

WINONA STATE UNIVERSITY
A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2009 and 2008

Prepared by:

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

Upon request, this publication is available in alternate formats by calling one of the following:

General number: (651) 297-5579

Toll free: 1-888-667-2848

TTY: (651) 282-2660

WINONA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2009 and 2008

TABLE OF CONTENTS

INTRODUCTION

| | |
|--------------------------|------|
| | Page |
| Transmittal Letter | 5 |
| Organization Chart | 7 |

FINANCIAL SECTION

| | |
|---|----|
| Independent Auditors' Report | 11 |
| Management's Discussion and Analysis | 13 |
| Basic Financial Statements: | |
| Statements of Net Assets | 18 |
| Winona State University Foundation-Statements of Financial Position | 19 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 20 |
| Winona State University Foundation-Statements of Acitivites | 21 |
| Statements of Cash Flows | 22 |
| Notes to the Financial Statements | 24 |

SUPPLEMENTAL SECTION

| | |
|--|----|
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with: <i>Government Auditing Standards</i> | 46 |
|--|----|

This page intentionally left blank.

INTRODUCTION

This page intentionally left blank.

WINONA

STATE UNIVERSITY

October 30, 2009

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 financial report of Winona State University for Fiscal Year 2009. The accompanying statements show the financial position and results of operations ending on June 30, 2009.

The turbulent events of the past year have deeply affected all of us. Our community has taken the opportunity to carefully examine how we use our talents, how we reach decisions, how we are organized, and how we allocate our resources. In short, these events have caused us to reshape how we work together.

Through this process, we have found that despite new hurdles and limited resources we can continue to make good things happen. More importantly, our community has discovered a new sense of energy, a deeper trust in each other, and a heightened concern for the greater good.

Several of our achievements over the past year tell this story.

Quality academic programs that are responsive to the needs of our community are at the forefront of what we do. One of these is the Doctorate of Nursing Practice (DNP) program, which we offer in collaboration with other Minnesota State Colleges and Universities institutions. In May, we celebrated the graduation of our first DNP class, one that will advance nursing and healthcare in our region and state by applying their advanced clinical, organizational, and leadership expertise.

Our undergraduate programs are equally strong. Colleges and universities across the country are adopting the Child Advocacy Studies (CAST) curriculum, which was developed on our campus in collaboration with the National Child Protection Training Center. The CAST program trains future healthcare, social work, criminal justice, and education professionals to recognize and investigate child abuse. Each year, more than three million cases of suspected child abuse are reported, but more than 40 percent of the cases go uninvestigated. The CAST program will train a new generation of professionals to fill this gap, and end neglect and abuse in our nation.



This summer, Laura Senefeld, a junior chemistry major, learned that she had been awarded a fellowship through the U.S. Environmental Protection Agency Undergraduate Research Program. This fellowship provides full tuition and fees, living expenses, research and travel stipends, and summer internships at an EPA facility for the next two years. Laura is working with Jeanne Franz, professor of chemistry, on research investigating the levels of antibiotic contamination in commercially-produced versus organic eggs. Last year, only fourteen students were chosen for this prestigious program.

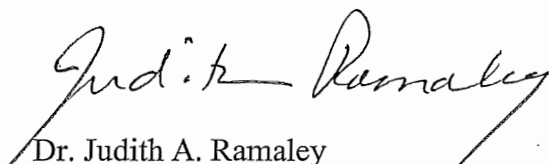
Laura's research is an example of one of Winona State's emerging signature themes: the environment and sustainability. The university was an early signatory to the American College and University Presidents' Climate Commitment. During the past year, we have made steady progress towards achieving our goal of a climate neutral campus. We continue to pursue a number of energy saving, recycling, transportation, and sustainable food objectives. We have also strengthened our leadership role in Sustain Winona, a partnership of seven local institutions committed to a range of sustainability goals.

