



**Annual Financial Report  
For the Years Ended June 30, 2006 and 2005**

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, 2006 and 2005**

Prepared by:

Chief Financial Officer  
Winona State University  
P.O. Box 5838  
Winona, Minnesota 55987

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**WINONA STATE UNIVERSITY**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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# INTRODUCTION

# WINONA

STATE UNIVERSITY

October 19, 2006

Minnesota State Colleges & Universities  
Board of Trustees  
James H. McCormick, Chancellor  
500 World Trade Center  
30 East Seventh Street  
St. Paul, MN 55101

Dear MnSCU Trustees and Chancellor McCormick:

We are pleased to submit the annual financial report of Winona State University. The accompanying financial statements show the financial position and results of operations for the fiscal year ended June 30, 2006.

Winona State University's administrators, faculty and staff continue to take seriously their responsibility to improve the well-being and quality of life of our citizens. We believe that you will find evidence of careful and responsible management of the University's resources in the pages of this report.

The 2006 fiscal year was one of great accomplishment for the University community. We continued to advance our mission of educating students for life and work in the 21<sup>st</sup> Century, and preparing *a community of learners dedicated to improving our world.*

Some of the community's notable achievements this year include:

- A record 1,735 new entering freshmen illustrate that students know the value of a Winona State University education. While our fall 2006 enrollment is at nearly 8,200 graduate and undergraduate students on our Winona and Rochester campuses, we remain committed to small class sizes, close student-faculty interaction and rigorous academic programs.
- Many of those students are doing great things. Jake Runestad, a music education major, was recently named Minnesota Collegiate Composer of the Year by the Minnesota Music Educators Association. Three of Jake's pieces, an instrumental ensemble for winds, a chamber ensemble for strings and a chamber vocal ensemble, won first place awards.



- Our men's basketball team won Winona State's first NCAA Division II national championship, defeating Virginia Union University 73-61 in Springfield, Massachusetts. Championships are fantastic, but just as important, Kathryn Kramer, a standout goalkeeper on our women's soccer team, earned the prestigious NCAA Postgraduate Scholarship. Awarded to just 174 student-athletes nationwide, the scholarship carries a \$7,500 renewable stipend for graduate education. Kathryn will attend the University of Wisconsin-Madison to study for her graduate nursing degree.
- Our distinguished faculty is a source of great pride. The faculty is actively engaged in expanding our Learning for the 21<sup>st</sup> Century initiative, establishing a compelling academic agenda. For example, we have started the First Year Experience, several innovative interdisciplinary programs and the academic and career portfolio program.
- Learning for the 21<sup>st</sup> Century has also served as a catalyst for the expansion of the University's core and support services, and the improvement of processes and infrastructure so that we can better serve our students.
- A part of the Learning for the 21<sup>st</sup> Century mandate is to further develop community, and indeed, global, partnerships. Winona State University continues to make progress in this area. For example, Dr. Kurt Hohenstein, director of our paralegal program, has worked with students to develop a Paralegal Clinic. Using a small grant, Dr. Hohenstein and his students will work with the National Child Protection and Training Center, Southern Minnesota Legal Services and *Latinos Unidos*, to provide legal assistance to a variety of deserving people, while gaining valuable real-world work experience.
- At a ceremony in Winona this fall, we signed an academic cooperation agreement with Catholic University, located in Ruzomberok, Slovakia. This agreement will allow for the exchange of students and faculty, collaborative research and the exchange of academic publications and ideas.
- WSU was named the lead institution of one of four Minnesota Centers of Excellence established by Governor Tim Pawlenty and the Legislature: the Center for Integrated Health Science Education and Practice. This collaborative effort among educational institutions, providers and community organizations is charged with making our state a leader in healthcare workforce education and training.
- On the administrative side, we are continuing to reorganize and streamline our administrative structure. Dr. Sally Johnstone joined Winona State as Vice President for Academic Affairs, and a national search is currently underway for the Vice President for Student Life and Development position.
- Two major campus renovation projects were completed over the summer. Pasteur Hall, part of the 2005 MnSCU bonding package, created 59,000 square feet of much needed space for our students studying the sciences. An addition and renovation to Kryzsko Commons, creating student study, meeting and recreation space, was funded entirely through student fees and reserve funds.

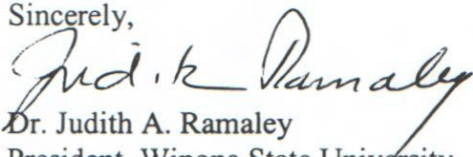


- Once again, Winona State has been recognized as a “Top Tier Midwest Institution” by *U.S. News & World Report*, among the “Best in the Midwest” by The Princeton Review, and for the tenth straight year, one of “America’s Best College Buys.”

The data on the pages of the report that follows confirm that Winona State University is fiscally sound. However, in this climate of uncertain economic times, declining state support and increasing global competition, we are compelled to work even harder to remain good stewards of our resources, innovative in our processes and programs, energetic in developing public and private partnerships, and committed to our mission.

Winona State University is proud to be a member of the Minnesota State Colleges & Universities, and appreciative of its support. We will forever be *a community of learners dedicated to improving our world.*

