

**WINONA**



**ANNUAL  
FINANCIAL REPORT**

**For the Years Ended  
June 30, 2004 and 2003**

**Winona State University**

**A Member of the Minnesota State Colleges and Universities System**

**WINONA STATE UNIVERSITY**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

**TABLE OF CONTENTS**

INTRODUCTION

Page

Transmittal Letter.....

Organization Chart.....

FINANCIAL SECTION

Independent Auditor's Report.....

Management's Discussion and Analysis .....

Basic Financial Statements:

    Statements of Net Assets .....

    Statements of Financial Position.....

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

    Statements of Activities .....

    Statement of Cash Flows .....

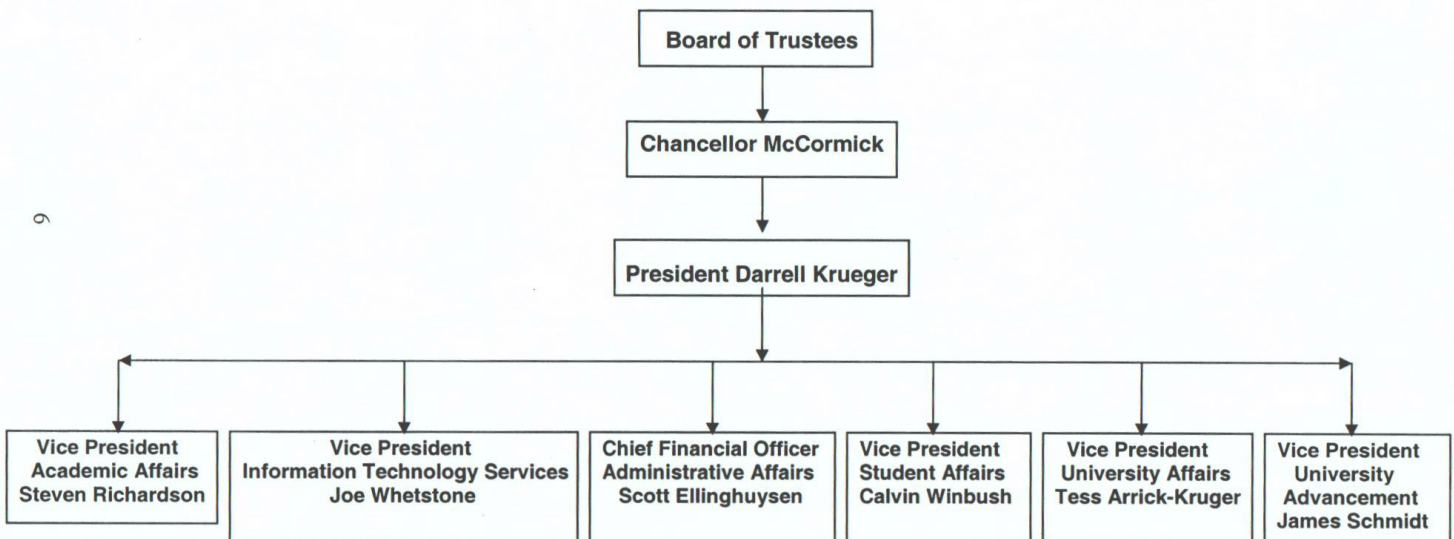
    Notes to the Financial Statements.....

# INTRODUCTION

**TRANSMITTAL LETTER**

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**

**Winona State University**



# FINANCIAL SECTION

**INDEPENDENT AUDITOR'S REPORT**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of Winona State University, a member of Minnesota State Colleges and Universities at June 30, 2004, and for the year then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes following this section.

Winona State University is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member board of trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at large. Three student trustees – one from a state university, one from a community college and one from a technical college – serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public higher education institution with approximately 8,500 students. Approximately 760 faculty and staff members are employed by the University.

### FINANCIAL HIGHLIGHTS

The University's financial position improved during fiscal year 2004. Due primarily to the completion of the new Science Building, assets totaled \$138.1 million compared to \$120 million in fiscal year 2003. Net assets totaled \$94.6 million in fiscal year 2004 versus \$83.9 million in fiscal year 2003.

Unrestricted cash and cash equivalents balances decreased by \$0.3 million in fiscal year 2004, due primarily to land acquisitions completed in conjunction with our facilities master plan as well as increased investments. A shift of funds into the investments category is an attempt to increase the scholarships that the University offers to its students. As tuition has risen 27 percent over the past two years, there has been a need to increase scholarship packages commensurate with the increasing tuition.

Operating revenue increased \$6.7 million from fiscal year 2003 to fiscal year 2004. This is on top of a \$5.4 million increase from fiscal year 2002 to fiscal year 2003. The two year total increase of \$12.1 million is due primarily to the 27 percent tuition increase and a 5 percent growth in overall enrollment.

Total revenue actually declined from fiscal year 2003 to fiscal year 2004. The increased operating revenue was offset by a \$2.2 million or 7 percent reduction in state appropriations. Over the two year period from fiscal year 2002 to fiscal year 2004, total revenues have increased \$14 million.

Total expenses increased \$4 million from fiscal year 2003 to fiscal year 2004. This growth in expenditures is due primarily to inflationary pressures as well as expenses associated with the increased enrollment. Total net assets increased \$10.6 million for fiscal year 2004.

### USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement 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, including GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement Nos. 35, 37 and 38.



These GASB statements establish standards for external financial reporting for public universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole with resources classified for accounting and reporting purposes into three net asset categories.

### STATEMENT OF NET ASSETS

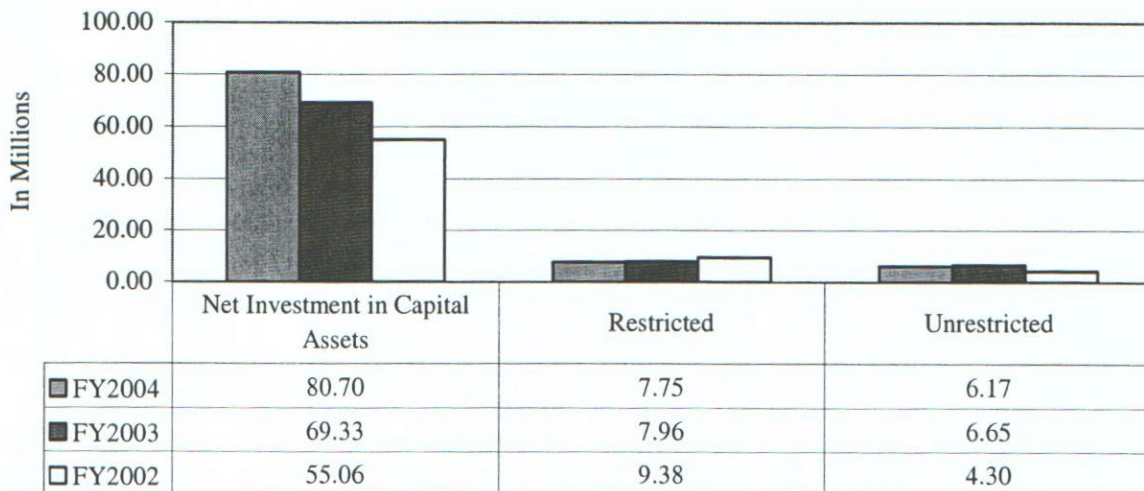
The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities – net assets – is one indicator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

	Net Assets				
	Fiscal Years 2004, 2003, and 2002 (In Thousands)				
	2004	2003	Increase (Decrease) 2004-2003	Unaudited 2002	Increase (Decrease) 2003-2002
Current assets	\$ 32,903	\$ 30,505	\$ 23,985	\$ 31,696	\$ (1,191)
Restricted assets	2,954	4,260	(1,306)	—	4,260
Noncurrent assets	1,760	1,782	(22)	2,328	(546)
Capital assets, net	100,558	83,449	17,109	65,195	18,254
Total assets	138,175	119,996	18,179	99,219	20,777
Current liabilities	13,484	14,630	(1,146)	13,479	1,151
Noncurrent liabilities	30,070	21,422	8,648	16,997	4,425
Total liabilities	43,554	36,052	7,502	30,476	5,576
Total net assets	\$ 94,621	\$ 83,944	\$ 10,677	\$ 68,743	\$ 15,201

Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled \$26.5 million as of June 30, 2004. This is an increase of \$1.8 million over fiscal year 2003 and represents more than three months of operating expenses (excluding depreciation).