Last April, we broke ground on the Integrated Wellness Complex along with a new residence hall. These two buildings are part of more than \$50 million in campus construction and renovation projects that began this past summer. The Integrated Wellness Complex, in addition to serving as a center of health and well-being for our community, will also stand as a visible symbol of our commitment to building a sustainable world. The complex will be the first LEED Silver certified building in Winona County. It is also one of the three initiatives of Light the Way, our first comprehensive capital campaign. We have reached more than 78 percent of our \$10 million campaign goal, and are on track to successfully complete Light the Way in 2010.

Our student enrollment reached a record level for the second straight year this fall, and, significantly, our first year retention and four-year graduation rates continued to rise. These achievements are notable but we must continue to move forward. Recognizing this, we reaffirm our commitment to remain prudent in our management, improve our processes, and develop innovative programs and partnerships.

Winona State is proud to be a 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.

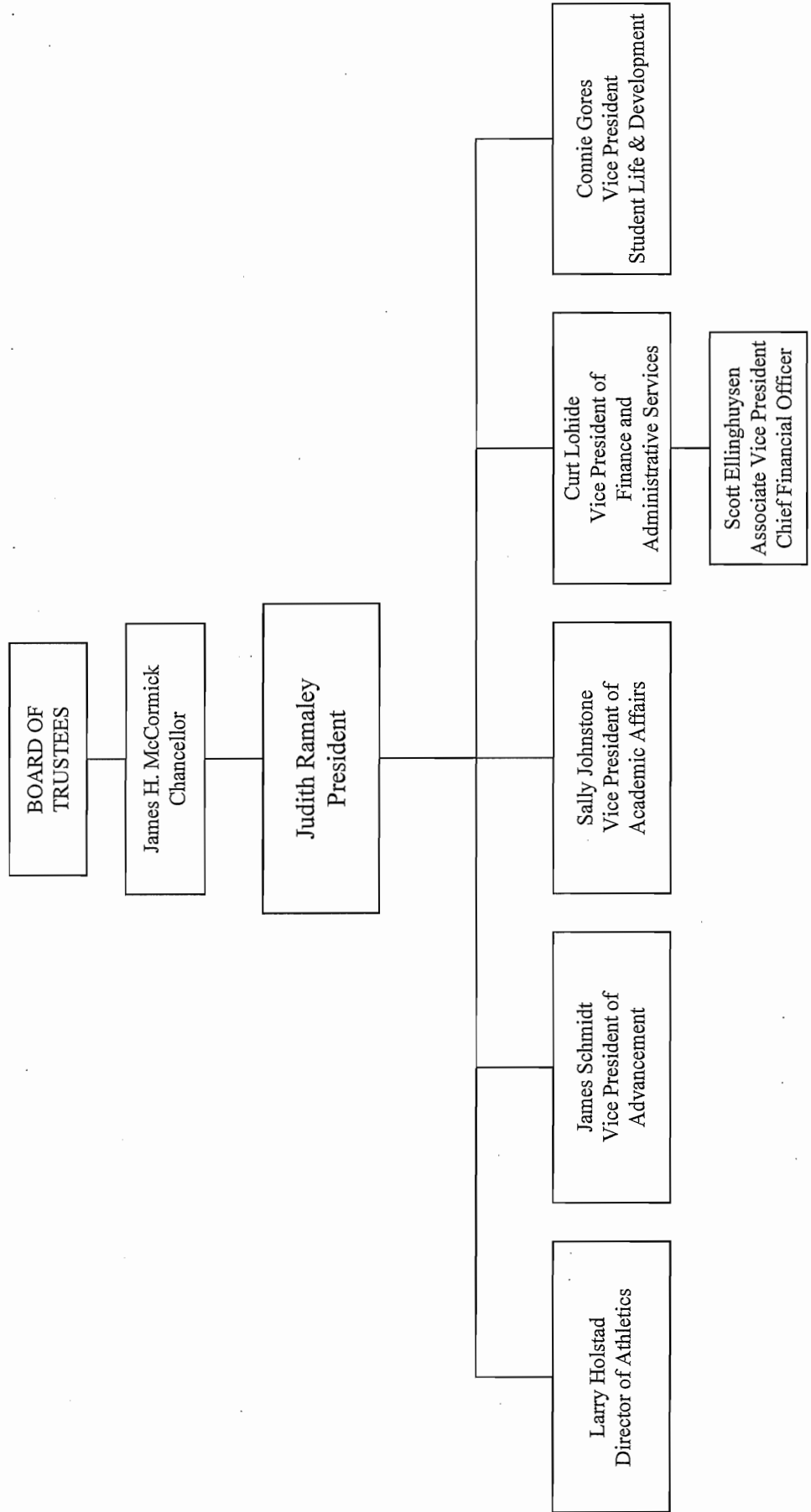
Sincerely,



Dr. Judith A. Ramaley
President, Winona State University

Winona State University

Organizational Chart



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 is 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

This page intentionally left blank.



Expert advice. When you need it.SM

INDEPENDENT AUDITOR'S REPORT

October 30, 2009