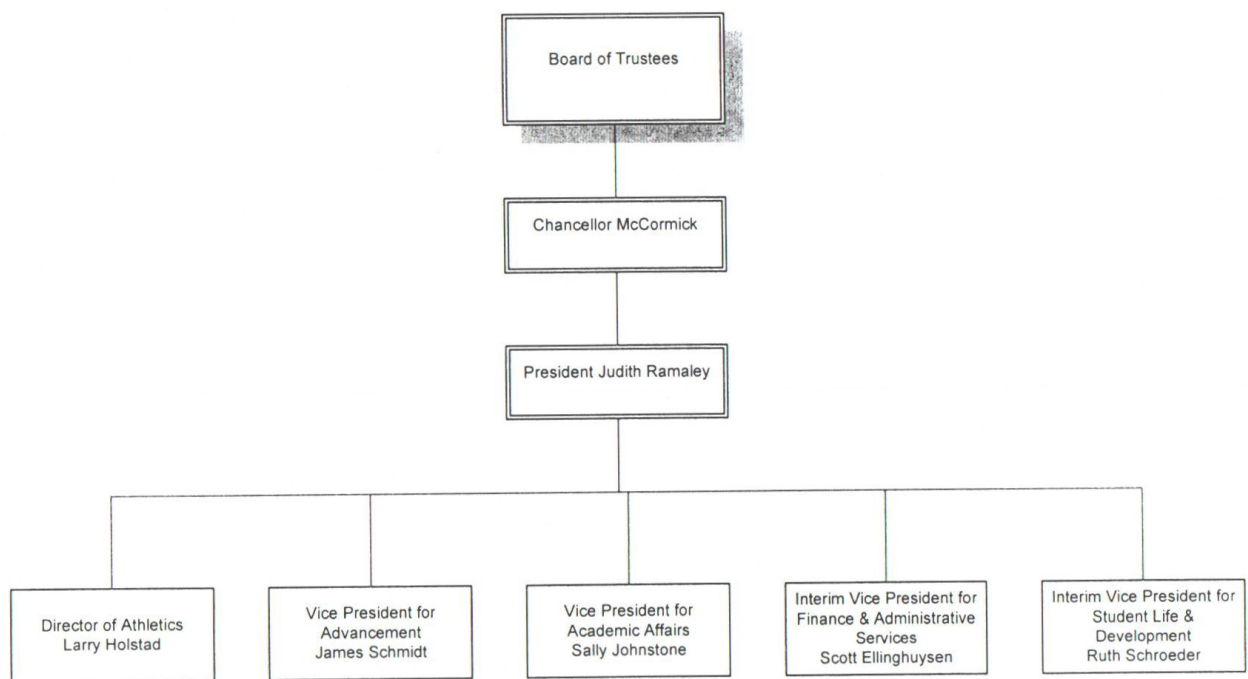
Sincerely,



Dr. Judith A. Ramaley  
President, Winona State University

MINNESOTA STATE COLLEGES AND UNIVERSITIES

Winona State University  
September 29, 2006



The financial activity of Winona State University is included in this report. The University is one of 32 colleges and universities included in the Minnesota State Colleges and Universities' annual financial report which is issued separately.

The University's portion of the Revenue Fund is also included in this report. The Revenue Fund activity is included both in the Minnesota State Colleges and Universities' annual financial report and in a separately issued Revenue Fund annual financial report.

All financial activity of Minnesota State Colleges and Universities is included in the state of Minnesota comprehensive annual financial report.

# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Winona State University Foundation, Inc., a discretely presented component unit of Winona State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Winona State University, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006, 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 should be considered in assessing the results of our audit.

The accompanying Management Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Larson, Allen, Weishair & Co., LLP*

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
September 27, 2006

**WINONA STATE UNIVERSITY  
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 Minnesota State Colleges and Universities at June 30, 2006, 2005, and 2004, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes following this section.

Winona State University is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member board of trustees appointed by the Governor. Twelve of the trustees serve six year terms, eight trustees representing each of Minnesota's congressional districts and four serving at large. There are three student trustees: one from a state university, one from a community college and one from a technical college, each serving 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 900 faculty and staff members are employed by the University. Winona State University is a premier regional university with graduate and undergraduate programs. The University offers 80 academic majors and ten preprofessional programs.

**FINANCIAL HIGHLIGHTS**

The University's financial position remained sound at June 30, 2006, with assets of \$159.5 million and liabilities of \$50.3 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt of \$88.2 million, restricted assets of \$11 million and unrestricted assets of \$9.9 million. Total net assets increased 10.3 percent over fiscal year 2005. The increase in net assets is primarily attributable to an increase in both state and capital appropriation.

Operating revenue increased \$4.5 million from fiscal year 2005 to fiscal year 2006. This is on top of a \$6.3 million increase from fiscal year 2004 to fiscal year 2005. The two year total increase of \$10.8 million is due primarily to a 22 percent tuition increase.

Nonoperating and other revenue increased \$7.4 million from fiscal year 2005 to fiscal year 2006. This was mainly due to an increase in state appropriation of \$3 million, an increase in capital appropriation of \$3.4 million, and receipt of a donated asset from the Winona State University Foundation with an approximate value of \$1 million.

Total expenses increased \$6 million from fiscal year 2005 to fiscal year 2006. This growth in expenditures is due primarily to inflationary increases. Total net assets increased \$10.2 million for fiscal year 2006.

**USING THE FINANCIAL STATEMENTS**

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

## STATEMENTS OF NET ASSETS

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

### Statements of Net Assets Fiscal Years 2006, 2005 and 2004 (In Thousands)

	2006	2005	Increase (Decrease) 2006-2005	2004	Increase (Decrease) 2005-2004
Current assets	\$ 41,126	\$ 34,803	\$ 6,323	\$ 32,903	\$ 1,900
Restricted assets	4,293	2,107	2,186	2,954	(847)
Noncurrent assets	1,869	1,782	87	1,760	22
Capital assets, net	112,173	101,702	10,471	100,558	1,144
Total assets	<u>159,461</u>	<u>140,394</u>	<u>19,067</u>	<u>138,175</u>	<u>2,219</u>
Current liabilities	16,936	11,600	5,336	13,484	(1,884)
Noncurrent liabilities	33,391	29,884	3,507	30,070	(186)
Total liabilities	<u>50,327</u>	<u>41,484</u>	<u>8,843</u>	<u>43,554</u>	<u>(2,070)</u>
Total net assets	<u>\$ 109,134</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>	<u>\$ 94,621</u>	<u>\$ 4,289</u>