Restricted assets decreased by \$1.3 million due to land acquisition. Capital assets increased by \$17.1 million due to the completion of the new science building, remodeling of Minne Hall and Library acquisitions.

**Comparison of Net Assets - Fiscal Years 2004, 2003 and 2002**



Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$5.1 million at June 30, 2004, a slight decrease from fiscal year 2003. Accounts payable did decrease \$2.2 million as a result of an accounting reclassification between accounts payable and revenue bonds payable.

Capital assets have shown growth over the past three years. This growth is related to the development of the new Science Building, renovations done in various residence halls and land acquisition.

Analysis of Net Assets  
Fiscal Years 2004, 2003, and 2002  
(In Thousands)

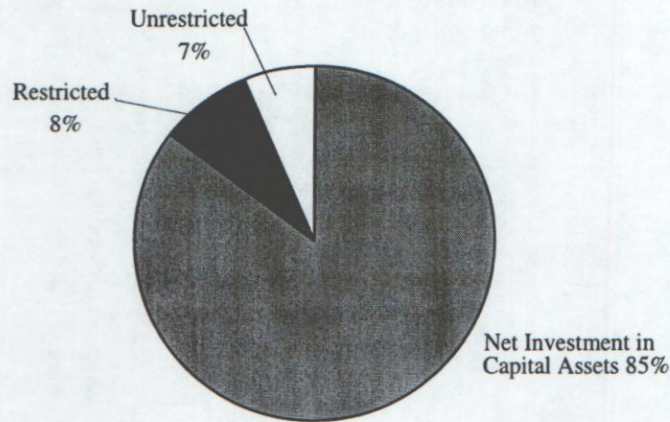
	2004	2003	Increase (Decrease) 2004-2003	Unaudited 2002	Increase (Decrease) 2003-2002
Capital assets, net of related debt	80,696	69,334	11,362	55,063	14,271
Restricted	7,751	7,956	(205)	9,379	(1,423)
Unrestricted	6,174	6,654	(480)	4,301	2,353
Total net assets	<u>\$ 94,621</u>	<u>\$ 83,944</u>	<u>\$ 10,677</u>	<u>\$ 68,743</u>	<u>\$ 15,201</u>

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

**CAPITAL AND DEBT ACTIVITIES**

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities, balanced with new construction.

Analysis of Net Assets  
June 30, 2004



As the graph illustrates, 85% of the University's net assets are related to the investment in capital assets. Capital assets as of June 30, 2004, totaled \$100.6 million, net of accumulated depreciation of \$50.3 million. Construction-in-progress at June 30, 2004, totaled \$2.5 million and is primarily comprised of construction costs associated with the science building completion and renovation of Minne Hall.

Restricted construction-in-progress at June 30, 2004, totaled \$1.3 million and is comprised of acquiring land and demolition of buildings on the site that will be used in the future for a Residence Center student housing complex scheduled for completion in the Fall of 2007.

#### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the University's results of operations for the year. When reviewing the full statement, please note that Governmental Accounting Standards Board requires classification of state appropriations as nonoperating revenue.

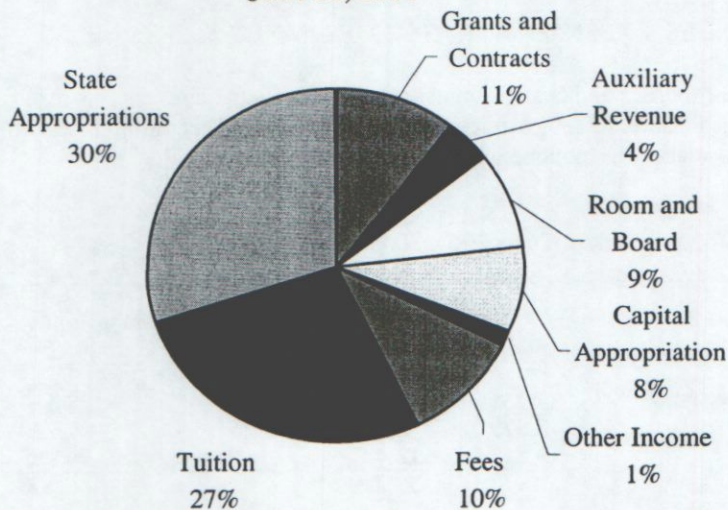
Net Assets Fiscal Years 2004, 2003, and 2002 (In Thousands)					
	2004	2003	Increase (Decrease) 2004-2003	Unaudited 2002	Increase (Decrease) 2003-2002
Operating revenue:	\$	\$	\$	\$	\$
Student tuition and fees, net	37,251	32,503	4,748	25,119	7,384
Room and board, net	8,879	8,320	559	7,720	600
Other revenue, net	13,843	12,447	1,396	14,967	(2,520)
Total operating revenue	<u>59,973</u>	<u>53,270</u>	<u>6,703</u>	<u>47,806</u>	<u>5,464</u>
Nonoperating revenue:					
State appropriations	30,079	32,342	(2,263)	31,605	737
Capital appropriations	7,694	12,754	(5,060)	4,420	8,334
Other	2,280	2,118	162	2,102	16
Total nonoperating revenue	<u>40,053</u>	<u>47,214</u>	<u>(7,161)</u>	<u>38,127</u>	<u>9,087</u>
Total revenue	<u>100,026</u>	<u>100,484</u>	<u>(458)</u>	<u>85,933</u>	<u>14,551</u>
Operating expense:					
Salaries and benefits	54,134	53,904	230	49,976	3,928
Supplies and services	25,552	23,411	2,141	22,917	494
Depreciation	5,050	4,278	772	3,897	381
Financial aid, net	3,012	2,826	186	2,814	12
Total operating expense	<u>87,748</u>	<u>84,419</u>	<u>3,329</u>	<u>79,604</u>	<u>4,815</u>
Nonoperating expense	<u>1,601</u>	<u>864</u>	<u>737</u>	<u>773</u>	<u>91</u>
Total expense	<u>89,349</u>	<u>85,283</u>	<u>4,066</u>	<u>80,377</u>	<u>4,906</u>
Increase in net assets	10,677	15,201	(4,524)	5,556	9,645
Net assets, beginning of year	<u>83,944</u>	<u>68,743</u>	<u>15,201</u>	<u>63,187</u>	<u>5,556</u>
Net assets, end of year	<u>\$ 94,621</u>	<u>\$ 83,944</u>	<u>\$ 10,677</u>	<u>\$ 68,743</u>	<u>\$ 15,201</u>

Operating revenue increased \$6.7 million which reflects an increase in tuition and fees, net of \$4.7 million, a \$0.6 million increase in room and board, net and a \$1.4 million increase in auxiliary and other income, net.