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, 2009 and 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 \$ 28,348,000 and \$ 30,907,000 at June 30, 2009 and 2008, respectively, and total revenues of \$ 482,000 and \$ 4,625,000, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Winona State University Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with 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 financial statements referred to above present fairly, in all material respects, the financial position of Winona State University, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2009, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of Winona State University, a member of Minnesota State Colleges and Universities at June 30, 2009, 2008 and 2007, 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 8,200 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, 2009, with assets of \$233.8 million and liabilities of \$96.2 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 \$110.0 million, restricted assets of \$16.6 million and unrestricted assets of \$11.0 million. Total net assets increased 5.3 percent over fiscal year 2008. The increase in net assets is primarily attributable to continued investment in capital assets, net of related debt. This investment is made possible by state appropriation support as well as private fundraising support and student fees.

Operating revenue increased \$5.7 million from fiscal year 2008 to fiscal year 2009. This is on top of a \$3.1 million increase from fiscal year 2007 to fiscal year 2008. The two year total increase of \$8.8 million is due primarily to a 7.0 percent tuition increase over the period as well as enrollment growth of 3.3 percent.

Operating expenses increased \$6.3 million from fiscal year 2008 to fiscal year 2009. 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 \$6.9 million for fiscal year 2009.

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

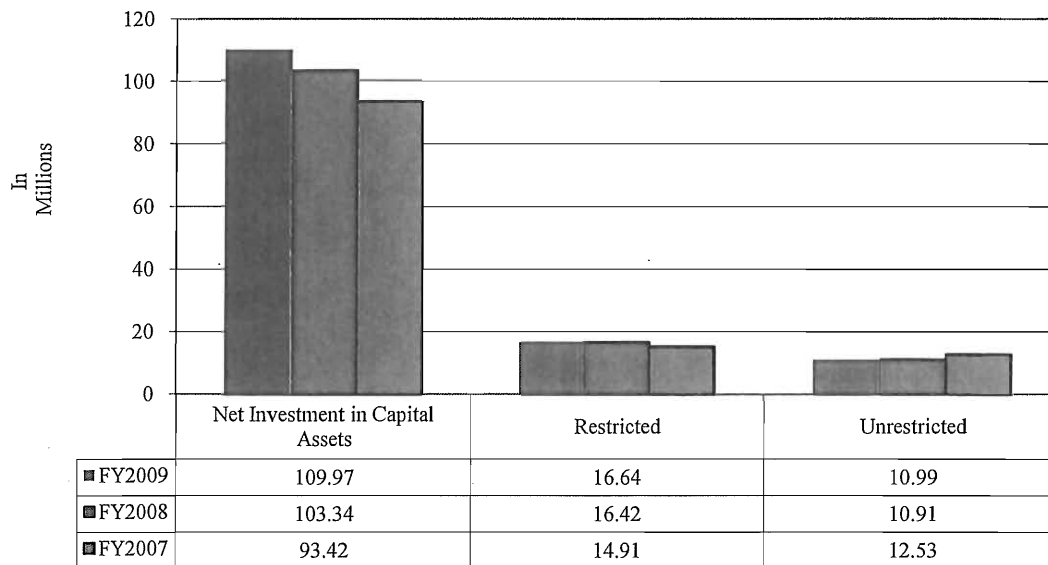
The statements of net assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator 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 2009, 2008 and 2007
(In Thousands)

