WINONA STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2008 and 2007

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, 2008 and 2007

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INTRODUCTION

WINONA
STATE UNIVERSITY

October 20, 2008

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

Dear Trustees and Chancellor McCormick:

We are pleased to submit the Fiscal Year 2008 financial report of Winona State University. The accompanying statements show the financial position and results of operations ending on June 30, 2008.

Our sesquicentennial year was one of progress and achievement for the students, faculty, and staff who make up our community as well as a time of celebration for our alumni and friends.

The university saw record enrollment this fall with a total student headcount of 8,450, more than two percent higher than last year. Most notably, the first-year retention rate for the fall 2007 new entering class rose to 74 percent, up from last year's 72 percent. Four-year graduation rates showed a 1.5 percent increase.

Our students remain committed to making Winona State a community of learners improving our world. Through information submitted to the President's Higher Education Community Service Honor Roll, we learned that 4,300 of our students were involved in community service and volunteer projects in 2007. Together, they performed more than 135,000 hours of community service, on projects such as Southeast Minnesota Flood Recovery, the WSU Amistad Project to mentor Latino students in a neighboring town, and many others. Our students' engagement with the community and belief that they can make the world a better place is truly remarkable.

Winona State continues to be recognized for quality and value in higher education. *U.S. News & World Report* and The Princeton Review ranked the university among its "America's Best Colleges" and "Best in the Midwest," respectively. And for the thirteenth straight year, Winona State was named one of "America's Best College Buys."

The university's 150th year is significant and we have chosen the occasion of passing this milestone to embark on a new era. Winona State launched the public phase of its first comprehensive capital campaign this fall, which we are calling *Light the Way.* Three major

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initiatives make up the campaign: ensuring student access and continued success by increasing scholarship funding; advancing health and well-being for all members of our community by building the new Integrated Wellness Complex; and making a difference in the lives of abused and neglected children by securing the National Child Protection Training Center, which has been located on the WSU campus since 2003.

We are confident that the Light the Way leadership campaign will position the university to take a greater role in solving the world's complex challenges, and educate leaders who will make a real difference.

As we recognize our successes, Winona State reaffirms its commitment to look forward, while remaining efficient in its processes, prudent in its management, and innovative in its development of new programs and partnerships.

Winona State is a proud member of the Minnesota State Colleges and Universities. Thank you for the trust you have placed in our university as good stewards of the public's resources.

Sincerely,

Judith Ramaley

Dr. Judith A. Ramaley
President, Winona State University

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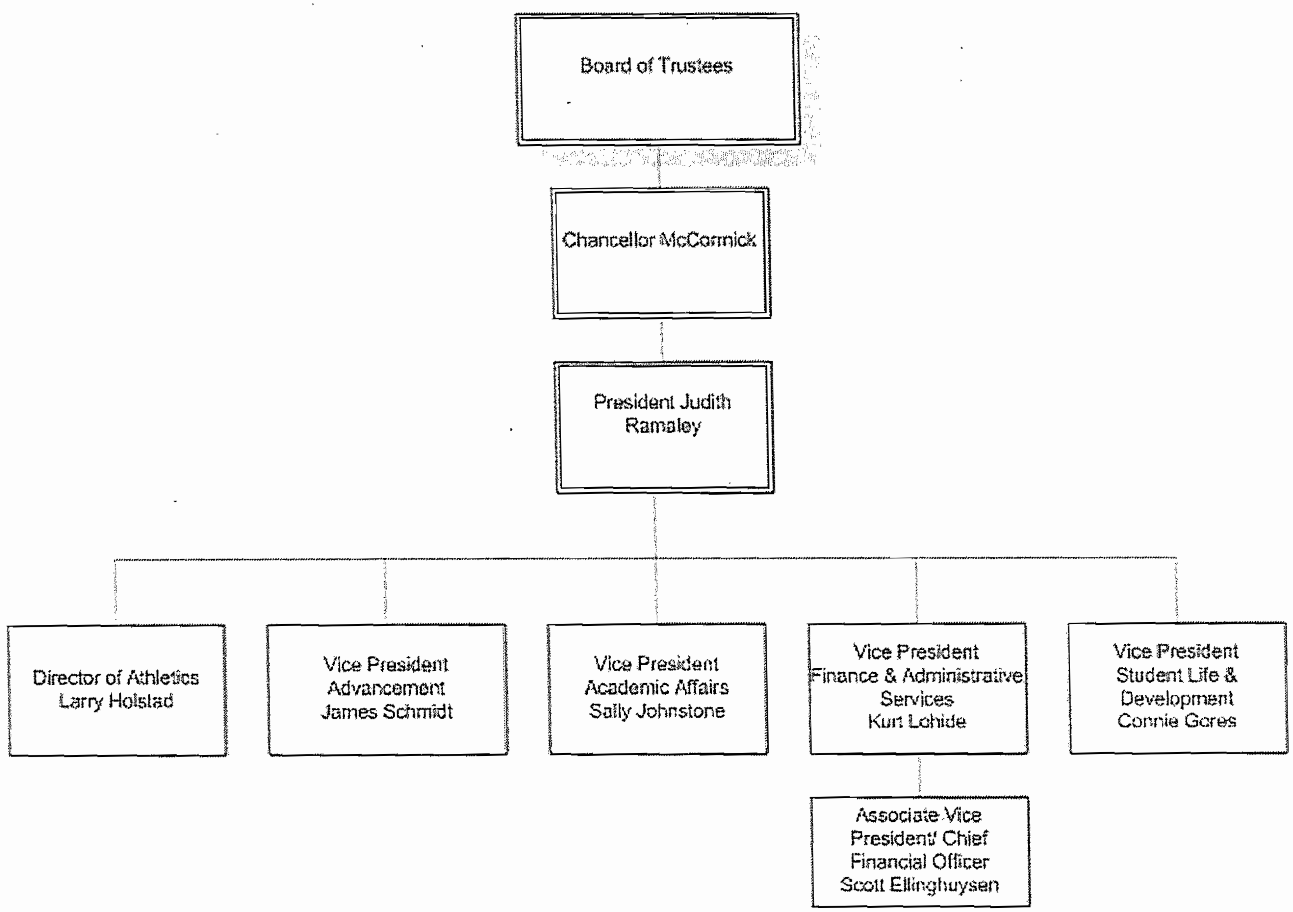
Board of Trustees