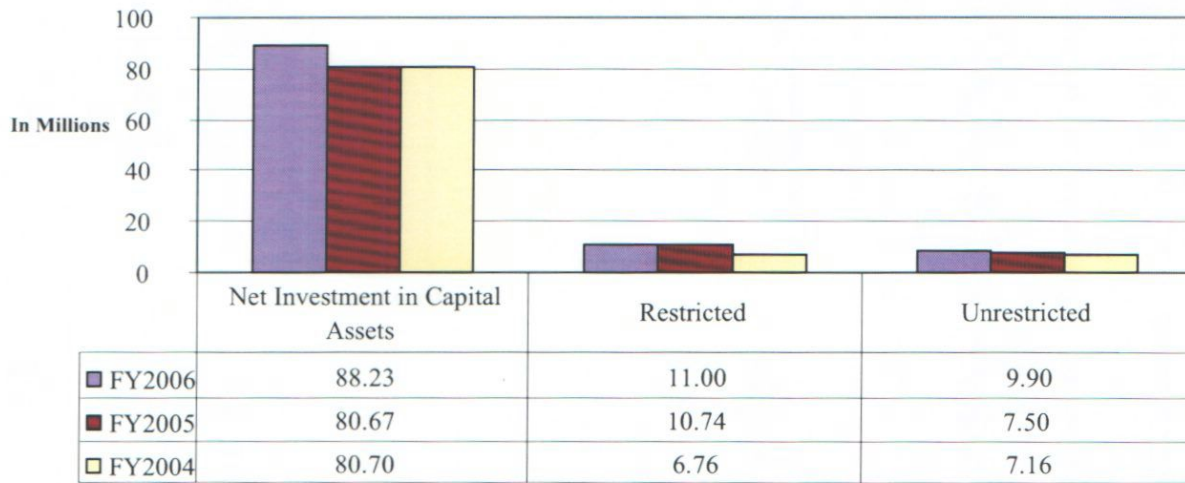
Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled \$32.8 million as of June 30, 2006. This is an increase of \$4.1 million over fiscal year 2005 and represents 4.2 months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.4 times, an indicator of good liquidity.

Restricted assets increased by \$2.2 million due to receiving revenue bond proceeds for future use of improving residential hall living. Capital assets, net, increased by \$10.5 million primarily due to renovating Pasteur Hall, an academic building, and the addition of a Solarium onto the Kryzsko Commons Revenue Fund building.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$6.5 million at June 30, 2006. Accounts payable increased \$1.4 million as the result of renovating an academic building and other nonbonded capital asset improvements throughout the Winona campus which neared completion during the summer of 2006.



**Comparison of Net Assets  
Fiscal Years 2006, 2005, and 2004**



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

Capital assets have shown growth over the past three years. Capital additions, net of retirements, were \$7.5 million in 2006. Capital additions are primarily comprised of the final construction of the Midwest Wireless Stadium Press Box, replacement and renovation of academic facilities and student residential halls, along with the new solarium addition to the Kryszko Commons Student Union. The University also invested in equipment and library materials.

Construction in progress at June 30, 2006, included renovation of Pasteur hall, predesign work on remodeling Maxwell hall which will house the Integrated Academic Services and the National Child Protection and Training Center, and smaller replacements projects within revenue fund buildings.

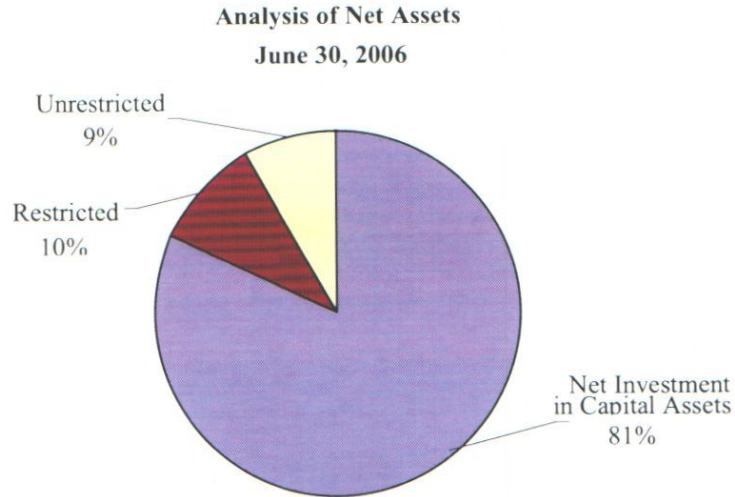
Invested in capital assets, net of related debt represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net assets primarily include donations received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

**Analysis of Net Assets  
Fiscal Years 2006, 2005, and 2004  
(In Thousands)**

	2006	2005	Increase (Decrease) 2006-2005	2004	Increase (Decrease) 2005-2004
Capital assets, net of related debt	\$ 88,233	\$ 80,671	\$ 7,562	\$ 80,696	\$ (25)
Restricted	11,004	10,742	262	6,761	3,981
Unrestricted	9,897	7,497	2,400	7,164	333
Total net assets	<u>\$ 109,134</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>	<u>\$ 94,621</u>	<u>\$ 4,289</u>

## 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.



As the graph illustrates, 81 percent of the University's net assets are related to the investment in capital assets. Unrestricted capital assets, as of June 30, 2006, total \$112.2 million, net of accumulated depreciation of \$59.3 million.

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

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

Revenues, Expenses and Changes in Net Assets  
Fiscal Years 2006, 2005 and 2004  
(In Thousands)

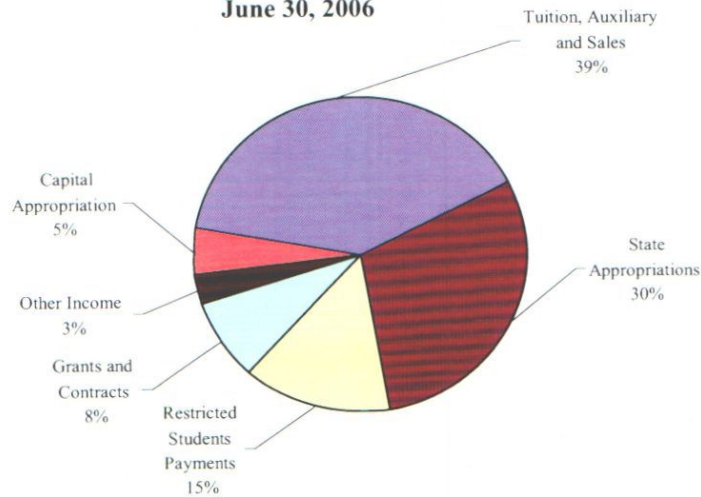
	2006	2005	Increase (Decrease) 2006-2005	2004	Increase (Decrease) 2005-2004
Operating revenue:					
Tuition, auxiliary and sales, net	\$ 44,142	\$ 40,457	\$ 3,685	\$ 35,514	\$ 4,943
Restricted student payments, net	16,139	14,984	1,155	13,179	1,805
Grants and contracts, net	9,213	9,587	(374)	10,017	(430)
Total operating revenue	<u>69,494</u>	<u>65,028</u>	<u>4,466</u>	<u>58,710</u>	<u>6,318</u>
Nonoperating revenue:					
State appropriations	32,809	29,839	2,970	30,079	(240)
Capital appropriations	5,112	1,707	3,405	7,694	(5,987)
Other	3,505	2,446	1,059	2,280	166
Total nonoperating revenue	<u>41,426</u>	<u>33,992</u>	<u>7,434</u>	<u>40,053</u>	<u>(6,061)</u>
Total revenue	<u>110,920</u>	<u>99,020</u>	<u>11,900</u>	<u>98,763</u>	<u>257</u>
Operating expense:					
Salaries and benefits	62,382	57,976	4,406	54,266	3,710
Supplies and services	30,134	28,808	1,326	26,715	2,093
Depreciation	5,952	5,678	274	5,050	628
Financial aid, net	572	508	64	454	54
Total operating expense	<u>99,040</u>	<u>92,970</u>	<u>6,070</u>	<u>86,485</u>	<u>6,485</u>
Nonoperating expense	<u>1,656</u>	<u>1,761</u>	<u>(105)</u>	<u>1,601</u>	<u>160</u>
Total expense	<u>100,696</u>	<u>94,731</u>	<u>5,965</u>	<u>88,086</u>	<u>6,645</u>
Increase in net assets	10,224	4,289	5,935	10,677	(6,388)
Net assets, beginning of year	98,910	94,621	4,289	83,944	10,677
Net assets, end of year	<u>\$ 109,134</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>	<u>\$ 94,621</u>	<u>\$ 4,289</u>