Operating expenses as of June 30, 2004 increased by \$3.3 million over the same period in fiscal year 2003. Compensation related costs increased only \$0.2 million or less than 1 percent due to minimal salary increases in fiscal year 2004 and a careful examination of positions related to enrollment growth. Supplies and services increased \$2.1 million due to higher utility costs, enrollment related expenditures and increased residence hall expenses. The remaining increase is comprised of depreciation and financial aid expense.

Nonoperating revenue decreased \$7.1 million in fiscal year 2004. State appropriations decreased \$2.2 million due to budget reductions from the State of Minnesota. Capital appropriations also decreased \$5 million due to the impending completion of the new Science Building. Non-operating expenses increased \$0.7 million primarily due to the increased interest expense associated with the New Science Building and revenue bonds.

**Total Revenue  
June 30, 2004**

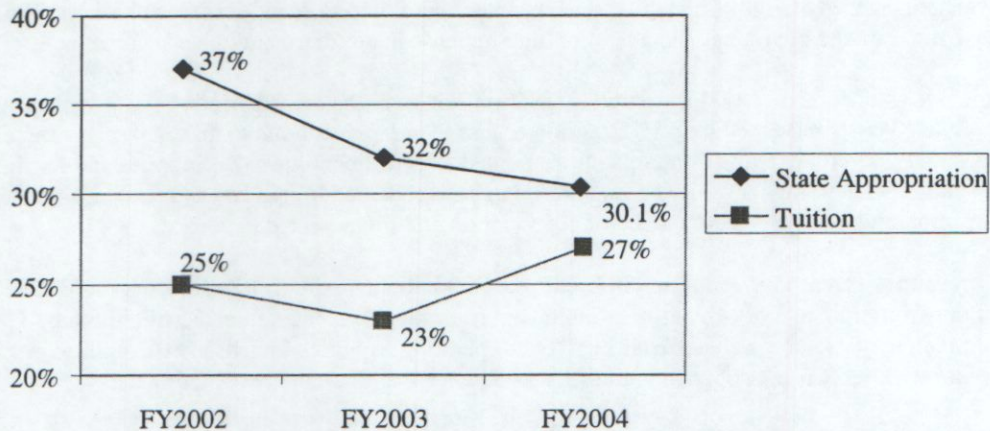


Tuition and state appropriations remain the primary sources of funding for the University's academic programs. Tuition revenue increased in fiscal year 2004 as a result of a 15 percent increase in tuition coupled with an increase in enrollment of 2.4 percent.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Looking toward the future, management believes that the University is positioned to continue its strong financial condition and level of excellence. However, the University may face challenges in maintaining adequate state appropriation support. An economic downturn in the State of Minnesota has resulted in actual state revenues not keeping up with inflationary pressures.

**Percentage of Total Revenue from State Appropriation and Tuition  
Fiscal Years 2002, 2003 and 2004**



As the graph shows, revenue from the State, as a percentage of total university revenue has declined precipitously over the past three years. The University has increased tuition and fees to students, as well as explored other revenue enhancement opportunities in order to offset the reduced revenue from the State of Minnesota.

#### 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:

Scott Ellinghuysen  
Chief Financial Officer  
Winona State University  
P.O. Box 5838  
Winona, MN 55987

WINONA STATE UNIVERSITY  
 STATEMENTS OF NET ASSETS  
 AS OF JUNE 30, 2004 AND 2003  
 (IN THOUSANDS)

Assets	2004	2003
Current Assets		
Cash and cash equivalents	\$ 20,662	\$ 20,975
Investments	5,887	3,736
Grants receivable	227	345
Accounts receivable, net	1,330	1,869
Prepaid expense	1,577	1,342
Inventory	945	816
Student loans and other assets, net	527	462
Securities lending collateral	1,748	960
Total current assets	<u>32,903</u>	<u>30,505</u>
Current Restricted Assets		
Cash and cash equivalents	1,097	4,260
Investments	561	-
Total current restricted assets	<u>1,658</u>	<u>4,260</u>
Noncurrent Restricted Assets		
Other assets	16	-
Construction in progress	1,280	-
Total noncurrent restricted assets	<u>1,296</u>	<u>-</u>
Total restricted assets	<u>2,954</u>	<u>4,260</u>
Noncurrent Assets		
Student loans and other assets, net	1,760	1,782
Capital assets, net	100,558	83,449
Total noncurrent assets	<u>102,318</u>	<u>85,231</u>
Total Assets	<u>138,175</u>	<u>119,996</u>
Liabilities		
Current Liabilities		
Salaries payable	5,066	5,088
Accounts payable	3,266	5,598
Deferred revenue	868	604
Funds held for others	368	628
Current portion of long-term debt	1,361	1,055
Compensated absences payable/Workers' compensation	807	697
Securities lending collateral	1,748	960
Total current liabilities	<u>13,484</u>	<u>14,630</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	21,614	13,060
Compensated absences payable/Workers' compensation	6,131	6,004
Capital contributions payable	2,325	2,358
Total noncurrent liabilities	<u>30,070</u>	<u>21,422</u>
Total Liabilities	<u>43,554</u>	<u>36,052</u>
Net Assets		
Invested in capital assets, net of related debt	80,696	69,334
Restricted expendable, bond covenants	2,027	1,747
Restricted expendable, other	5,724	6,209
Unrestricted	6,174	6,654
Total Net Assets	<u>\$ 94,621</u>	<u>\$ 83,944</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 AS OF JUNE 30, 2004 AND 2003  
 (IN THOUSANDS)

	2004	2003
Assets		
Cash and cash equivalents	\$ 1,452	\$ 4,202
Receivables		
Promises to give	694	754
Fees and other proceeds	186	8
Interest and dividends	15	12
Investments at fair value	8,406	6,553
Beneficial interest in perpetual trusts	124	118
Cash value of life insurance	37	36
Student housing project	11,337	10,089
Equipment, net	3	9
Total assets	<u>22,254</u>	<u>21,781</u>
Liabilities and Net Assets		
Liabilities		
Grants and accounts payable	45	36
Accrued interest payable	39	39
Construction related accounts payable	-	1,054
Mortgage payable	9,651	9,816
Total liabilities	<u>9,735</u>	<u>10,945</u>
Net Assets		
Unrestricted	772	483
Temporarily restricted	3,630	2,769
Permanently restricted	8,117	7,584
Total net assets	<u>12,519</u>	<u>10,836</u>
Total Liabilities and Net Assets	<u>\$ 22,254</u>	<u>\$ 21,781</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2004 AND 2003  
 (IN THOUSANDS)

	2004	2003
Operating Revenues		
Tuition, auxiliary and sales, net	\$ 39,173	\$ 33,912
Restricted student payments, net	10,783	9,933
Federal grants	5,750	5,487
State grants	3,454	3,209
Other income	813	729
Total operating revenues	<u>59,973</u>	<u>53,270</u>
Operating Expenses		
Salaries	54,134	53,904
Purchased services	17,262	15,651
Supplies	4,916	3,520
Repairs and maintenance	1,107	1,570
Depreciation	5,050	4,278
Financial aid, net	3,012	2,826
Other expense	2,267	2,670
Total operating expenses	<u>87,748</u>	<u>84,419</u>
Operating loss	<u>(27,775)</u>	<u>(31,149)</u>
Nonoperating Revenues (Expenses)		
Appropriations	30,079	32,342
Private grants	1,559	1,699
Interest income	669	420
Interest expense	(1,016)	(578)
Grants to other organizations	(585)	(157)
Total nonoperating revenue	<u>30,706</u>	<u>33,726</u>
Income Before Other Revenues, Expenses, Gains, or Losses	2,931	2,577
Capital appropriations	7,694	12,754
Donated assets and supplies	12	-
Gain (loss) on disposal of capital assets	40	(130)
Change in net assets	<u>10,677</u>	<u>15,201</u>
Total Net Assets - Beginning of Year	<u>83,944</u>	<u>68,743</u>
Total Net Assets - End of Year	<u>\$ 94,621</u>	<u>\$ 83,944</u>

The notes are an integral part of the financial statements.



