

*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, 2013 are as follows:

Schedule of Endowment Net Assets			
As of June 30, 2013			
(In Thousands)			
	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Net assets, beginning of year	\$ 4,815	\$ 15,277	\$ 20,092
Contributions	103	1,946	2,049
Investment income	2,263	—	2,263
Amounts appropriated for expenditures	(544)	—	(544)
Other transfers	139	336	475
Net assets, end of year	<u>\$ 6,776</u>	<u>\$ 17,559</u>	<u>\$ 24,335</u>

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	<u>\$ 4,815</u>	<u>\$ 15,277</u>	<u>\$ 20,092</u>

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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
July 1, 2012	—	4,278	4,278	0.00	58,082	7.37

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# SUPPLEMENTARY SECTION



*Expert advice. When you need it.<sup>SM</sup>*

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the year ending June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of Winona State University Foundation, as described in our report on the University's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

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

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



Our consideration of the internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Kern, DeW".

KERN, DEWENTER, VIERE, LTD.  
Bloomington, Minnesota  
November 15, 2013

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