Operating revenue increased \$4.5 million, which reflects an increase in tuition, fees, and room and board.

Operating expenses as of June 30, 2006, increased by \$6.1 million over fiscal year 2005. Compensation related costs increased \$4.4 million due to salary increases in fiscal year 2006 and rising health care costs. Compensation and benefits continue to account for approximately 63 percent of the University's operating expenses. Supplies and services increased \$1.3 million due to increased construction and improvements to the fiscal plant on campus as well as inflationary increases. The remaining increase is comprised of depreciation and financial aid expense.

Nonoperating revenue increased \$7.4 million in fiscal year 2006. State appropriations increased \$3 million and capital appropriations also increased \$3.4 million due to receiving the general obligation bond proceeds for the renovation of Pasteur Hall. Nonoperating expenses decreased \$0.1 million due to the National Child Protection and Training Center, receiving funds from different sources, and allocating its expenses.

**Total Revenue  
June 30, 2006**



Tuition, auxiliary, sales and state appropriations remain the primary sources of funding for the University, comprising 69 percent of the total revenue

**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. After several years of decreasing state appropriations, the fiscal year 2006 system wide appropriation increased about 9 percent over fiscal year 2005 with the fiscal year 2007 appropriation approved at an amount only slightly higher than the fiscal year 2006 appropriation. However, the University will continue to face challenges in maintaining adequate state appropriation support in the years ahead. As the result of increased competition for the state's resources from other areas of government, the state of Minnesota has generally shifted dollars away from higher education, placing more of the burden for the cost of education onto the students.

**REQUESTS FOR INFORMATION**

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

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

**WINONA STATE UNIVERSITY  
STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2006 AND 2005  
(IN THOUSANDS)**

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 25,607	\$ 22,353
Investments	7,144	6,339
Grants receivable	145	152
Accounts receivable, net	2,863	1,808
Prepaid expense	1,602	1,589
Inventory	637	934
Student loans and other assets, net	368	607
Securities lending collateral	2,760	1,021
Total current assets	<u>41,126</u>	<u>34,803</u>
Current Restricted Assets		
Cash and cash equivalents	4,279	2,092
Total current restricted assets	<u>4,279</u>	<u>2,092</u>
Noncurrent Restricted Assets		
Other assets	14	15
Total noncurrent restricted assets	<u>14</u>	<u>15</u>
Total restricted assets	<u>4,293</u>	<u>2,107</u>
Noncurrent Assets		
Student loans and other assets, net	1,869	1,782
Capital assets, net	112,173	101,702
Total noncurrent assets	<u>114,042</u>	<u>103,484</u>
Total Assets	<u>159,461</u>	<u>140,394</u>
Liabilities		
Current Liabilities		
Salaries payable	6,504	5,684
Accounts payable	2,572	1,144
Unearned revenue	1,038	1,059
Payable from restricted assets	83	63
Funds held for others	376	373
Current portion of long-term debt	1,749	1,396
Compensated absences payable/Early termination/Workers' compensation	1,291	860
Advances to other schools	563	-
Securities lending collateral	2,760	1,021
Total current liabilities	<u>16,936</u>	<u>11,600</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	24,196	21,020
Compensated absences payable/Early termination/Workers' compensation	6,769	6,503
Capital contributions payable	2,426	2,361
Total noncurrent liabilities	<u>33,391</u>	<u>29,884</u>
Total Liabilities	<u>50,327</u>	<u>41,484</u>
Net Assets		
Invested in capital assets, net of related debt	88,233	80,671
Restricted expendable, bond covenants	5,148	5,167
Restricted expendable, other	5,856	5,575
Unrestricted	9,897	7,497
Total Net Assets	<u>\$ 109,134</u>	<u>\$ 98,910</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 AS OF JUNE 30, 2006 AND 2005  
 (IN THOUSANDS)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,675	\$ 1,866
Investments	12,129	9,937
Pledges and contributions receivable	913	1,123
Other receivables	33	160
Accrued investment/Interest income	22	16
Annuities/Remainder interests/Trusts	131	130
Total current assets	<u>14,903</u>	<u>13,232</u>
Noncurrent Assets		
Property and equipment	10,744	11,041
Other assets	133	764
Total noncurrent assets	<u>10,877</u>	<u>11,805</u>
Total Assets	<u>\$ 25,780</u>	<u>\$ 25,037</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 138	\$ 47
Interest payable	37	38
Notes payable	255	242
Total current liabilities	<u>430</u>	<u>327</u>
Noncurrent Liabilities		
Notes payable	8,924	9,179
Total noncurrent liabilities	<u>8,924</u>	<u>9,179</u>
Total Liabilities	<u>9,354</u>	<u>9,506</u>
Net Assets		
Unrestricted	833	739
Temporarily restricted	5,338	5,507
Permanently restricted	10,255	9,285
Total Net Assets	<u>16,426</u>	<u>15,531</u>
Total Liabilities and Net Assets	<u>\$ 25,780</u>	<u>\$ 25,037</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, 2006 AND 2005  
 (IN THOUSANDS)