WINONA STATE UNIVERSITY FOUNDATION  
 STATEMENTS OF ACTIVITIES  
 FOR THE YEARS ENDED JUNE 30, 2004 AND 2003  
 (IN THOUSANDS)

	2004			2004 Total	2003 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue					
Contributions	\$ 259	\$ 794	\$ 458	\$ 1,511	\$ 1,650
Fee income and other proceeds	73	144	-	217	84
Fundraising events	-	75	-	75	97
Investment income	148	860	6	1,014	57
Net assets released from restrictions by satisfaction of expenditure requirements	1,012	(1,012)	-	-	-
Reclassifications	(69)	-	69	-	-
Total support and revenue	<u>1,423</u>	<u>861</u>	<u>533</u>	<u>2,817</u>	<u>1,888</u>
Expenses					
Program services					
Scholarships	487	-	-	487	548
Grants and expenditures supporting Winona State University activities	534	-	-	534	444
Special projects	40	-	-	40	32
Scholarship committee	10	-	-	10	9
Supporting services					
Management and general	29	-	-	29	24
Fundraising					
Fundraising events	17	-	-	17	26
Fundraising programs	8	-	-	8	4
Development and stewardship	9	-	-	9	2
Total expenses	<u>1,134</u>	<u>-</u>	<u>-</u>	<u>1,134</u>	<u>1,089</u>
Change in net assets	289	861	533	1,683	799
Net Assets, Beginning of Year	483	2,769	7,584	10,836	10,037
Net Assets, End of Year	<u>\$ 772</u>	<u>\$ 3,630</u>	<u>\$ 8,117</u>	<u>\$ 12,519</u>	<u>\$ 10,836</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2004 AND 2003  
 (IN THOUSANDS)

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 51,580	\$ 43,929
Cash repayment of program loans	446	545
State grants	3,454	3,209
Federal grants	5,868	5,487
Cash paid to suppliers for goods or services	(22,717)	(27,949)
Cash payments to employees	(53,822)	(53,607)
Financial aid disbursements	(3,045)	(2,756)
Cash payments of program loans	(552)	(458)
Net cash used in operating activities	<u>(18,788)</u>	<u>(31,600)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	30,079	32,342
Agency activity	(311)	-
Private grants	1,559	1,507
Grants to other organizations	(585)	2,043
Net cash flows from noncapital financing activities	<u>30,742</u>	<u>35,892</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(26,432)	(18,651)
Capital appropriation	7,694	12,753
Proceeds from sale of capital assets	72	48
Proceeds from borrowing	9,627	4,815
Proceeds from bond discount	448	-
Interest paid	(1,151)	(578)
Repayment of notes	(2,323)	(141)
Repayment of lease principal	(171)	(189)
Repayment of bond principal	(1,126)	(501)
Net cash flows used in capital and related financing activities	<u>(13,362)</u>	<u>(2,444)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	-	740
Purchase of investments	(2,712)	-
Investment earnings	644	404
Net cash flows from investing activities	<u>(2,068)</u>	<u>1,144</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,476)	2,992
Cash and Cash Equivalents, Beginning of Year	<u>25,235</u>	<u>22,243</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,759</u>	<u>\$ 25,235</u>

The notes are an integral part of the financial statements.

Operating Loss	<u>\$ (27,775)</u>	<u>\$ (31,149)</u>
Adjustment to Reconcile Operating Income to Net Cash Flows used in Operating Activities		
Depreciation	5,050	4,278
Other	-	(577)
Provision for loan defaults	87	12
Loan principal repayments	446	493
Loans issued	(552)	(458)
Forgiven loans	54	52
Change in assets and liabilities		
Inventory	(129)	14
Accounts receivable	539	(699)
Grants receivable	118	-
Accounts payable	1,892	-
Capital projects	-	(3,584)
Salaries payable	(22)	(210)
Compensated absences payable	227	558
Workers' compensation payable	11	(52)
Capital contributions payable	(33)	70
Funds held for others	-	(8)
Deferred revenues	274	48
Other assets and liabilities	1,025	(388)
Net reconciling items to be added to operating loss	<u>8,987</u>	<u>(451)</u>
Net cash flow used operating activities	<u>\$ (18,788)</u>	<u>\$ (31,600)</u>
Non-Cash Transactions Investing, Capital, and Financing Activities:		
Capital projects on account	273	2,423

**WINONA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 and 2003**

**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) in the United States, as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows include financial activities of Winona State University.

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Winona State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 15. 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 the “double-counting” of internal activities. Interfund receivables and payables have been eliminated in the statements of net assets.

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

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

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

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

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

*Capital Appropriation Revenue* — Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for capital projects, as specified in the authorizing legislation. The portion of general obligation bond debt service that is payable by the state of Minnesota is recognized by Minnesota State Colleges and Universities as capital appropriation revenue when the related bond sale proceeds are received. Individual colleges and universities are allocated cash, capital appropriation revenue and debt based on management estimates of the timing of specific projects funded.

*Cash and Cash Equivalents* — The cash balance represents cash in the state treasury and in 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 in the Revenue Fund for capital projects and debt service. The Revenue Fund is used to account for the revenues, expenses and net assets of revenue producing facilities which are supported through usage. It has the authority to sell revenue bonds for the construction and maintenance of revenue producing facilities.

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

*Investments* — The Minnesota State Board of Investment invests the University's balances in the 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 retained by the Office of the Chancellor and allocated to the colleges and universities as part of the appropriation allocation process. Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment 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 primarily of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

*Capital Assets* — Capital assets are recorded at cost or, for donated assets, at 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
Library collections	7 years

Equipment includes all items with an original cost of over \$5,000 for items purchased in fiscal year 2004 and \$2,000 for items purchased prior to July 1, 2003. Buildings and building improvements over \$100,000 as well as all land and library collection acquisitions are capitalized.

*Funds Held for Others* — Funds held for others are assets held for student organizations.

*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. The University may also enter into capital lease agreements for certain capital assets.

Other long-term liabilities include notes payable, capital leases, compensated absences, workers' compensation claims and capital contributions associated with Perkins Loan agreements with the United States Department of Education.

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund included herein. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund financial report. Copies are available from the financial reporting director, Minnesota State Colleges and Universities, Suite 300 1450 Energy Park Drive, St. Paul, MN 55108.

*Deferred Revenue* — Deferred revenue consists primarily of tuition received but not yet earned for summer 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 statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private grants, and investment income.

*Tuition, Auxiliary and Sales* — Tuition, auxiliary and sales are presented net of scholarships. Sales are also net of cost of goods sold of \$2,761,570 and \$2,656,090 for fiscal years 2004 and 2003, respectively.

*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. 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.

*Restricted Auxiliary Revenue* — Restricted auxiliary revenue consists of room, board and fee revenue restricted for payment of revenue bonds.

*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.

*Reclassifications* — Certain prior year amounts have been reclassified to conform to current year's presentation. These reclassifications had no effect on net assets previously reported.