Winona State University
October 3, 2008



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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KDV

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INDEPENDENT AUDITOR'S REPORT

October 20, 2008

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

We have audited the accompanying financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Winona State University Foundation, a component unit of the University, which statements reflect total assets of $ 30,908,000 at June 30, 2008, and total revenues of $ 4,625,000, for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Winona State University Foundation, is based solely on the report of the other auditors. The financial statements of Winona State University as of and for the year ended June 30, 2007, were audited by other auditors whose report dated November 2, 2007, expressed and unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Winona State University Foundation were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Winona State University, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, Winona State University has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* as of July 1, 2007.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental 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 financial statements of the University. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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, 2008, 2007 and 2006, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes following this section.

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

The University is a comprehensive public higher education institution with approximately 8,300 students. Approximately 1,000 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 10 pre-professional programs.

FINANCIAL HIGHLIGHTS

The University's financial position remained sound at June 30, 2008, with assets of $226 million and liabilities of $95.3 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 $103.3 million, restricted assets of $16.4 million and unrestricted assets of $10.9 million. Total net assets increased 8.1 percent over fiscal year 2007. The increase in net assets is primarily attributable to continued investment in capital assets, net of related debt, an investment made possible by state appropriation support as well as by increased enrollment and tuition revenue.

Operating revenue increased $3.1 million from fiscal year 2007 to fiscal year 2008. This is on top of a $5.9 million increase from fiscal year 2006 to fiscal year 2007. The two year total increase of $9.0 million is due primarily to a 13 percent tuition increase over the period as well as a strong enrollment.

Nonoperating and other revenue, excluding capital appropriation revenue, increased $1.3 million from fiscal year 2007 to fiscal year 2008. The primary reason for this increase is due to an increase in state appropriation of $2.5 million.

Total expenses increased $9.4 million from fiscal year 2007 to fiscal year 2008. This growth in expenditures is due to an increase in salaries and benefits along with investments in renovations of the University's facilities as well as normal inflationary increases. Total net assets increased $9.8 million for fiscal year 2008.

USING THE FINANCIAL STATEMENTS

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

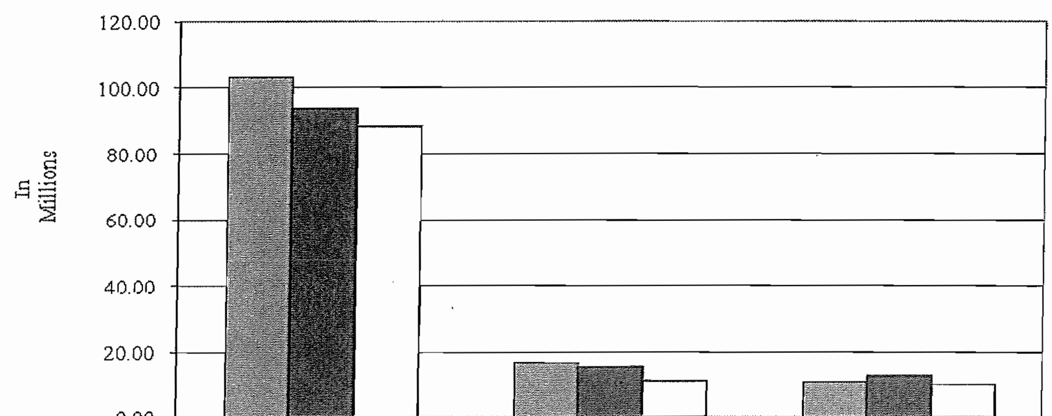
STATEMENTS OF NET ASSETS

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

Net Assets for Fiscal Years 2008, 2007 and 2006
(In Thousands)

	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Current assets	$ 49,441	$ 51,804	$ (2,363)	$ 41,126	$ 10,678
Restricted assets	43,966	5,194	38,772	4,293	901
Noncurrent assets	1,725	1,702	23	1,869	(167)
Capital assets, net	130,873	116,828	14,045	112,173	4,655
Total assets	226,005	175,528	50,477	159,461	16,067
Current liabilities	20,151	21,336	(1,185)	16,936	4,400
Noncurrent liabilities	75,184	33,336	41,848	33,391	(55)
Total liabilities	95,335	54,672	40,663	50,327	4,345
Total net assets	$ 130,670	$ 120,856	$ 9,814	$ 109,134	$ 11,722

Comparison of Net Assets
Fiscal Years 2008, 2007 and 2006



	Net Investment in Capital Assets	Restricted	Unrestricted
FY2008	103.34	16.42	10.91
FY2007	93.42	14.91	12.53
FY2006	88.23	11.00	9.90

Restricted assets increased by $38.8 million due to revenue fund bond proceeds that were not fully expended in fiscal year 2008 and from receiving interest on those unspent revenue bond proceeds. Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled $43 million as of June 30, 2008. This is an increase of $1.9 million over fiscal year 2007 and represents 4.8 months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.4 times, an indicator of good liquidity.