| | 2009 | 2008 | Increase (Decrease) 2009-2008 | 2007 | Increase (Decrease) 2008-2007 |
|------------------------|-------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|
| Current assets | \$ 46,783 | \$ 49,441 | \$ (2,658) | \$ 51,804 | \$ (2,363) |
| Restricted assets | 48,724 | 43,966 | 4,758 | 5,194 | 38,772 |
| Noncurrent assets | 2,168 | 1,725 | 443 | 1,702 | 23 |
| Capital assets, net | 136,084 | 130,873 | 5,211 | 116,828 | 14,045 |
| Total assets | <u>233,759</u> | <u>226,005</u> | <u>7,754</u> | <u>175,528</u> | <u>50,477</u> |
| Current liabilities | 23,282 | 20,151 | 3,131 | 21,336 | (1,185) |
| Noncurrent liabilities | 72,883 | 75,184 | (2,301) | 33,336 | 41,848 |
| Total liabilities | <u>96,165</u> | <u>95,335</u> | <u>830</u> | <u>54,672</u> | <u>40,663</u> |
| Total net assets | <u>\$ 137,594</u> | <u>\$ 130,670</u> | <u>\$ 6,924</u> | <u>\$ 120,856</u> | <u>\$ 9,814</u> |

Comparison of Net Assets
Fiscal Years 2009, 2008 and 2007



Restricted assets increased by \$4.8 million due to revenue fund bond proceeds that were not fully expensed in fiscal year 2009 and from receiving interest on those unspent revenue bond proceeds. Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled \$38 million as of June 30, 2009. This is a decrease of \$5.0 million over fiscal year 2008 and represents 4.0 months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.0 times, an indicator of good liquidity.

Capital assets, net, increased by \$10.0 million primarily due to the construction in progress on the new Integrated Wellness Complex and the New 2010 Residence Hall, along with the renovation of the Learning Commons in Maxwell Hall.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$7.9 million at June 30, 2009. Accounts payable decreased \$1.2 million as the result of on-going construction projects on campus in residence halls and academic facilities which neared completion during the summer of 2009.

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 2009, 2008 and 2007
(In Thousands)

| | 2009 | 2008 | Increase (Decrease) 2009-2008 | 2007 | Increase (Decrease) 2008-2007 |
|-------------------------------------|-------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|
| Capital assets, net of related debt | 109,968 | 103,338 | 6,630 | 93,419 | 9,919 |
| Restricted | 16,637 | 16,424 | 213 | 14,907 | 1,517 |
| Unrestricted | 10,989 | 10,908 | 81 | 12,530 | (1,622) |
| Total net assets | <u>\$ 137,594</u> | <u>\$ 130,670</u> | <u>\$ 6,924</u> | <u>\$ 120,856</u> | <u>\$ 9,814</u> |

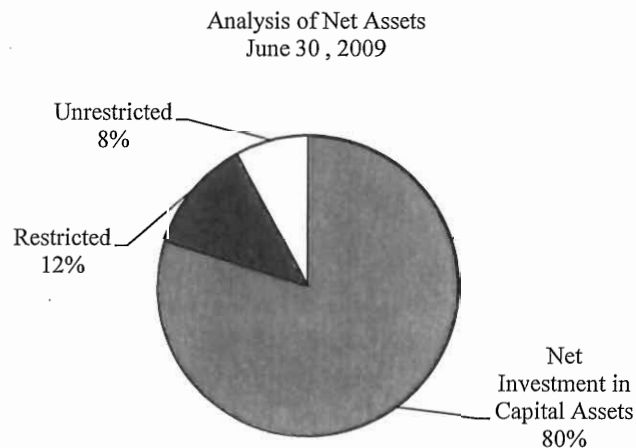
CAPITAL AND DEBT ACTIVITIES

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, as of June 30, 2009, total \$141.5 million, net of accumulated depreciation of \$74.2 million. Capital assets have shown growth over the past three years. Capital additions, net of retirements, were \$15.1 million in 2009. Capital additions primarily consist of the construction of the new Integrated Wellness Complex and the New 2010 Residence Hall and the renovation of other academic facilities and student residence halls. The University has also invested in equipment and library materials.