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

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

- Restricted expendable: Net assets subject to externally-imposed stipulations. Net asset restrictions for Winona State University are as follows:
  - Restricted for bond covenants* — revenue bond restrictions.
  - Restricted for other* — includes restrictions for the following:
    - donations* — restricted per donor requests.
    - loans* — University contributed capital for Perkins loans.
    - capital projects* — restricted for completion of capital projects.
    - debt services* — legally restricted for bond debt repayments.
    - faculty contract obligations* — faculty development and travel required by contracts.
    - legislatively mandated programs* — appropriation law restricts the use of funds.

Restricted for Other  
(In Thousands)

	2004	2003
Donations	\$2,817	\$2,461
Loans	279	280
Capital projects	585	1,853
Debt service	1,577	1,209
Faculty contracts	429	389
Legislatively mandated programs	37	17
Total	<u>\$5,724</u>	<u>\$6,209</u>

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

*New Accounting Pronouncements* — In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, is effective for Minnesota State Colleges and Universities for the year ending June 30, 2005. Minnesota State Colleges and Universities will be required to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This statement also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Minnesota State Colleges and Universities is also required to disclose its deposit and investment policies. Minnesota State Colleges and Universities has not yet determined the full impact of GASB No. 40 on its fiscal year 2005 basic financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement is effective for the Minnesota State Colleges and Universities for the year ending June 30, 2006. The effect GASB Statement No. 42 will have on the fiscal year 2006 basic financial statements has not yet been determined.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employees for Postretirement Benefits Other than Pensions*. This statement is effective for the Minnesota State Colleges and Universities for the year ending June 30, 2008. The effect GASB Statement No. 45 will have on the fiscal year 2008 basic financial statements has not yet been determined.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

*Cash and Cash Equivalents* — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has 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 9.031 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 in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral. The University had

insufficient collateral for three days in fiscal year 2004 and two days in fiscal year 2003. The maximum amount under collateralized was \$7,878,148 and \$2,756,050 in fiscal years 2004 and 2003, respectively.

At June 30, 2004 and 2003, all cash and cash equivalents were fully insured or collateralized with securities held by the state or its agent in the state's or University's name.

Carrying Amount	2004	2003
Cash - in bank	\$ (153)	\$ 1,193
Money markets	3,006	2,542
Change fund	21	—
Cash - treasury account	18,885	21,500
Total	<u>\$21,759</u>	<u>\$25,235</u>

At June 30, 2004 and 2003, the University's bank balance was \$3,012,775 and \$3,434,903 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 Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment for investment management services.

*Investments* — 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. In accordance with Minnesota Statutes, Minnesota State Board of Investment has the authority to enter into, and has entered into, derivative transactions including investment in derivatives of asset-backed and mortgage-backed securities, put and call options, and futures contracts traded on a market or exchange regulated by a governmental agency or by a financial institution regulated by a governmental agency. Investments in asset-backed and mortgage-backed derivatives are made to improve yield. They receive investment cash flows from interest and principal payments on underlying mortgages, and therefore the prices of mortgage derivatives are sensitive to mortgage prepayments caused by changing market conditions. Put options and index futures were used during the year to reduce risk. Any agreements for put and call options or futures contracts may only be entered into with a fully offsetting amount of cash or securities. Investments of cash in local bank accounts are limited by the same statute.

Investments are categorized to give an indication of the level of credit risk. Category 1 includes investments insured or registered or for which the securities are held by Winona State University or its agent in Winona State University's name. Category 2 includes investments that are uninsured and unregistered and which are held by the pledging institutions trust department or agent in the University's name. Category 3 includes investments that are uninsured and unregistered and which are held by the pledging institution, but not in the University's name. All of the University's investments are in risk category 1.

Investment Type	2004	2003
Mutual funds	\$ 717	\$ 542
Treasury Bills	284	—
FNMA	277	—
Pooled investments	5,170	3,194
Total	<u>\$6,448</u>	<u>\$3,736</u>

*Securities Lending Transactions* — State statutes do not prohibit Minnesota from participating in securities lending transactions. The Minnesota State Board of Investment has, by way of Custodial Trust Agreements,



authorized State Street Bank and Trust Company and Wells Fargo Bank, Minnesota, N.A., to act as agents in lending Minnesota's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal years 2004 and 2003 State Street and Wells Fargo lent, on behalf of the state of Minnesota, certain securities held by State Street and Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal year on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal year 2004 or fiscal year 2003. In addition, there were no losses during the fiscal year resulting from default of the borrowers, State Street or Wells Fargo. The state of Minnesota had no credit risk from borrowers on June 30, 2004 and 2003.

The following tables provide information related to the securities invested by Wells Fargo and State Street:

Securities Lending Analysis, June 30, 2004  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$636,644	\$4,552,158
Collateral held	\$663,622	\$4,668,704
Average duration	24 days	52 days
Average weighted maturity	24 days	344 days

Securities Lending Analysis, June 30, 2003  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$256,858	\$3,275,226
Collateral held	\$261,731	\$3,387,546
Average duration	21 days	70 days
Average weighted maturity	9 days	493 days

During fiscal years 2004 and 2003, the state of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004 and 2003 the state of Minnesota had no credit risk exposure to borrowers.

Minnesota State Colleges and University's portion of the securities lending collateral was allocated to the colleges and universities. The University's portion of the allocation was \$1,747,528 and \$959,812 as of June 30, 2004 and 2003, respectively.

### 3. 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, 2004 and 2003, the total loans receivable for this program was \$2,678,027 and \$2,625,246, respectively, less an allowance for uncollectible loans of \$483,522 and \$396,884, respectively.

4. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from students and a few businesses. At June 30, 2004 and 2003, the total accounts receivable balances for the University were \$1,906,405 and \$2,281,263, respectively, less an allowance for uncollectible receivables of \$575,730 and \$412,674, respectively.

Summary of Accounts Receivable at June 30  
(In Thousands)

	2004	2003
Tuition	\$ 669	\$ 654
Sales and services	486	646
Third party obligations	38	330
Other	179	258
Fees	317	237
Federal and State Grants	45	—
Room and board	172	157
Total accounts receivable	1,906	2,282
Less allowance for uncollectible accounts	(576)	(413)
Net accounts receivable	<u>\$ 1,330</u>	<u>\$ 1,869</u>

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

Over 2 years	100%
1 to 2 years	50%
Less than 1 year	2%

5. PREPAID EXPENSE

Prepaid expense consists primarily of \$1,576,891 and \$1,208,601 for fiscal years 2004 and 2003, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statute, 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.

The remaining \$133,666 in prepaid assets as of June 30, 2003 represents the health insurance premium for faculty whose annual compensation is paid over the nine month academic year.