Capital assets, net, increased by $14 million primarily due to the renovation of Maxwell Hall, a site for the Integrated Academic Services and the National Child Protection and Training Center, and renovating portions of Memorial Hall. Winona State purchased two building during the fiscal year: Maria Hall which is a residence hall and Wabasha Hall which currently houses the University's wellness center, student health services, child care facilities as well as classroom space.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $7.1 million at June 30, 2008. Accounts payable increased $1.5 million as the result of on-going construction projects on campus in residence halls and academic facilities which neared completion during the summer of 2008.

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

Capital assets have shown growth over the past three years. Capital additions, net of retirements, were $19.8 million in 2008. Capital additions primarily comprise of the near completion of Maxwell Hall and the renovation of other academic facilities and student residence halls along with the purchase of Wabasha Hall and Maria Hall. The University has also invested in equipment and library materials.

Construction in progress at June 30, 2008, included renovation of Maxwell Hall and Memorial Hall and renovation projects within revenue fund buildings along with the design work for the Integrated Wellness Center and a new 400 bed residence hall.

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.

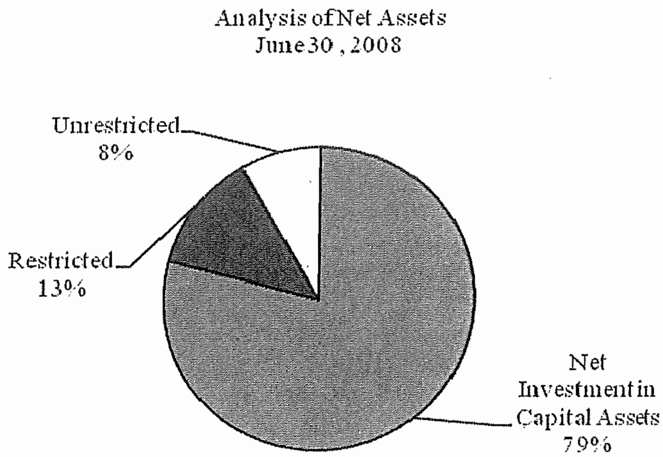
Analysis of Net Assets for Fiscal Years 2008, 2007, and 2006
(In Thousands)

	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Capital assets, net of related debt	103,338	93,419	9,919	88,233	5,186
Restricted	16,424	14,907	1,517	11,004	3,903
Unrestricted	10,908	12,530	(1,622)	9,897	2,633
Total net assets	$ 130,670	$ 120,856	$ 9,814	$ 109,134	$ 11,722

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, 79 percent of the University's net assets are related to the investment in capital assets. Unrestricted capital assets, as of June 30, 2008, total $131.5 million, net of accumulated depreciation of $69.1 million.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

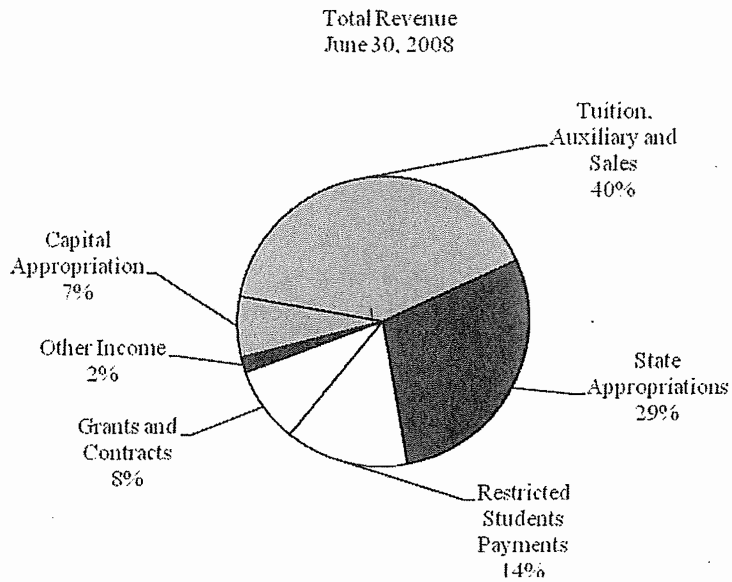
The statements of revenues, expenses and changes in net assets present the University's results of operations for the year. When reviewing the full statement, please note that Governmental Accounting Standards Board requires classification of state appropriations as nonoperating revenue.

Revenues, Expenses and Changes in Net Assets for Fiscal Years 2008, 2007 and 2006
(In Thousands)

	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Operating revenue:					
Tuition, auxiliary and sales, net	$ 50,642	$ 47,881	$ 2,761	$ 44,142	$ 3,739
Restricted student payments, net	17,211	16,718	493	16,139	579
Grants and contracts, net	10,636	10,795	(159)	9,213	1,582
Total operating revenue	78,489	75,394	3,095	69,494	5,900
Non-operating revenue:					
State appropriations	36,513	34,017	2,496	32,809	1,208
Capital appropriations	8,509	5,453	3,056	5,112	341
Other	2,258	3,436	(1,178)	3,505	(69)
Total nonoperating revenue	47,280	42,906	4,374	41,426	1,480
Total revenue	125,769	118,300	7,469	110,920	7,380
Operating expense:					
Salaries and benefits	69,714	64,111	5,603	62,382	1,729
Supplies and services	36,948	33,834	3,114	30,134	3,700
Depreciation	6,822	6,377	445	5,952	425
Financial aid, net	890	684	206	572	112
Total operating expense	114,374	105,006	9,368	99,040	5,966
Nonoperating expense	1,581	1,572	9	1,656	(84)
Total expense	115,955	106,578	9,377	100,696	5,882
Increase in net assets	9,814	11,722	(1,908)	10,224	1,498
Net assets, beginning of year	120,856	109,134	11,722	98,910	10,224
Net assets, end of year	$ 130,670	$ 120,856	$ 9,814	$ 109,134	$ 11,722

Operating revenue increased $3.1 million which reflects an increase in tuition and fees and room and board.