	2006	2005
Operating Revenues		
Tuition, auxiliary, and sales, net	\$ 44,142	\$ 40,457
Restricted student payments, net	16,139	14,984
Federal grants	4,792	5,453
State grants	3,469	3,324
Other income	952	810
Total operating revenues	<u>69,494</u>	<u>65,028</u>
Operating Expenses		
Salaries	62,382	57,976
Purchased services	20,236	18,504
Supplies	4,446	4,721
Repairs and maintenance	1,490	1,920
Depreciation	5,952	5,678
Financial aid, net	572	508
Other expense	3,962	3,663
Total operating expenses	<u>99,040</u>	<u>92,970</u>
Operating loss	<u>(29,546)</u>	<u>(27,942)</u>
Nonoperating Revenues (Expenses)		
Appropriations	32,809	29,839
Private grants	1,355	1,474
Interest income	1,148	791
Interest expense	(1,196)	(1,145)
Grants to other organizations	(460)	(616)
Total nonoperating revenue (expenses)	<u>33,656</u>	<u>30,343</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	4,110	2,401
Capital appropriations	5,112	1,707
Donated assets and supplies	966	-
Gain on disposal of capital assets	36	181
Change in net assets	<u>10,224</u>	<u>4,289</u>
Total Net Assets, Beginning of Year	98,910	94,621
Total Net Assets, End of Year	<u>\$ 109,134</u>	<u>\$ 98,910</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION  
 STATEMENTS OF ACTIVITIES  
 FOR THE YEARS ENDED JUNE 30, 2006 AND 2005  
 (IN THOUSANDS)

	2006	2005
Revenues and Other Support		
Contributions	\$ 1,982	\$ 2,968
Investment income	974	689
Unrealized gains	1	6
Program income	193	269
Fundraising income	205	115
Other income	893	832
Total support and revenue	<u>4,248</u>	<u>4,879</u>
Expenses		
Program Services		
Program services	771	786
Scholarships	547	460
University activities	1,869	515
Special projects	43	47
Total program services	<u>3,230</u>	<u>1,808</u>
Supporting services		
Management and general	31	24
Fundraising expenses	92	35
Total supporting services	<u>123</u>	<u>59</u>
Total Expenses	<u>3,353</u>	<u>1,867</u>
Change in Net Assets	895	3,012
Net Assets, Beginning of Year	15,531	12,519
Net Assets, End of Year	<u>\$ 16,426</u>	<u>\$ 15,531</u>

The notes are an integral part of the financial statements.



**WINONA STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005  
(IN THOUSANDS)**

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 63,851	\$ 58,826
Cash repayment of program loans	512	5,528
Federal grants	4,803	505
State grants	3,469	3,324
Cash paid to suppliers for goods or services	(31,414)	(33,271)
Cash payments to employees	(60,863)	(56,935)
Financial aid disbursements	(517)	(472)
Cash payments of program loans	(459)	(584)
Net cash flows used in operating activities	<u>(20,618)</u>	<u>(23,079)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	32,809	29,839
Agency activity	-	1,474
Private grants	1,355	(210)
Loans to/from other schools	563	-
Grants to other organizations	(460)	(616)
Net cash flows from noncapital financing activities	<u>34,267</u>	<u>30,487</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(15,158)	(5,861)
Capital appropriation	4,548	1,707
Proceeds from sale of capital assets	78	213
Proceeds from borrowing	4,778	743
Proceeds from bond premium	196	101
Interest paid	(1,153)	(1,049)
Repayment of lease principal	(207)	(195)
Repayment of note principal	-	(32)
Repayment of bond principal	(1,218)	(1,181)
Net cash flows used in capital and related financing activities	<u>(8,136)</u>	<u>(5,554)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	206	561
Purchase of investments	422	(354)
Investment earnings	(700)	625
Net cash flows from investment activities	<u>(72)</u>	<u>832</u>
Net Increase in Cash and Cash Equivalents	5,441	2,686
Cash and Cash Equivalents, Beginning of Year	24,445	21,759
Cash and Cash Equivalents, End of Year	<u>\$ 29,886</u>	<u>\$ 24,445</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2006 AND 2005  
 (IN THOUSANDS)

	2006	2005
Operating Loss	<u>\$ (29,546)</u>	<u>\$ (27,942)</u>
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	5,952	5,678
Provision for loan defaults	(40)	14
Loan principal repayments	512	505
Loans issued	(459)	(584)
Loans forgiven	34	43
Donated supplies	966	-
Change in assets and liabilities		
Inventory	298	11
Accounts receivable	(131)	(358)
Grants receivable	7	75
Accounts payable	205	(1,777)
Salaries payable	821	618
Compensated absences payable/Early termination benefit	749	473
Workers' compensation	(52)	(48)
Capital contributions payable	65	36
Unearned revenues	(20)	190
Other	21	(13)
Net reconciling items to be added to operating loss	<u>8,928</u>	<u>4,863</u>
Net cash flows used in operating activities	<u>\$ (20,618)</u>	<u>\$ (23,079)</u>
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	\$ 1,250	\$ 26
Change in fair market value of investments	310	-
Investment earnings on account	549	-
Amortization of bond premium	55	-

**WINONA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2006 and 2005**

**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 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 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 capital project expenses.

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

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

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

*Investments* — The Minnesota State Board of Investment invests the University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is retained by the Office of the Chancellor and allocated to the colleges and universities as part of the appropriation allocation process. Information about the cash in the state treasury and invested by the State Board of Investment, including deposit and investment risk disclosures, can be obtained from the State of Minnesota Comprehensive Annual Financial Report, Minnesota Department of Finance, 400 Centennial Building, 658 Cedar Street, Saint Paul, MN 55155.

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 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 \$2,000 for items purchased prior to July 1, 2003, and over \$5,000 for items purchased since 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. It 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, early termination benefits, and capital contributions associated with Perkins Loan agreements with the U. S. Dept. 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, Wells Fargo Place, 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 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 \$2,770,992 and \$2,802,124 for fiscal years 2006 and 2005, 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 Student Payments* — Restricted student payments consist 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. It was determined that, in previous years, some net assets which were reported as "restricted, expendable" net assets were not restricted by outside parties or enabling legislation as defined in generally accepted accounting principles. Therefore, these amounts have been reclassified to unrestricted net assets. The reclassification had no effect on total net assets as 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.