## 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2004 and 2003 follow:

Year Ended June 30, 2004 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
<b>Capital Assets, not depreciated:</b>					
Land	\$ 3,220	\$ 2,500	\$ —	\$ —	\$ 5,720
Construction-in-progress	14,903	19,824	800	(30,152)	3,775
Total capital assets, not depreciated	<u>18,123</u>	<u>22,324</u>	<u>800</u>	<u>(30,152)</u>	<u>9,495</u>
<b>Capital assets, depreciated:</b>					
Buildings and improvements	90,685	108	—	30,152	120,945
Equipment	16,062	967	578	—	16,451
Library collections	4,756	883	369	—	5,270
Total capital assets depreciated	<u>111,503</u>	<u>1,958</u>	<u>947</u>	<u>30,152</u>	<u>142,666</u>
<b>Less accumulated depreciation:</b>					
Buildings and improvements	35,239	3,039	109	—	38,169
Equipment	8,575	1,377	545	—	9,407
Library collections	2,363	753	369	—	2,747
Total accumulated depreciation	<u>46,177</u>	<u>5,169</u>	<u>1,023</u>	<u>—</u>	<u>50,323</u>
Total capital assets, depreciated, net	<u>65,326</u>	<u>(3,211)</u>	<u>(76)</u>	<u>30,152</u>	<u>92,343</u>
Total capital assets, net	<u>\$ 83,449</u>	<u>\$ 19,113</u>	<u>\$ 724</u>	<u>\$ —</u>	<u>\$ 101,838</u>

Year Ended June 30, 2003 (In Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets, not depreciated:</b>				
Land	\$ 3,102	\$ 118	\$ —	\$ 3,220
Construction-in-progress	7,659	16,161	8,917	14,903
Total capital assets, not depreciated	<u>10,761</u>	<u>16,279</u>	<u>8,917</u>	<u>18,123</u>
<b>Capital assets, depreciated:</b>				
Buildings and improvements	78,092	12,593	—	90,685
Equipment	16,686	1,795	2,419	16,062
Library collections	4,276	857	377	4,756
Total capital assets depreciated	<u>99,054</u>	<u>15,245</u>	<u>2,796</u>	<u>111,503</u>
<b>Less accumulated depreciation:</b>				
Buildings and improvements	33,004	2,235	—	35,239
Equipment	9,556	1,362	2,343	8,575
Library collections	2,060	680	377	2,363
Total accumulated depreciation	<u>44,620</u>	<u>4,277</u>	<u>2,720</u>	<u>46,177</u>
Total capital assets, depreciated, net	<u>54,434</u>	<u>10,968</u>	<u>76</u>	<u>65,326</u>
Total capital assets, net	<u>\$ 65,195</u>	<u>\$ 27,247</u>	<u>\$ 8,993</u>	<u>\$ 83,449</u>

## 7. LONG-TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long-term obligations for fiscal years 2004 and 2003 follow:

Year Ended June 30, 2004 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 11,908	\$ 4,643	\$ 748	\$ 15,803	\$ 980
Compensated absences	6,405	860	633	6,632	729
Workers' compensation	296	88	77	307	78
Capital contributions	2,358	—	33	2,325	—
Capital leases	2,052	—	171	1,881	196
Notes payable	155	—	123	32	32
Revenue bonds payable	—	4,984	146	4,838	153
Bonds premium payable	—	448	28	420	—
<b>Total</b>	<b>\$ 23,174</b>	<b>\$ 11,023</b>	<b>\$ 1,959</b>	<b>\$ 32,238</b>	<b>\$ 2,168</b>

Year Ended June 30, 2003 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 7,594	\$ 4,815	\$ 501	\$ 11,908	\$ 748
Compensated absences	5,847	558	—	6,405	619
Workers' compensation	348	386	438	296	77
Capital contributions	2,288	70	—	2,358	—
Capital leases	2,241	—	189	2,052	185
Notes payable	296	—	141	155	123
<b>Total</b>	<b>\$ 18,614</b>	<b>\$ 5,829</b>	<b>\$ 1,269</b>	<b>\$ 23,174</b>	<b>\$ 1,752</b>

**General Obligation Bonds Liability** — 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 2.5 to 7 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 included in these financial statements represents the University's share.

**Revenue Bonds** — The Revenue Fund is authorized by Minnesota Statute, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed \$100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at the state universities.

**Bond Premium** — In fiscal year 2004 bonds were issued, resulting in a premium of \$448,370. Amortization will be calculated using the straight line method and amortized over the remaining life of the bonds.

**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 in cash only at the time of termination from state employment.

**Workers' Compensation** — The state of Minnesota Department of Employee Relations manages the self-insured workers compensation claims activities. The reported liabilities for workers' compensation of \$307,219

and \$296,475 at June 30, 2004 and 2003, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end, and is an undiscounted estimate of future payments.

*Capital Contributions* — The liabilities of \$2,325,413 and \$2,358,332 at June 30, 2004 and 2003, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program.

*Capital Leases* — Leases that meet the criteria in FASB Pronouncement No. 13. See Note 9 for details.

*Notes Payable* — Notes payable consists of state energy efficiency program loans. Loans received under this program are interest free. The loans are granted by energy companies in order to improve energy efficiency in college and university buildings.

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

Fiscal Years	Notes Payable	General Obligation Bonds		Capital Leases		Revenue Bonds	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 32	\$ 980	\$ 885	\$ 196	\$ 103	\$ 153	\$ 254
2006	—	985	729	207	92	161	246
2007	—	1,006	683	220	79	169	238
2008	—	970	633	233	66	178	230
2009	—	973	584	246	53	187	220
2010-2014	—	4,755	2,183	779	67	1,096	945
2015-2019	—	3,850	1,061	—	—	1,429	613
2020-2024	—	2,284	256	—	—	1,465	169
Total	\$ 32	\$ 15,803	\$ 7,014	\$ 1,881	\$ 460	\$ 4,838	\$ 2,915

## 8. ACCOUNTS PAYABLE

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

	2004	2003
Capital projects	\$ 273	\$ 2,423
Office of the Chancellor	—	2,200
Repairs and maintenance	775	519
Purchased services	1,107	202
Other	805	184
Interest Expense	118	—
Grants to Other Organizations	50	—
Supplies	138	70
Total	\$ 3,266	\$ 5,598

## 9. LEASE AGREEMENTS

*Operating Leases* — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2004 and 2003, totaled approximately \$2,961,841 and \$4,455,641, respectively. Future minimum lease payments for existing lease agreements are as follow:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2005	\$ 108
2006	108
2007	108
2008	—
Total	\$ <u>324</u>

*Capital Leases* —The lease meets the criteria of a capital lease as defined by the Financial Accounting Standard's Board Pronouncement No. 13, *Accounting for Leases*, 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.

*Income Leases* — The University has entered into income lease agreements, primarily for building space. Lease income for the year ended June 30, 2004 totaled \$52,201 and is included in other income on the statements of revenues, expenses, and changes in net assets. Future expected income receipts for existing lease agreements are \$4,746 in fiscal year 2005.

#### 10. TUITION, AUXILIARY AND SALES

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

For the Year Ended June 30 (In Thousands)		
	2004	2003
Tuition	\$ 30,384	\$ 26,348
Fees	9,950	10,563
Sales, net	3,556	3,528
Unrestricted room and board	2	2
Restricted student payments	11,985	9,379
Subtotal	55,877	49,820
Less scholarship allowance	(5,921)	(5,975)
Net tuition, auxiliary and sales	\$ <u>49,956</u>	\$ <u>43,845</u>

#### 11. EMPLOYEE PENSION PLANS

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

##### *State Employees Retirement Fund*

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

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

for SERF is Minnesota Statutes, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2004	\$ 420
2003	406
2002	375

*Teachers Retirement Fund*

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

The TRF is a cost-sharing, multiple-employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the 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 basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statute, Chapter 354. The funding requirements are 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2004	\$490
2003	487
2002	470

*Minnesota State Colleges and Universities Defined Contribution Retirement Fund*

*General Information* — The Fund includes two plans, an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax-deferred, single-employer defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities System unclassified employees. The plans cover unclassified teachers, librarians, administrators and certain other staff who have been employed full-time for a minimum of two academic years. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Wells Fargo Bank, N.A. Separately issued financial statements can be obtained from Wells Fargo, Institutional Investment Group, Retirement Plan Services, Suite 300, 2700 Snelling Avenue North, Roseville, MN 55113.