Operating expenses as of June 30, 2008 increased by $9.4 million over fiscal year 2007. Compensation related costs increased $5.6 million due to salary increases in fiscal year 2008 and rising health care costs. Compensation and benefits continue to account for approximately 60 percent of the University's operating expenses. Supplies and services increased $3.1 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.



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 well positioned to continue its strong financial condition. The State of Minnesota's economic condition had improved in fiscal year 2008, which allowed the State Legislature to increase their investment in higher education. However, this situation has changed rapidly and must be monitored as the competition for the state's resources from other areas of government, will continue to impact the University and potentially shift 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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 35,706	$ 31,973
Investments	7,317	9,164
Grants receivable	141	190
Accounts receivable, net	1,904	2,859
Prepaid expense	1,789	1,942
Inventory	818	777
Student loans and other assets, net	889	522
Securities lending collateral	877	4,377
Total current assets	49,441	51,804
Current Restricted Assets		
Cash and cash equivalents	43,370	5,181
Total current restricted assets	43,370	5,181
Noncurrent Restricted Assets		
Other assets	12	13
Construction in progress	584	-
Total noncurrent restricted assets	596	13
Total restricted assets	43,966	5,194
Noncurrent Assets		
Student loans and other assets, net	1,725	1,702
Capital assets, net	130,873	116,828
Total noncurrent assets	132,598	118,530
Total Assets	226,005	175,528
Liabilities		
Current Liabilities		
Salaries payable	7,140	6,466
Accounts payable	5,841	4,381
Unearned revenue	1,831	2,418
Interest payable	359	79
Funds held for others	744	397
Current portion of long-term debt	1,940	1,824
Other compensation benefits	1,419	1,394
Securities lending collateral	877	4,377
Total current liabilities	20,151	21,336
Noncurrent Liabilities		
Noncurrent portion of long-term debt	65,363	24,283
Other compensation benefits	7,365	6,720
Capital contributions payable	2,456	2,333
Total noncurrent liabilities	75,184	33,336
Total Liabilities	95,335	54,672
Net Assets		
Invested in capital assets, net of related debt	103,338	93,419
Restricted expendable, bond covenants	8,890	8,265
Restricted expendable, other	7,534	6,642
Unrestricted	10,908	12,530
Total Net Assets	$ 130,670	$ 120,856

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 2,663	$ 636
Investments	15,484	16,097
Pledges and contributions receivable	512	407
Other receivables	289	173
Accrued investment/Interest income	24	28
Annuities/Remainder interests/Trusts	128	143
Total current assets	19,100	17,484
Noncurrent Assets		
Long-term pledges receivable	1,290	780
Buildings, property, and equipment, net	10,151	10,447
Other assets	366	217
Total noncurrent assets	11,807	11,444
Total Assets	$ 30,907	$ 28,928
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 64	$ 102
Interest payable	35	36
Annuities payable	60	-
Notes payable	279	266
Total current liabilities	438	404
Noncurrent Liabilities		
Notes payable	8,381	8,660
Total noncurrent liabilities	8,381	8,660
Total Liabilities	8,819	9,064
Net Assets		
Unrestricted	788	951
Temporarily restricted	9,122	8,178
Permanently restricted	12,178	10,735
Total Net Assets	22,088	19,864
Total Liabilities and Net Assets	$ 30,907	$ 28,928

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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Revenues		
Tuition, auxiliary, and sales, net	$ 50,642	$ 47,881
Restricted student payments, net	17,211	16,718
Federal grants	5,508	5,147
State grants	4,016	4,191
Other income	1,112	1,457
Total operating revenues	78,489	75,394
Operating Expenses		
Salaries	69,714	64,111
Purchased services	24,787	22,783
Supplies	4,976	4,460
Repairs and maintenance	1,472	1,722
Depreciation	6,822	6,377
Financial aid, net	890	684
Other expense	5,713	4,869
Total operating expenses	114,374	105,006
Operating loss	(35,885)	(29,612)
Nonoperating Revenues (Expenses)		
Appropriations	36,513	34,017
Private grants	1,894	1,523
Interest income	333	1,913
Interest expense	(1,476)	(1,200)
Grants to other organizations	(86)	(316)
Total nonoperating revenue (expenses)	37,178	35,937
Income Before Other Revenues, Expenses, Gains, or Losses	1,293	6,325
Capital appropriations	8,509	5,453
Donated assets and supplies	31	-
Loss on disposal of capital assets	(19)	(56)
Change in net assets	9,814	11,722
Total Net Assets, Beginning of Year	120,856	109,134
Total Net Assets, End of Year	$ 130,670	$ 120,856