Construction in progress at June 30, 2009, included construction of the new Integrated Wellness Complex and the New 2010 Residence Hall and renovation projects within revenue fund buildings.

As the graph illustrates, 80 percent of the University's net assets are related to the investment in capital assets.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

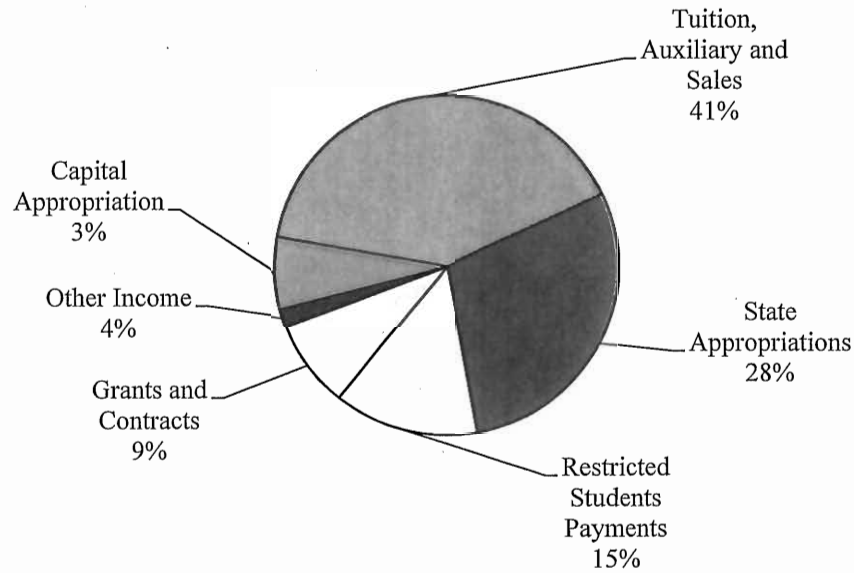
Revenues, Expenses and Changes in Net Assets for Fiscal Years 2009, 2008 and 2007 (In Thousands)

| | 2009 | 2008 | Increase (Decrease) 2009-2008 | 2007 | Increase (Decrease) 2007-2006 |
|-----------------------------------|-------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|
| Operating revenue: | | | | | |
| Tuition, auxiliary and sales, net | \$ 53,388 | \$ 50,642 | \$ 2,746 | \$ 47,881 | \$ 2,761 |
| Restricted student payments, net | 19,271 | 17,211 | 2,060 | 16,718 | 493 |
| Grants and contracts, net | 11,480 | 10,636 | 844 | 10,795 | (159) |
| Total operating revenue | <u>84,139</u> | <u>78,489</u> | <u>5,650</u> | <u>75,394</u> | <u>3,095</u> |
| Non-operating revenue: | | | | | |
| State appropriations | 37,081 | 36,513 | 568 | 34,017 | 2,496 |
| Capital appropriations | 4,292 | 8,509 | (4,217) | 5,453 | 3,056 |
| Other | 5,662 | 2,258 | 3,404 | 3,436 | (1,178) |
| Total nonoperating revenue | <u>47,035</u> | <u>47,280</u> | <u>(245)</u> | <u>42,906</u> | <u>4,374</u> |
| Total revenue | <u>131,174</u> | <u>125,769</u> | <u>5,405</u> | <u>118,300</u> | <u>7,469</u> |
| Operating expense: | | | | | |
| Salaries and benefits | 75,681 | 69,714 | 5,967 | 64,111 | 5,603 |
| Supplies and services | 36,921 | 36,948 | (27) | 33,834 | 3,114 |
| Depreciation | 7,375 | 6,822 | 553 | 6,377 | 445 |
| Financial aid, net | 685 | 890 | (205) | 684 | 206 |
| Total operating expense | <u>120,662</u> | <u>114,374</u> | <u>6,288</u> | <u>105,006</u> | <u>9,368</u> |
| Nonoperating expense | <u>3,588</u> | <u>1,581</u> | <u>2,007</u> | <u>1,572</u> | <u>9</u> |
| Total expense | <u>124,250</u> | <u>115,955</u> | <u>8,295</u> | <u>106,578</u> | <u>9,377</u> |
| Increase in net assets | 6,924 | 9,814 | (2,890) | 11,722 | (1,908) |
| Net assets, beginning of year | 130,670 | 120,856 | 9,814 | 109,134 | 11,722 |
| Net assets, end of year | <u>\$ 137,594</u> | <u>\$ 130,670</u> | <u>\$ 6,924</u> | <u>\$ 120,856</u> | <u>\$ 9,814</u> |