*Individual Retirement Account Plan* —

Participation — Each 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 faculty, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. For administrators, the employer rate is 6 percent and the employee rate is 4 percent. The contributions are made under the authority of Minnesota Statute, Chapter 354B.

Required contributions for Winona State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2004	\$ 1,037	\$ 766
2003	1,032	765
2002	939	694

*Supplemental Retirement Plan —*

Participation — Each 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 to the SRP portion of the plan 5 percent of the eligible compensation as follows:

Member Group	Eligible Compensation	Maximum Annual Contributions
Inter Faculty Organization (IFO)	\$6,000 to \$51,000	\$2,250
Minnesota State University Association Administrative and Service Faculty (MSUAASF)	\$6,000 to \$48,000	\$2,100
Administrators	\$6,000 to \$46,000	\$2,000

The University matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statute Chapter 354B. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2004	\$ 760
2003	773
2002	623

12. CONTINGENT LIABILITIES — LITIGATION

Lawsuits furnish a basis for potential liability. The following case in which Winona State University, its officers or employees are defendants has been noted because an adverse decision in the case could result in an expenditure of monies over \$100,000.

*Hjorth v. Winona State University*

The suit alleges sexual harassment by a fellow student in violation of Title IX of the Civil Rights Act. The case is in discovery and the University intends to move for summary judgment. The University will vigorously defend the case.



### 13. POSTRETIREMENT BENEFITS

The faculty contracts have provided early retirement incentives for faculty meeting specific requirements. Certain faculty members who, as of July 1, 1995, had at least ten years in Minnesota Technical Colleges and/or in a K-12 district which was an employer for a technical college, have the right to choose to continue, at the employers expense, health insurance benefits up to age 65. The cost of health insurance benefits was \$39,789 and \$76,738 for fiscal years 2004 and 2003, respectively and early retirement incentive was \$273,882 and \$308,208, respectively. There are 16 faculty members currently receiving the health insurance benefit

### 14. 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 follow:

Institution deductible	\$500 to \$50,000
Fund responsibility	Deductible to 2,500,000
Primary re-insurer coverage	2,500,001 to 50,000,000
Multiple re-insurers' coverage	50,000,001 to 300,000,000
Bodily injury and property damage per person	300,000
Bodily injury and property damage per occurrence	1,000,000
Annual maximum paid by fund, excess by reinsurer	7,500,000
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 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. 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 year ended June 30, 2003 and 2004.

Workers' Compensation Liability  
(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/03	\$ 348	\$ 386	\$ 438	\$ 296
Fiscal Year Ended 6/30/04	\$ 296	\$ 88	\$ 77	\$ 307

15. COMMITMENTS

Future commitments consist of construction projects to be funded by general obligation bond proceeds, revenue bond proceeds or operating revenues. The University has ongoing projects of \$0.9 million for remodeling the third floor of the Minne building and \$1.3 million for the final construction of the science laboratory center with an estimated completion date of the fall of 2004. Also, the University has a project in progress that has incurred costs of \$1.28 million for land acquisition and preparation for the future site of a residence center with an estimated completion date of the fall of 2007.

16. SEGMENT INFORMATION

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

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

	2004	2003
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Assets		
Current assets	\$ 4,829	\$ 5,526
Restricted assets	2,954	—
Capital assets	19,172	17,006
Total assets	<u>26,955</u>	<u>22,532</u>
Liabilities		
Current liabilities	2,364	3,547
Noncurrent liabilities	4,951	232
Total liabilities	<u>7,315</u>	<u>3,779</u>
Net Assets:		
Invested in capital assets, net of related debt	17,026	17,006
Capital Projects	587	—
Restricted for bond covenants	2,027	1,747
Total net assets	<u>19,640</u>	<u>18,753</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Operating revenues	12,010	11,025
Operating expenses	(10,986)	(10,424)
Net operating income	1,024	601
Nonoperating revenues/expenses	(137)	120
Change in net assets	887	721
Net assets, beginning of year	18,753	18,032
Net asset, end of year	<u>19,640</u>	<u>18,753</u>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by:		
Operating activities	2,906	1,197
Investing activities	(510)	132
Capital and related financing activities	(2,011)	(1,821)
Net increase/decrease	385	(492)
Cash beginning of year as restated	4,428	4,920
Cash-end of year	<u>\$ 4,813</u>	<u>\$ 4,428</u>

## 17. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundations 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 Financial Accounting Standards Board. 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 that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed restrictions as to how the assets be used.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

*Investments* — The foundation adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held By Not-for-Profit Organizations*, in 1997. Under SFAS No. 124, 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)

Investments	2004	2003
Equities (Stocks)	\$ 1,331	\$ 1,031
Certificates of Deposits	25	39
US Government Securities	339	139
Mutual Funds	6,354	4,891
Fixed Income Securities/Bonds	357	457
Total Investments	<u>\$ 8,406</u>	<u>\$ 6,557</u>

*Long-Term Obligations* — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of \$9,650,731. Future scheduled debt payments table follows:

Year Ended June 30 (In Thousands)	
2005	\$ 693
2006	693
2007	693
2008	693
Thereafter	8,719
Total	11,491
Less interest	(1,840)
Net	<u>\$ 9,651</u>

## FUND TYPES

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Activities included in the fund types are as follows:

### GENERAL FUND

- General operations
- Customized training
- State grants
- Capital projects
- Imprest cash

### SPECIAL REVENUE

- Student activities
- Health services
- Intercollegiate activities
- Child care
- Federal grants
- Federal financial aid
- State financial aid
- Private gifts and grants
- Miscellaneous special revenues
- Private scholarships
- Endowments

### ENTERPRISE

- Bookstore
- Parking

### REVENUE

- Food service
- Residence halls
- Student union

### AGENCY

- Custodial accounts
- Temporary accounts

WINONA STATE UNIVERSITY  
Statement of Net Assets (Unaudited)  
As of June 30, 2004  
(In Thousands)

	General	Special Revenue	Enterprise
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 13,611	\$ 2,286	\$ 503
Investments	-	2,779	2,850
Grants receivable	48	179	-
Accounts receivable, net	539	212	344
Prepaid expense	1,577	-	-
Inventory	-	-	945
Due from other funds	2,278	18	366
Student loans and other assets, net	22	-	435
Securities lending collateral	1,015	256	-
<b>Total current assets</b>	<b>19,090</b>	<b>5,730</b>	<b>5,443</b>
<b>Current Restricted Assets</b>			
Cash and cash equivalents	-	-	-
Investments	-	-	-
<b>Total current restricted assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Noncurrent Restricted Assets</b>			
Other assets	-	-	-
Construction in progress	-	-	-
<b>Total noncurrent restricted assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total restricted assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Noncurrent Assets</b>			
Student loans and other assets, net	-	-	1,760
Capital assets, net	81,357	-	29
<b>Total noncurrent assets</b>	<b>81,357</b>	<b>-</b>	<b>1,789</b>
<b>Total Assets</b>	<b>100,447</b>	<b>5,730</b>	<b>7,232</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Salaries payable	4,832	68	64
Accounts payable	1,754	136	122
Deferred revenue	305	148	7
Funds held for others	-	-	-
Current portion of long-term debt	1,208	-	-
Compensated absences payable/Workers' compensation	775	6	3
Payable to other funds	2,433	131	45
Securities lending collateral	1,015	257	-
<b>Total current liabilities</b>	<b>12,322</b>	<b>746</b>	<b>241</b>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of long-term debt	16,929	-	-
Compensated absences payable/Workers' compensation	5,752	75	38
Capital contributions payable	-	-	2,325
<b>Total noncurrent liabilities</b>	<b>22,681</b>	<b>75</b>	<b>2,363</b>
<b>Total Liabilities</b>	<b>35,003</b>	<b>821</b>	<b>2,604</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	63,641	-	29
Restricted expendable, bond covenants	-	-	-
Restricted expendable, other	2,041	2,817	279
Unrestricted	(238)	2,092	4,320
<b>Total Net Assets</b>	<b>\$ 65,444</b>	<b>\$ 4,909</b>	<b>\$ 4,628</b>

Subtotals and totals may not agree due to rounding.