Restricted for Other (In Thousands)		
	2006	2005
Donations	\$2,038	\$ 1,863
Loans	293	787
Capital projects	1,376	834
Debt service	1,602	1,589
Faculty contracts	547	502
Total	<u>\$5,856</u>	<u>\$ 5,575</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 Pronouncement — Effective July 1, 2005, Minnesota State Colleges and Universities adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Under this statement, the effects of capital asset impairments are reported in the financial statements when the impairment occurs. The implementation of GASB Statement No. 42 had no effect on net assets.

Effective July 1, 2005, Minnesota State Colleges and Universities adopted GASB Statement No. 47, *Accounting for Termination Benefits*. Under this statement a liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated. The implementation of GASB Statement No. 47 resulted in a liability increase of \$659,828.

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 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 10 percent greater than the amount on deposit.

Cash & Cash Equivalents at June 30  
(In Thousands)

Carrying Amount	2006	2005
Cash in bank	\$ 172	\$ (56)
Money markets	2,399	2,067
Change fund	22	22
Cash in treasury account	<u>27,293</u>	<u>22,412</u>
Total	<u>\$ 29,886</u>	<u>\$ 24,445</u>

At June 30, 2006 and 2005, the University's bank balances were \$2,692,785 and \$2,242,535 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.

*Investments* — The Minnesota State Board of Investment (SBI) manages the majority of the state's investments. All investments managed by SBI 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, SBI has established investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards. SBI has conducted detailed analyses of each of the funds under its control. These studies guide the ongoing management of the funds and are updated periodically.

The cash accounts are invested in short term, liquid, high quality debt securities.

*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:

Investment Type	Fair Value as of June 30 (In Thousands)			
	Investment Maturities (yrs)		Investment Maturities (yrs)	
	2006 Fair Value	2006 Weighted Maturities (yrs)	2005 Fair Values	2005 Weighted Maturities (yrs)
Corporate bonds	\$ 867	6.27	\$ 1,292	5.66
State investment pool cash equivalents	613	0.18	978	0.11
US agencies	699	20.86	656	21.04
US treasuries	955	5.40	76	8.31
Total	<u>3,134</u>		<u>3,002</u>	
Portfolio weighted average maturity		8.07		7.28
Mutual funds	1,045		807	
Corporate stock	2,937		2,512	
Real estate	28		18	
Total	<u>\$ 7,144</u>		<u>\$ 6,339</u>	

*Securities Lending Transactions* — State statutes do not prohibit the state of 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 fiscal years 2006 and 2005, State Street and Wells Fargo lent on behalf of the state of Minnesota certain securities held by State Street or 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 by Wells Fargo to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities plus accrued interest, and by State Street to deliver collateral for each loan in amounts equal to not less than 102 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years 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 years 2006 or 2005. In addition, there were no losses during the fiscal years resulting from default of the borrowers. The following tables provide information related to the securities invested by Wells Fargo and State Street.

Securities Lending Analysis, June 30, 2006  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$335,128	\$5,785,269
Collateral held	\$341,892	\$5,905,061
Average duration	87 days	50 days
Average weighted maturity	87 days	463 days

Securities Lending Analysis, June 30, 2005  
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	\$283,684	\$5,110,997
Collateral held	\$288,080	\$5,246,995
Average duration	29 days	37 days
Average weighted maturity	29 days	403 days



During fiscal years 2006 and 2005, 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, 2006 and 2005, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

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 \$2,759,749 and \$1,021,240 as of June 30, 2006 and 2005, 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, 2006 and 2005, the total loans receivable for this program were \$2,627,168 and \$2,714,496, respectively, less an allowance for uncollectible loans of \$458,006 and \$497,854, respectively.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students and a few businesses. At June 30, 2006 and 2005, total accounts receivable balances for the University were \$3,597,278 and \$2,512,951, respectively, less an allowance for uncollectible receivables of \$734,273 and \$705,251, respectively.

Summary of Accounts Receivable at June 30  
(In Thousands)

	2006	2005
Tuition	\$ 828	\$ 860
Sales and services	708	616
Third party obligations	26	28
Other	192	142
Interest	549	188
Fees	403	381
Federal and state grants	28	32
Capital projects	563	—
Room and board	300	266
Total accounts receivable	<u>3,597</u>	<u>2,513</u>
Less allowance for uncollectible accounts	<u>(734)</u>	<u>(705)</u>
Net accounts receivable	<u>\$ 2,863</u>	<u>\$ 1,808</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 of \$1,602,036 and \$1,589,275 for fiscal years 2006 and 2005, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. 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.

## 6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2006 and 2005 follow:

Year Ended June 30, 2006 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 7,329	\$ 42	\$ —	\$ —	\$ 7,371
Construction in progress	2,436	13,474	—	(5,966)	9,944
Total capital assets, not depreciated	<u>9,765</u>	<u>13,516</u>	<u>—</u>	<u>(5,966)</u>	<u>17,315</u>
Capital assets, depreciated:					
Buildings and improvements	124,259	965	—	5,966	131,190
Equipment	16,932	954	1,049	—	16,837
Library collections	5,877	1,029	774	—	6,132
Total capital assets depreciated	<u>147,068</u>	<u>2,948</u>	<u>1,823</u>	<u>5,966</u>	<u>154,159</u>
Less accumulated depreciation:					
Buildings and improvements	41,648	3,722	—	—	45,370
Equipment	10,315	1,354	1,007	—	10,662
Library collections	3,168	876	775	—	3,269
Total accumulated depreciation	<u>55,131</u>	<u>5,952</u>	<u>1,782</u>	<u>—</u>	<u>59,301</u>
Total capital assets depreciated, net	<u>91,937</u>	<u>(3,004)</u>	<u>41</u>	<u>5,966</u>	<u>94,858</u>
Total capital assets, net	<u>\$ 101,702</u>	<u>\$ 10,512</u>	<u>\$ 41</u>	<u>\$ —</u>	<u>\$ 112,173</u>