Operating revenue increased \$5.7 million which is a result of increased enrollment and room and board fees.

Operating expenses as of June 30, 2009 increased by \$6.3 million over fiscal year 2008. Compensation related costs increased \$6.0 million due to salary increases in fiscal year 2009 and rising health care costs. Compensation and benefits accounted for approximately 63 percent of the University's operating expenses in fiscal year 2009 and for approximately 61 percents for both fiscal years 2008 and 2007.

Total Revenue
June 30, 2009



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

The State of Minnesota and the nation's economy shifted dramatically in 2008-09. The University, similar to other state assisted operations, will be challenged in the future to adjust to this new economic landscape. This situation will be monitored as the competition for the State's resources from other areas of government will continue to intensify. Management believes that the University is well positioned to face these new economic realities.

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, 2009 AND 2008
(IN THOUSANDS)**

| Assets | 2009 | 2008 |
|---|-------------------|-------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 31,720 | \$ 35,706 |
| Investments | 6,257 | 7,317 |
| Grants receivable | 270 | 141 |
| Accounts receivable, net | 4,359 | 1,904 |
| Prepaid expense | 1,978 | 1,789 |
| Inventory | 1,133 | 818 |
| Student loans and other assets, net | 708 | 889 |
| Securities lending collateral | 358 | 877 |
| Total current assets | <u>46,783</u> | <u>49,441</u> |
| Current Restricted Assets | | |
| Cash and cash equivalents | 43,331 | 43,370 |
| Total current restricted assets | <u>43,331</u> | <u>43,370</u> |
| Noncurrent Restricted Assets | | |
| Other assets | 11 | 12 |
| Construction in progress | 5,382 | 584 |
| Total noncurrent restricted assets | <u>5,393</u> | <u>596</u> |
| Total restricted assets | <u>48,724</u> | <u>43,966</u> |
| Noncurrent Assets | | |
| Student loans and other assets, net | 2,168 | 1,725 |
| Capital assets, net | 136,084 | 130,873 |
| Total noncurrent assets | <u>138,252</u> | <u>132,598</u> |
| Total Assets | <u>233,759</u> | <u>226,005</u> |
| Liabilities | | |
| Current Liabilities | | |
| Salaries payable | 7,869 | 7,140 |
| Accounts payable | 3,227 | 4,417 |
| Unearned revenue | 1,989 | 1,831 |
| Payable from restricted assets | 3,604 | 1,424 |
| Funds held for others | 768 | 744 |
| Current portion of long-term debt | 3,457 | 1,940 |
| Other compensation benefits | 1,513 | 1,419 |
| Interest payable | 497 | 359 |
| Securities lending collateral | 358 | 877 |
| Total current liabilities | <u>23,282</u> | <u>20,151</u> |
| Noncurrent Liabilities | | |
| Noncurrent portion of long-term debt | 62,164 | 65,363 |
| Other compensation benefits | 8,202 | 7,365 |
| Capital contributions payable | 2,517 | 2,456 |
| Total noncurrent liabilities | <u>72,883</u> | <u>75,184</u> |
| Total Liabilities | <u>96,165</u> | <u>95,335</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 109,968 | 103,338 |
| Restricted expendable, bond covenants | 7,018 | 8,890 |
| Restricted expendable, other | 9,619 | 7,534 |
| Unrestricted | 10,989 | 10,908 |
| Total Net Assets | <u>\$ 137,594</u> | <u>\$ 130,670</u> |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)**