**WINONA STATE UNIVERSITY**  
**Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)**  
**For the Year Ended June 30, 2004**  
**(In Thousands)**

	<u>General</u>	<u>Special Revenue</u>
Operating Revenues		
Tuition, auxiliary and sales, net	\$ 32,698	\$ 3,085
Restricted student payments	-	-
Federal grants	-	5,735
State grants	334	3,120
Other income	565	23
Total operating revenues	<u>33,597</u>	<u>11,963</u>
Operating Expenses		
Salaries	47,355	2,630
Purchased services	6,171	967
Supplies	2,725	388
Repairs and maintenance	737	18
Depreciation	4,029	-
Financial aid	164	8,796
Other expense	1,224	417
Total operating expenses	<u>62,405</u>	<u>13,216</u>
Operating income (loss)	<u>(28,808)</u>	<u>(1,253)</u>
Nonoperating Revenues (Expenses)		
Appropriations	30,079	-
Private grants	114	1,445
Interest income	47	534
Interest expense	(828)	-
Grants to other organizations	(3)	(562)
Total nonoperating revenue (expenses)	<u>29,409</u>	<u>1,417</u>
Income Before Other Revenues, Expenses, Gains, or Losses	601	164
Capital appropriations	7,694	-
Donated assets and supplies	12	-
Transfers in	196	1,802
Transfers out	(157)	(1,236)
Gain on disposal of capital assets	-	-
Change in net assets	<u>8,346</u>	<u>730</u>
Total Net Assets - Beginning of Year	<u>57,098</u>	<u>4,179</u>
Total Net Assets - End of Year	<u>\$ 65,444</u>	<u>\$ 4,909</u>

Subtotals and totals may not agree due to rounding.

<u>Revenue</u>	<u>Agency</u>	<u>Total</u>
\$ 3,716	\$ 546	\$ 20,662
-	258	5,887
-	-	227
200	35	1,330
-	-	1,577
-	-	945
436	179	3,277
-	70	527
<u>477</u>	<u>-</u>	<u>1,748</u>
<u>4,829</u>	<u>1,088</u>	<u>36,180</u>
1,097	-	1,097
<u>561</u>	<u>-</u>	<u>561</u>
<u>1,658</u>	<u>-</u>	<u>1,658</u>
16	-	16
<u>1,280</u>	<u>-</u>	<u>1,280</u>
<u>1,296</u>	<u>-</u>	<u>1,296</u>
<u>2,954</u>	<u>-</u>	<u>2,954</u>
-	-	1,760
<u>19,172</u>	<u>-</u>	<u>100,558</u>
<u>19,172</u>	<u>-</u>	<u>102,318</u>
<u>26,955</u>	<u>1,088</u>	<u>141,452</u>
102	-	5,066
939	315	3,266
392	16	868
-	368	368
153	-	1,361
23	-	807
279	389	3,277
<u>476</u>	<u>-</u>	<u>1,748</u>
<u>2,364</u>	<u>1,088</u>	<u>16,761</u>
4,685	-	21,614
266	-	6,131
-	-	2,325
<u>4,951</u>	<u>-</u>	<u>30,070</u>
<u>7,315</u>	<u>1,088</u>	<u>46,831</u>
17,026	-	80,696
2,027	-	2,027
587	-	5,724
<u>-</u>	<u>-</u>	<u>6,174</u>
<u>\$ 19,640</u>	<u>\$ -</u>	<u>\$ 94,621</u>

<u>Enterprise</u>	<u>Revenue</u>	<u>Total</u>
\$ 8,109	\$ -	\$ 43,892
-	11,985	11,985
15	-	5,750
-	-	3,454
200	25	813
<u>8,324</u>	<u>12,010</u>	<u>65,894</u>
1,307	2,842	54,134
5,006	5,118	17,262
477	1,326	4,916
53	299	1,107
6	1,015	5,050
(33)	6	8,933
387	239	2,267
<u>7,203</u>	<u>10,845</u>	<u>93,669</u>
<u>1,121</u>	<u>1,165</u>	<u>(27,775)</u>
-	-	30,079
-	-	1,559
38	50	669
-	(188)	(1,016)
(20)	-	(585)
<u>18</u>	<u>(138)</u>	<u>30,706</u>
1,139	1,027	2,931
-	-	7,694
-	-	12
-	-	1,998
(465)	(140)	(1,998)
40	-	40
<u>714</u>	<u>887</u>	<u>10,677</u>
<u>3,914</u>	<u>18,753</u>	<u>83,944</u>
<u>\$ 4,628</u>	<u>\$ 19,640</u>	<u>\$ 94,621</u>



**WINONA STATE UNIVERSITY****Reconciliation of Net Assets to Budgetary Fund Balance - General Fund (Unaudited)**

As of June 30, 2004

(In Thousands)

Total Net Assets	\$ 94,621
Less Restricted Assets	
Invested in capital assets, net	(80,696)
Restricted net assets	<u>(7,751)</u>
Total unrestricted net assets	<u>6,174</u>
Less Non-General Fund Unrestricted Net Assets	
Enterprise Fund	(4,320)
Special Revenue Fund	<u>(2,092)</u>
General Fund - unrestricted net assets	<u>(238)</u>
Add Negative Capital Projects Net Assets	<u>907</u>
General Fund - unrestricted net assets (net of capital projects)	669
GAAP Accruals Not Recognized in Budget	
Compensated absences / Workers' compensation	6,527
Other accruals, net	<u>(636)</u>
General Fund - unrestricted budgetary fund balance	<u>6,560</u>
Less Budgetary Designations	
Faculty contract obligations	(429)
Prior year encumbrances	(977)
Board required reserve	(2,000)
Designated for programs	<u>(3,154)</u>
Undesignated Budgetary Fund Balance	<u>\$ 0</u>

The Board requires the University to maintain a General Fund reserve of 5-7 percent of the prior fiscal year's General Fund operating revenues. The University's reserve at June 30, 2004 was 3 percent of the prior fiscal year's General Fund operating revenues.

## **Supplementary Information**

The first supplementary schedule shows a generally accepted accounting principle (GAAP) to budgetary reconciliation of net assets to fund balance for the General Fund. This reconciliation begins with total assets for all funds from the statement of net assets and reconciles it to the budgetary General Fund balance by eliminating all other fund types and GAAP adjustments. Differences between budgetary and GAAP include the effect of full accrual accounting. Budgetary accounting recognizes revenue and expenses when cash is received or expended.

The budgetary fund balance includes state grant revenue and budgetary restrictions which are eliminated. The remaining fund balance may be designated by the institution for Board required reserves and specific programs.

Following the GAAP to budget schedule is a list of fund types and their activities.

The last section includes the statement of net assets and the statement of revenues, expenses and changes in net assets presented by fund type. These statements were prepared using full accrual accounting for all fund types, with the exception of the interfund activities which were not eliminated, and the scholarship allowances which were not applied to these statements.