Year Ended June 30, 2005 (In Thousands)					
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 5,720	\$ 1,609	\$ —	\$ —	\$ 7,329
Construction in progress	3,775	1,975	—	(3,314)	2,436
Total capital assets, not depreciated	<u>9,495</u>	<u>3,584</u>	<u>—</u>	<u>(3,314)</u>	<u>9,765</u>
Capital assets, depreciated:					
Buildings and improvements	120,945	—	—	3,314	124,259
Equipment	16,451	1,005	524	—	16,932
Library collections	5,270	1,025	418	—	5,877
Total capital assets depreciated	<u>142,666</u>	<u>2,030</u>	<u>942</u>	<u>3,314</u>	<u>147,068</u>
Less accumulated depreciation:					
Buildings and improvements	38,169	3,479	—	—	41,648
Equipment	9,407	1,358	450	—	10,315
Library collections	2,747	841	420	—	3,168
Total accumulated depreciation	<u>50,323</u>	<u>5,678</u>	<u>870</u>	<u>—</u>	<u>55,131</u>
Total capital assets depreciated, net	<u>92,343</u>	<u>(3,648)</u>	<u>72</u>	<u>3,314</u>	<u>91,937</u>
Total capital assets, net	<u>\$ 101,838</u>	<u>\$ (64)</u>	<u>\$ 72</u>	<u>\$ —</u>	<u>\$ 101,702</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 2006 and 2005 follow:

Year Ended June 30, 2006 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 15,564	\$ 2,553	\$ 1,022	\$ 17,095	\$ 1,171
Compensated absences	7,104	2,310	2,221	7,193	848
Workers' compensation	259	—	52	207	62
Early termination benefits	—	660	—	660	381
Capital contributions	2,361	65	—	2,426	—
Capital leases	1,686	—	207	1,479	219
Revenue bonds payable	4,685	2,225	161	6,749	359
Bonds premium payable	481	196	55	622	—
Total	<u>\$ 32,140</u>	<u>\$ 8,009</u>	<u>\$ 3,718</u>	<u>\$ 36,431</u>	<u>\$ 3,040</u>

Year Ended June 30, 2005 (In Thousands)					
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 15,803	\$ 741	\$ 980	\$ 15,564	\$ 1,028
Compensated absences	6,631	1,496	1,023	7,104	782
Workers' compensation	307	38	86	259	78
Capital contributions	2,325	36	—	2,361	—
Capital leases	1,881	—	195	1,686	207
Notes payable	32	—	32	—	—
Revenue bonds payable	4,838	—	153	4,685	161
Bonds premium payable	421	101	41	481	—
Total	<u>\$ 32,238</u>	<u>\$ 2,412</u>	<u>\$ 2,510</u>	<u>\$ 32,140</u>	<u>\$ 2,256</u>

*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 1.5 to 6 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 \$150,000,000 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, food service and parking purposes at the state universities.

*Bond Premium* — In fiscal year 2006 and 2005, bonds were issued resulting in premiums of \$195,829 and \$101,121, respectively. Amortization is calculated using the straight line method and amortized over the average 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 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 \$207,366 and \$258,937 at June 30, 2006 and 2005, respectively, are 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 \$2,426,034 and \$2,361,433 at June 30, 2006 and 2005, 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 Statement No. 13. See Note 9 for details.

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

*Early Termination Benefits* — Early termination benefits are benefits received by faculty for discontinuing services earlier than planned. See Note 13 for details.

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, early termination benefits, or bonds premium payable.

Fiscal Years	General		Capital Leases		Revenue Bonds	
	Obligation Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2007	\$ 1,171	\$ 842	\$ 219	\$ 79	\$ 359	\$ 324
2008	1,135	784	233	66	368	309
2009	1,137	727	246	53	388	294
2010	1,140	670	261	38	407	276
2011	1,140	612	520	29	422	258
2012-2016	5,303	2,221	—	—	2,438	972
2017-2021	4,070	997	—	—	1,594	446
2022-2026	1,999	179	—	—	773	44
Total	<u>\$ 17,095</u>	<u>\$ 7,032</u>	<u>\$ 1,479</u>	<u>\$ 265</u>	<u>\$ 6,749</u>	<u>\$ 2,923</u>

## 8. 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)

	2006	2005
Capital projects	\$ 1,250	\$ 26
Repairs and maintenance	55	289
Purchased services	562	379
Capital expenditures	538	—
Other	71	295
Employee benefits	18	—
Grants to other organizations	7	—
Supplies	71	155
Total	<u>\$ 2,572</u>	<u>\$ 1,144</u>

9. LEASE AGREEMENTS

*Operating Leases* — The University is committed under various leases primarily for building space and laptops. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2006 and 2005, totaled approximately \$7,239,955 and \$6,755,454, respectively. Included is a lease with the Foundation for the East Lake Apartments. Future minimum lease payments for existing lease agreements are as follow:

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2007	\$ 3,827
2008	1,098
2009	693
2010	693
2011	693
2012-2016	3,465
2017-2021	3,465
2022-2026	3,465
2027-2031	866
Total	<u>\$ 18,265</u>

*Capital Leases* — Winona State University leased a generator with a final payment occurring in fiscal year 2012. The lease meets the criteria of a capital lease as defined by the Financial Accounting Standard's Board Statement 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 years ended June 30, 2006 and 2005, totaled \$22,044 and \$24,952 respectively, and is included in other income on the statements of revenues, expenses, and changes in net assets. Future expected income receipts for existing lease agreements are \$1,837 in fiscal year 2007.

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)		
	2006	2005
Tuition	\$ 37,193	\$ 34,727
Fees	11,240	10,524
Sales, net	4,111	3,561
Restricted student payments	16,245	15,027
Subtotal	68,789	63,839
Less scholarship allowance	(8,508)	(8,398)
Total	<u>\$ 60,281</u>	<u>\$ 55,441</u>

## 11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The following table provides information related to operating expenses by functional classification:

For the Year Ended June 30, 2006  
(In Thousands)

Description	Salaries	Other	Total
Instruction	\$ 32,435	\$ 1,703	\$ 34,138
Research	1,078	170	1,248
Public service	199	108	307
Academic support	6,596	3,540	10,136
Student services	6,685	2,818	9,503
Institutional support	6,475	3,065	9,540
Operation & maintenance of plant	2,996	3,466	6,462
Depreciation	—	5,952	5,952
Scholarships & fellowships	—	572	572
Auxiliary enterprises	5,918	15,264	21,182
Total operating expenses	<u>\$ 62,382</u>	<u>\$ 36,658</u>	<u>\$ 99,040</u>

For the Year Ended June 30, 2005  
(In Thousands)