| | 2009 | 2008 |
|---|------------------|------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 7,729 | \$ 2,663 |
| Investments | 8,028 | 15,484 |
| Pledges and contributions receivable | 389 | 512 |
| Other receivables | 222 | 289 |
| Accrued investment/Interest income | 22 | 24 |
| Annuities/Remainder interests/Trusts | 107 | 128 |
| Total current assets | <u>16,497</u> | <u>19,100</u> |
| Noncurrent Assets | | |
| Long-term pledges receivable | 1,121 | 1,290 |
| Buildings, property, and equipment, net | 9,855 | 10,151 |
| Other assets | 875 | 366 |
| Total noncurrent assets | <u>11,851</u> | <u>11,807</u> |
| Total Assets | <u>\$ 28,348</u> | <u>\$ 30,907</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 2,667 | \$ 64 |
| Interest payable | 34 | 35 |
| Annuities payable | 46 | 60 |
| Notes payable | 294 | 279 |
| Total current liabilities | <u>3,041</u> | <u>438</u> |
| Noncurrent Liabilities | | |
| Notes payable | 8,086 | 8,381 |
| Total noncurrent liabilities | <u>8,086</u> | <u>8,381</u> |
| Total Liabilities | <u>11,127</u> | <u>8,819</u> |
| Net Assets | | |
| Unrestricted | 373 | 788 |
| Temporarily restricted | 3,813 | 9,122 |
| Permanently restricted | 13,035 | 12,178 |
| Total Net Assets | <u>17,221</u> | <u>22,088</u> |
| Total Liabilities and Net Assets | <u>\$ 28,348</u> | <u>\$ 30,907</u> |

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Operating Revenues | | |
| Tuition, net | \$ 36,939 | \$ 34,705 |
| Fees, net | 11,147 | 10,911 |
| Sales and services, net | 5,302 | 5,026 |
| Restricted student payments, net | 19,271 | 17,211 |
| Federal grants | 6,640 | 5,508 |
| State grants | 3,835 | 4,016 |
| Other income | 1,005 | 1,112 |
| Total operating revenues | <u>84,139</u> | <u>78,489</u> |
| Operating Expenses | | |
| Salaries | 75,681 | 69,714 |
| Purchased services | 23,632 | 24,787 |
| Supplies | 5,326 | 4,976 |
| Repairs and maintenance | 2,145 | 1,472 |
| Depreciation | 7,375 | 6,822 |
| Financial aid, net | 685 | 890 |
| Other expense | 5,818 | 5,713 |
| Total operating expenses | <u>120,662</u> | <u>114,374</u> |
| Operating income (loss) | <u>(36,523)</u> | <u>(35,885)</u> |
| Nonoperating Revenues (Expenses) | | |
| Appropriations | 37,081 | 36,513 |
| Private grants | 2,212 | 1,894 |
| Interest income/Investment loss | (327) | 333 |
| Interest expense | (2,646) | (1,476) |
| Grants to other organizations | (615) | (86) |
| Total nonoperating revenue (expenses) | <u>35,705</u> | <u>37,178</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | (818) | 1,293 |
| Capital appropriations | 4,292 | 8,509 |
| Capital grants | 3,000 | - |
| Donated assets and supplies | - | 31 |
| Gain (loss) on disposal of capital assets | 450 | (19) |
| Change in net assets | <u>6,924</u> | <u>9,814</u> |
| Total Net Assets, Beginning of Year | <u>130,670</u> | <u>120,856</u> |
| Total Net Assets, End of Year | <u>\$ 137,594</u> | <u>\$ 130,670</u> |