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Support and Revenue		
Contributions	$ 3,764	$ 2,325
Investment income	1,045	737
Realized gains and losses	87	421
Unrealized gains	(1,947)	1,179
Program income	1,418	1,174
Fundraising income	258	171
Total support and revenue	4,625	6,007
Expenses		
Program Services		
Program services	738	763
Scholarships	765	599
University activities	635	1,077
Special projects	56	39
Total program services	2,194	2,478
Supporting services		
Management and general	25	32
Fundraising expenses	182	59
Total supporting services	207	91
Total Expenses	2,401	2,569
Change in Net Assets	2,224	3,438
Net Assets, Beginning of Year	19,864	16,426
Net Assets, End of Year	$ 22,088	$ 19,864

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 71,356	$ 70,765
Cash repayment of program loans	350	523
Federal grants	5,281	5,117
State grants	4,016	4,191
Cash paid to suppliers for goods or services	(38,574)	(35,369)
Cash payments to employees	(68,369)	(64,096)
Financial aid disbursements	(767)	(775)
Cash payments of program loans	(477)	(442)
Net cash flows used in operating activities	(27,184)	(20,086)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	36,513	34,017
Agency activity	346	254
Private grants	1,894	1,523
Loans to/from other schools	-	(563)
Grants to other organizations	(86)	(316)
Net cash flows from noncapital financing activities	38,667	34,915
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(21,613)	(11,203)
Capital appropriation	9,490	5,035
Proceeds from sale of capital assets	(3)	50
Proceeds from borrowing	42,987	1,704
Proceeds from bond premium	130	242
Interest paid	(1,037)	(1,317)
Repayment of lease principal	(234)	(219)
Repayment of bond principal	(1,607)	(1,715)
Net cash flows used in capital and related financing activities	28,113	(7,423)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,504	-
Purchase of investments	(301)	(1,154)
Investment earnings	1,123	1,016
Net cash flows from investment activities	2,326	(138)
Net Increase in Cash and Cash Equivalents	41,922	7,268
Cash and Cash Equivalents, Beginning of Year	37,154	29,886
Cash and Cash Equivalents, End of Year	$ 79,076	$ 37,154

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Loss	$ (35,885)	$ (29,612)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	6,822	6,377
Provision for loan defaults	(33)	71
Loan principal repayments	350	523
Loans issued	(477)	(442)
Loans forgiven	37	15
Donated supplies	31	-
Change in assets and liabilities		
Inventory	(41)	(140)
Accounts receivable	(488)	364
Grants receivable	48	(45)
Accounts payable	1,590	1,215
Salaries payable	673	(38)
Other compensation benefits	671	54
Capital contributions payable	123	(93)
Unearned revenues	(587)	1,380
Other	(18)	285
Net reconciling items to be added to operating loss	8,701	9,526
Net cash flows used in operating activities	$ (27,184)	$ (20,086)
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	$ 1,480	$ 1,610
Change in fair market value of investments	(644)	866
Investment earnings on account	272	505
Amortization of bond premium	86	75
Loss on retirement of capital assets	(19)	(56)

WINONA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

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 19. Complete financial statements may be obtained from the Winona State University Foundation, Eighth & Johnson Streets, P.O. Box 5838, Winona, MN 55987-5838.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. The accompanying financial statements have been prepared as a special purpose government entity engaged in business type activities. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Eliminations have been made to minimize double-counting of internal activities. Interfund receivables and payables have been eliminated in the statements of net assets.

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

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

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

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

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

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

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

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

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

Investments — The Minnesota State Board of Investment invests the University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is 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 and U.S. Bank, N.A. for investment management services. Investments are reported at fair value. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

Receivables — Receivables are shown net of an allowance for uncollectible accounts.

Inventories — Inventories are valued at cost using the first-in, first-out and retail cost methods.

Prepaid Expense — Prepaid expense consists of deposits in the state of Minnesota Debt Service Fund for future general obligation bond payments.

Capital Assets — Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. Estimated historical cost has been used when actual cost is not available. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets. Estimated useful lives are as follows:

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

Equipment includes all items with an original cost of $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 and funds held for students for their Campus Card.

Long-Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities facilities as approved through the state's capital budget process. The University is responsible for a portion of the debt service on the bonds sold for some University projects. It may also enter into capital lease agreements for certain capital assets.

Other long-term liabilities include notes payable, capital leases, compensated absences, other postemployment benefits, 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 7th St. E., Suite 350, St. Paul, MN 55101-7804.

Unearned Revenue — Unearned revenue consists primarily of tuition received but not yet earned for summer and fall session. It also includes amounts received from grants which have not yet been earned under the terms of the agreement.

Operating Activities — Operating activities as reported in the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, 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 $3,190,985 and $2,980,311 for fiscal years 2008 and 2007, 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.

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)

	2008	2007
Donations	$2,107	$ 2,446
Loans	297	282
Capital projects	2,711	1,372
Debt service	1,789	1,942
Faculty contracts	630	600
Total	$7,534	$ 6,642

- *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 — Minnesota State College and Universities has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) as of July 1, 2007. As required by the provisions of GASB 45, the University has reported a net OPEB of $206,000.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2009. The effect GASB Statement No. 49 will have on the fiscal year 2009 basic financial statements has not yet been determined.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2010. The effect GASB Statement No. 51 will have on the fiscal year 2010 basic financial statements has not yet been determined.

In November 2007, the GASB issued Statement No. 52 *Land & Other Real Estate Held as Investments by Endowments*. This statement requires that land & real estate held in endowments be recorded at fair market value. GASB Statement No. 52 is effective for Minnesota Colleges and Universities for fiscal year 2009. The effect this statement will have on fiscal year 2009 basic financial statements has not been determined.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition, and most fees are in the state treasury. In addition, the University has one checking and two savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, auxiliary, and student activities.