Description	Salaries	Other	Total
Instruction	\$ 30,287	\$ 1,655	\$ 31,942
Research	1,149	195	1,344
Public service	195	123	318
Academic support	5,923	3,622	9,545
Student services	6,272	2,551	8,823
Institutional support	5,666	2,898	8,564
Operation & maintenance of plant	2,909	3,781	6,690
Depreciation	—	5,678	5,678
Scholarships & fellowships	—	508	508
Auxiliary enterprises	5,575	13,983	19,558
Total operating expenses	<u>\$ 57,976</u>	<u>\$ 34,994</u>	<u>\$ 92,970</u>

## 12. EMPLOYEE PENSION PLANS

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

### *State Employees Retirement Fund (SERF)*

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

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a

level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 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
2006	\$ 425
2005	445
2004	420

*Teachers Retirement Fund (TRF)*

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 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 Statutes, Chapter 354. The funding requirements are 5 percent for both employer and employee for coordinated members. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2006	\$ 415
2005	474
2004	490

*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. 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 (IRAP) —*

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 was 6 percent and the employee rate 4 percent prior to July 1, 2004. Effective July 1, 2004, the employee rate increased to 4.5 percent. 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
2006	\$ 1,080	\$ 810
2005	1,104	825
2004	1,037	766

*Supplemental Retirement Plan (SRP) —*

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 up to a defined maximum annual contribution as specified in the following table;

Member Group	Eligible Compensation	Maximum Annual Contributions
Inter Faculty Organization (IFO)	\$6,000 to \$51,000	\$2,250
Minnesota State University Association	\$6,000 to \$50,000	\$2,200
Administrative and Service Faculty (MSUAASF)	\$6,000 to \$52,000	\$2,300
Administrators	\$6,000 to \$52,000	\$2,300

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

(In Thousands)	
Fiscal Year	Amount
2006	\$ 693
2005	759
2004	760

### 13. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts: Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF); provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal year 2006. In accordance with GASB Statement No. 47, *Accounting for Termination Benefits*, prior fiscal years were not required to be restated.



*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 year 2006 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2006	14	\$633

*Minnesota State University Association of Administrative Service Faculty (MSUAASF) contract*

The MSUAASF contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for those faculty as of the end of fiscal year 2006 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2006	1	\$27

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 follows:

Institution deductible	\$500 to \$50,000
Fund responsibility	Deductible to \$2,000,000
Primary re insurer coverage	\$2,000,001 to \$12,000,000
Multiple re insurers' coverage	\$12,000,001 to \$1,000,000,000
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	\$5,000,000
Maintenance deductible for additional claims	\$25,000

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

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

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2006 and 2005.

Workers' Compensation Liability (In Thousands)				
	<u>Beginning Liability</u>	<u>Net Additions and Changes</u>	<u>Payments</u>	<u>Ending Liability</u>
Fiscal Year Ended 6/30/06	\$ 259	\$ —	\$ 52	\$ 207
Fiscal Year Ended 6/30/05	\$ 307	\$ 38	\$ 86	\$ 259

#### 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 a project in progress that has incurred costs of approximately \$9 million for the renovation of a current academic building that will be available for usage in the fall of 2006. Also, the University has incurred costs of \$280 thousand for the pre-design of renovating an existing building into an integrated student services building with construction to commence on February 1, 2007 and an estimated completion date of the spring of 2008.

#### 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)

	2006	2005
<b>CONDENSED STATEMENTS OF NET ASSETS</b>		
Assets		
Current assets	\$ 8,110	\$ 6,725
Restricted assets	4,293	1,737
Noncurrent assets	22,443	20,349
Total assets	34,846	28,811
Liabilities		
Current liabilities	2,784	1,479
Noncurrent liabilities	6,702	4,799
Total liabilities	9,486	6,278
Net Assets:		
Invested in capital assets, net of related debt	18,836	16,566
Restricted	6,524	5,967
Total net assets	\$ 25,360	\$ 22,533
 <b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$ 16,368	\$ 15,154
Operating expenses	(13,702)	(12,352)
Net operating income	2,666	2,802
Nonoperating revenues (expenses)	161	91
Change in net assets	2,827	2,893
Net assets, beginning of year as restated	22,533	19,640
Net asset, end of year	\$ 25,360	\$ 22,533
 <b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
Net cash provided (used) by:		
Operating activities	\$ 3,620	\$ 2,900
Investing activities	457	1,001
Capital and related financing activities	(1,310)	(1,408)
Net increase (decrease)	2,767	2,493
Cash, beginning of year	7,306	4,813
Cash, end of year	\$ 10,073	\$ 7,306

17. RELATED PARTY TRANSACTIONS

The University received \$3,229,946 and \$1,807,776 from its Foundation for scholarships and other University support in fiscal years 2006 and 2005, 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.

18. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (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 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 Board Statement No. 124, *Accounting for Certain Investments Held By Not-for-Profit Organizations*, in 1997. Under FASB 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	2006	2005
Equities (stocks)	\$ 2,272	\$2,038
Certificates of deposits	80	15
US Government securities	1,031	1,119
Mutual funds	8,435	6,282
Fixed income securities/Bonds	311	483
Total investments	<u>\$12,129</u>	<u>\$9,937</u>

*Capital Assets* — The Foundation has developed student housing to be used by the students of Winona State University. As of June 30, 2006 and 2005, the Foundation's investment in student housing consists of the following:

For the Year Ended June 30  
(In Thousands)

	2006	2005
Land and improvements	\$ 551,843	\$ 551,843
Building and improvements	10,745,361	10,745,361
Building equipment	280,573	280,573
Total	<u>11,577,777</u>	<u>11,577,777</u>
Accumulated depreciation	<u>(833,750)</u>	<u>(537,059)</u>
Student Housing, net	<u>\$ 10,744,027</u>	<u>\$ 11,040,718</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 \$9,179,382. Future scheduled debt payments table follows:

Year Ended June 30	
(In Thousands)	
2007	\$ 255
2008	268
2009	281
2010	295
2011	310
Thereafter	<u>7,770</u>
Total	<u>\$ 9,179</u>

**SUPPLEMENTAL SECTION**

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

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

We have audited the financial statements of Winona State University as of and for the year ended June 30, 2006, and have issued our report thereon dated September 27, 2006. We did not audit the financial statements of Winona State University Foundation, Inc., a discretely presented component unit of Winona State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based 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. The financial statements of Winona State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

*Larson, Allen, Weishair & Co., LLP*

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
September 27, 2006