Minnesota Statutes, Section 118A.03, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least ten percent greater than the amount on deposit.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2008	2007
Cash in bank	$ 287	$ (56)
Money markets	982	1,972
Change fund	13	22
Cash in treasury account	77,794	35,216
Total	$ 79,076	$ 37,154

At June 30, 2008 and 2007, the University's bank balances were $1,466,281 and $2,258,357 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 guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

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:

Fair Value as of June 30
(In Thousands)

Investment Type	2008 Fair Values	2008 Weighted Maturity (Investment Maturity(yrs))	2007 Fair Values	2007 Weighted Maturity (Investment Maturity(yrs))
Corporate/municipal bonds	$ 990	4.59	$ 962	5.16
State investment pool cash equivalents	460	0.14	831	0.20
US agencies	1,549	21.59	1,119	22.11
US treasuries	224	4.9	1,124	4.40
Asset backed	1	25.25	1	26.25
Total	3,224		4,037	
Portfolio weighted average maturity		12.15		8.63
Certificate of deposit	—		504	
Mutual stock funds	1,229		1,340	
Corporate stock	2,831		3,248	
Real estate	33		35	
Total	$ 7,317		$ 9,164	

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

During fiscal years 2008 and 2007, 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 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 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 2008 or 2007. 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, 2008
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$101,584	$6,551,076
Collateral held	$102,968	$6,775,914
Average duration	113 days	N/A
Average weighted maturity	114 days	393 days

Securities Lending Analysis, June 30, 2007
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$534,886	$9,225,511
Collateral held	$545,458	$9,567,384
Average duration	80 days	N/A
Average weighted maturity	80 days	430 days

During fiscal years 2008 and 2007, 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, 2008 and 2007, 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 $876,832 and $4,376,567 as of June 30, 2008 and 2007, 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, 2008 and 2007, the total loans receivable for this program were $2,621,093 and $2,531,021, respectively, less an allowance for uncollectible loans of $495,935 and $529,374, respectively.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and Federal and State grant receivables. At June 30, 2008 and 2007, total accounts receivable balances for the University were $2,789,056 and $3,771,150, respectively, less an allowance for uncollectible receivables of $884,859 and $912,376, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2008	2007
Tuition	$ 706	$ 702
Sales and services	1,038	780
Third party obligations	-	10
Interest	29	491
Fees	352	390
Federal and state grants	286	12
Capital projects	-	981
Room and board	276	291
Other	102	114
Total accounts receivable	2,789	3,771
Less allowance for uncollectible accounts	(885)	(912)
Net accounts receivable	$ 1,904	$ 2,859

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 $1,789,235 and $1,942,065 for fiscal years 2008 and 2007, 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 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 2008 and 2007 follow:

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 8,063	$ 1,204	$ —	$ —	$ 9,267
Construction in progress	5,618	16,813	34	(8,118)	14,279
Total capital assets, not depreciated	13,681	18,017	34	(8,118)	23,546
Capital assets, depreciated:					
Buildings and improvements	144,574	1,500	—	8,118	154,192
Equipment & Intern Dev Soft	15,919	957	802	—	16,074
Library collections	6,560	1,043	897	—	6,706
Total capital assets depreciated	167,053	3,500	1,699	8,118	176,972
Less accumulated depreciation:					
Buildings and improvements	49,549	4,683	—	—	54,232
Equipment	10,724	1,181	770	—	11,135
Library collections	3,633	958	897	—	3,694
Total accumulated depreciation	63,906	6,822	1,667	—	69,061
Total capital assets depreciated, net	103,147	(3,322)	32	8,118	107,911
Total capital assets, net	$ 116,828	$ 14,695	$ 66	$ —	$ 131,457

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 7,371	$ 692	$ —	$ —	$ 8,063
Construction in progress	9,944	9,058	—	(13,384)	5,618
Total capital assets, not depreciated	17,315	9,750	—	(13,384)	13,681
Capital assets, depreciated:					
Buildings and improvements	131,190	—	—	13,384	144,574
Equipment	16,837	812	1,730	—	15,919
Library collections	6,132	1,001	573	—	6,560
Total capital assets depreciated	154,159	1,813	2,303	13,384	167,053
Less accumulated depreciation:					
Buildings and improvements	45,370	4,179	—	—	49,549
Equipment	10,662	1,266	1,204	—	10,724
Library collections	3,269	937	573	—	3,633
Total accumulated depreciation	59,301	6,382	1,777	—	63,906
Total capital assets depreciated, net	94,858	(4,569)	526	13,384	103,147
Total capital assets, net	$ 112,173	$ 5,181	$ 526	$ —	$ 116,828

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 2008 and 2007 follow:

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 789	$ 130	$ 86	$ 833	$ —
Capital Leases	1,260	—	234	1,026	246
General obligation bonds	17,668	3,102	1,233	19,537	1,306
Revenue bonds	6,390	39,885	368	45,907	388
Total long term debt	$ 26,107	$ 43,117	$ 1,921	$ 67,303	$ 1,940

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 7,435	$ 1,491	$ 967	$ 7,959	$ 1,002
Early termination benefits	465	363	344	484	369
Other postemployment benefits	—	491	285	206	—
Workers' compensation	214	—	79	135	48
Total other compensation benefits	$ 8,114	$ 2,345	$ 1,675	$ 8,784	$ 1,419

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 622	$ 242	$ 75	$ 789	$ —
Capital Leases	1,479	—	219	1,260	233
General obligation bonds	17,095	1,704	1,131	17,668	1,223
Revenue bonds	6,749	—	359	6,390	368
Total long term debt	$ 25,945	$ 1,946	$ 1,784	$ 26,107	$ 1,824

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 7,193	$ 2,548	$ 2,306	$ 7,435	$ 986
Early termination benefits	660	186	381	465	344
Workers' compensation	207	82	75	214	64
Total other compensation benefits	$ 8,060	$ 2,816	$ 2,762	$ 8,114	$ 1,394

Bond Premium — In fiscal year 2008 and 2007, bonds were issued resulting in premiums of $130,123 and $242,464, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

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

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 percent 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 $200,000,000 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. Revenue bonds currently outstanding have interest rates of 3.38 percent to 6.5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 17.46 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $70,060,700. Principal and interest paid for the current year and total customer net revenues were $677,255 and $17,556,000, respectively.

Compensated Absences — University employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated only at the time of termination from state employment.

Early Termination Benefits — Early termination benefits are benefits received by faculty for discontinuing services earlier than planned. See Note 14 for details.

Other Postemployment Benefit — Other postemployment benefits are health insurance benefits for certain retired employees under a single-employer fully-insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 13 for further details.

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 $134,580 and $213,733 at June 30, 2008 and 2007, respectively, are based on claims filed for injuries to state employees occurring prior to the fiscal year end. It is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $2,456,159 and $2,332,977 at June 30, 2008 and 2007, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $123,182 and $93,057 for the fiscal years 2008 and 2007, respectively.

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

Fiscal Years	General Obligation Bonds		Capital Leases		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 1,306	$ 879	$ 246	$ 53	$ 388	$ 1,713
2010	1,384	827	261	38	1,792	1,957
2011	1,384	760	276	23	1,837	1,891
2012	1,387	694	243	6	1,908	1,823
2013	1,347	629	—	—	1,970	1,749
2014-2018	6,125	2,224	—	—	10,465	7,469
2019-2023	4,752	915	—	—	11,922	5,129
2024-2028	1,787	129	—	—	12,695	2,349
2029-2033	65	—	—	—	2,930	73
Total	$ 19,537	$ 7,057	$ 1,026	$ 120	$ 45,907	$ 24,153

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)

	2008	2007
Capital projects	$ 1,480	$ 1,610
Repairs and maintenance	807	401
Purchased services	2,153	1,503
Capital expenditures	84	157
Employee benefits	110	11
Grants to other organizations	31	29
Supplies	392	148
Other	784	522
Total	$ 5,841	$ 4,381

9. LEASE AGREEMENTS

Capital Leases — Winona State University leased a generator with 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.

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, 2008 and 2007, totaled approximately $8,058,240 and $8,071,973, 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
2009	$ 7,673
2010	5,214
2011	1,441
2012	777
2013	693
2014-2018	3,465
2019-2023	3,465
2024-2028	2,945
Total	$ 25,673

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2008 and 2007, totaled $40,192 and $52,965, 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 $38,140 in fiscal year 2009.

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)		
	2008	2007
Tuition	$ 44,316	$ 41,537
Fees	11,747	11,410
Sales, net	5,026	4,415
Restricted student payments	17,361	16,873
Subtotal	78,450	74,235
Less scholarship allowance	(10,597)	(9,636)
Total	$ 67,853	$ 64,599

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2008
(In Thousands)

Description	Salaries	Other	Total
Instruction	$ 36,858	$ 2,108	$ 38,966
Research	779	306	1,085
Public service	169	211	380
Academic support	6,586	3,680	10,266
Student services	7,584	3,303	10,887
Institutional support	7,945	5,549	13,494
Operation & maintenance of plant	3,225	4,737	7,962
Depreciation	—	6,822	6,822
Scholarships & fellowships	—	890	890
Auxiliary enterprises	6,568	17,054	23,622
Total operating expenses	$ 69,714	$ 44,660	$ 114,374

For the Year Ended June 30, 2007
(In Thousands)

Description	Salaries	Other	Total
Instruction	$ 33,795	$ 2,267	$ 36,062
Research	1,038	392	1,430
Public service	215	126	341
Academic support	5,957	3,695	9,652
Student services	6,994	2,925	9,919
Institutional support	6,776	3,260	10,036
Operation & maintenance of plant	3,092	4,961	8,053
Depreciation	—	6,377	6,377
Scholarships & fellowships	—	684	684
Auxiliary enterprises	6,244	16,208	22,452
Total operating expenses	$ 64,111	$ 40,895	$ 105,006

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

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

Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. The statutory authority for SERF is Minnesota Statutes, Chapter 352. For the period prior to July 1, 2007, the funding requirement for both employer and employee was 4 percent. For the period July 1, 2007 to June 30, 2008, the funding requirement is 4.25 percent for both employer and employee. The funding requirement for both employer and employee increase 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2008	$ 538
2007	478
2006	425

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 percent 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. Effective July 1, 2006, employer and employee contributions were 5 percent and 5.5 percent respectively. Effective July 1, 2008, the funding requirement is 5.5 percent for both employer and employee coordinated members. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2008	$ 462	$ 462
2007	461	501
2006	415	415

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, Chapter 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 Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA–CREF). Separately issued financial statements can be obtained from TIAA-CREFF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

Participation — 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 both faculty and administrators, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354C. Required contributions for Winona State University were:

	(In Thousands)	
Fiscal Year	Employer	Employee
2008	$ 1,391	$ 1,038
2007	1,354	1,013
2006	1,080	810

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 Administrative and Service Faculty (MSUAASF)	\$6,000 to \$50,000	\$2,200
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 354C.

Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2008	$ 765
2007	829
2006	693

13. OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single-employer fully-insured plan, as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2006 there were approximately 50 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

Annual required contribution (ARC)	$ 491
Interest on net OPEB obligation	—
Adjustment to ARC	—
Annual OPEB cost	491
Contributions during the year	(285)
Increase in net OPEB obligation	206
Net OPEB cost, beginning of year	—
Net OPEB cost, end of year	$ 206

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2008 were as follows:

Fiscal Year Ended, June 30, 2008 (In Thousands)	
Annual OPEB cost	$491
Less employer contribution	285
Net OPEB obligation	206
Percentage contributed	58.04%

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	—	$4,936	$4,936	0.00%	$50,439	9.79%

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the July 1, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long-term investment yield on the general assets, using an underlying long-term inflation assumption of 3 percent. The annual healthcare cost trend rate is 9.13 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

14. 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 years 2008 and 2007.

Inter Faculty Organization (IFO) contract

The IFO contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for those faculty as of the end of fiscal years 2008 and 2007 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	13	$424
2007	13	465

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 years 2008 and 2007 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	2	$59
2007	—	—

15. 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	$1,500,000
Primary re insurer coverage	$1,500,001 to $12,000,000
Catastrophic reinsurance	$12,000,001 to $1,000,000,000
Bodily injury and property damage per person	$300,000
Bodily injury and property damage per occurrence	$1,200,000
Annual maximum paid by fund, excess by reinsurer	$4,000,000
Maintenance deductible for additional claims	$25,000

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

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

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2008 and 2007.

Workers' Compensation Liability
(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/08	$ 214	$ —	$ 79	$ 135
Fiscal Year Ended 6/30/07	207	82	75	214

16. COMMITMENTS

Future commitments consist of construction projects that are funded by general obligation bond proceeds, revenue bond proceeds, or operating revenues. The University has incurred costs of approximately $10.6 million, funded by general obligation bond proceeds, for renovation of an existing building into an integrated student services building with an estimated completion date of summer 2008. This project is estimated to cost a total of $11.2 million. In addition, the University has incurred costs of approximately $52 thousand for the new Wellness Center which will be funded with general obligation funds of $8.4 million, revenue bond proceeds of $7 million and private funding of $3 million. The University has also incurred costs of approximately $220 thousand related to parking lot improvements and the pre-design of a utility tunnel and pre-design of a new building which will house the University's School of Business.

The University's revenue fund has also incurred costs of approximately $3 million for the renovation and needed upgrades to some of its revenue fund buildings. These projects are estimated to cost a total of $6.9 million; some of these projects also reduce the current deferred maintenance. The revenue fund has also incurred approximately $30 thousand for a Bookstore addition. In addition to these projects the University's revenue fund has incurred costs of approximately $0.5 million for pre-design for the Wellness Center and New Residence Hall.

17. 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)

	2008	2007
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 11,831	$ 11,751
Restricted assets	41,946	4,552
Noncurrent assets	27,222	22,884
Total assets	80,999	39,187
Liabilities		
Current liabilities	3,112	4,103
Noncurrent liabilities	45,775	6,314
Total liabilities	48,887	10,417
Net Assets:		
Invested in capital assets, net of related debt	20,511	19,133
Restricted	2,711	1,370
Unrestricted	8,890	8,267
Total net assets	$ 32,112	$ 28,770
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 17,557	$ 17,142
Operating expenses	(14,405)	(14,109)
Net operating income	3,152	3,033
Nonoperating revenues (expenses)	199	390
Gain (loss) on disposal of capital assets	(9)	(13)
Change in net assets	3,342	3,410
Net assets, beginning of year	28,770	25,360
Net asset, end of year	$ 32,112	$ 28,770
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$ 5,906	$ 4,627
Investing activities	425	666
Capital and related financing activities	33,159	(2,124)
Net increase (decrease)	39,490	3,169
Cash, beginning of year	13,242	10,073
Cash, end of year	$ 52,732	$ 13,242

18. RELATED PARTY TRANSACTIONS

The University received $2,194,119 and $2,478,320 from its Foundation for scholarships and other University support in fiscal years 2008 and 2007, 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.

19. 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	2008	2007
Equities (stocks)	$ 1,208	$ 1,471
Certificates of deposits	5	10
US Government securities	1,214	1,315
Mutual funds	12,531	12,937
Fixed income securities/bonds	526	364
Total investments	$15,484	$16,097

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

As of June 30, 2008 and 2007, the Foundation's investment in student housing consists of the following:

For the Year Ended June 30 (In Thousands)	2008	2007
Land and improvements	$ 552	$ 552
Building and improvements	10,745	10,745
Building equipment	281	281
Total	11,578	11,578
Accumulated depreciation	(1,427)	(1,131)
Student Housing, net	$ 10,151	$ 10,447

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)	
2009	$ 279
2010	293
2011	307
2012	323
2013	339
Thereafter	7,119
Total	$ 8,660

SUPPLEMENTAL SECTION

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

October 20, 2008

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

We have audited the financial statements of Winona State University, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. We did not audit the financial statements of Winona State University Foundation, a component unit of the University. These statements were audited by other auditors for the year ended June 30, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Winona State University Foundation were not audited in accordance with *Government Auditing Standards.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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