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)**

| | 2009 | 2008 |
|-------------------------------|------------------|------------------|
| Support and Revenue | | |
| Contributions | \$ 2,052 | \$ 3,764 |
| Investment income | 422 | 1,045 |
| Realized gains and losses | (1,683) | 87 |
| Unrealized losses | (1,714) | (1,947) |
| Program income | 1,297 | 1,418 |
| Fundraising income | 108 | 258 |
| Total support and revenue | <u>482</u> | <u>4,625</u> |
| Expenses | | |
| Program Services | | |
| Program services | 723 | 738 |
| Scholarships | 920 | 765 |
| University activities | 3,552 | 635 |
| Special projects | 53 | 56 |
| Total program services | <u>5,248</u> | <u>2,194</u> |
| Supporting services | | |
| Management and general | 44 | 25 |
| Fundraising expenses | 57 | 182 |
| Total supporting services | <u>101</u> | <u>207</u> |
| Total Expenses | <u>5,349</u> | <u>2,401</u> |
| Change in Net Assets | (4,867) | 2,224 |
| Net Assets, Beginning of Year | 22,088 | 19,864 |
| Net Assets, End of Year | <u>\$ 17,221</u> | <u>\$ 22,088</u> |

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

| | 2009 | 2008 |
|---|------------------|------------------|
| Cash Flows from Operating Activities | | |
| Cash received from customers | \$ 77,037 | \$ 71,356 |
| Cash repayment of program loans | 319 | 350 |
| Federal grants | 6,796 | 5,281 |
| State grants | 3,835 | 4,016 |
| Cash paid to suppliers for goods or services | (41,811) | (38,574) |
| Cash payments to employees | (74,022) | (68,369) |
| Financial aid disbursements | (623) | (767) |
| Cash payments of program loans | (763) | (477) |
| Net cash flows used in operating activities | <u>(29,232)</u> | <u>(27,184)</u> |
| Cash Flows from Noncapital and Related Financing Activities | | |
| Appropriations | 37,081 | 36,513 |
| Agency activity | 23 | 346 |
| Private grants | 2,212 | 1,894 |
| Grants to other organizations | (615) | (86) |
| Net cash flows from noncapital financing activities | <u>38,701</u> | <u>38,667</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Investment in capital assets | (15,253) | (21,613) |
| Capital appropriation | 4,292 | 9,490 |
| Capital grants | 375 | - |
| Proceeds from sale of capital assets | 608 | (3) |
| Proceeds from borrowing | 308 | 42,987 |
| Proceeds from bond premium | 113 | 130 |
| Interest paid | (2,597) | (1,037) |
| Repayment of lease principal | (246) | (234) |
| Repayment of bond principal | (1,861) | (1,607) |
| Net cash flows used in capital and related financing activities | <u>(14,261)</u> | <u>28,113</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | - | 1,504 |
| Purchase of investments | (239) | (301) |
| Investment earnings | 1,006 | 1,123 |
| Net cash flows from investment activities | <u>767</u> | <u>2,326</u> |
| Net Increase in Cash and Cash Equivalents | (4,025) | 41,922 |
| Cash and Cash Equivalents, Beginning of Year | 79,076 | 37,154 |
| Cash and Cash Equivalents, End of Year | <u>\$ 75,051</u> | <u>\$ 79,076</u> |

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

| | 2009 | 2008 |
|--|---------------------------|---------------------------|
| Operating Loss | <u>\$ (36,523)</u> | <u>\$ (35,885)</u> |
| Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities | | |
| Depreciation | 7,375 | 6,822 |
| Provision for loan defaults | (28) | (33) |
| Loan principal repayments | 319 | 350 |
| Loans issued | (763) | (477) |
| Loans forgiven | 29 | 37 |
| Donated supplies | - | 31 |
| Change in assets and liabilities | | |
| Inventory | (315) | (41) |
| Accounts receivable | 166 | (488) |
| Grants receivable | (129) | 48 |
| Accounts payable | (1,252) | 1,590 |
| Salaries payable | 729 | 673 |
| Other compensation benefits | 931 | 671 |
| Capital contributions payable | 61 | 123 |
| Unearned revenues | 158 | (587) |
| Other | 10 | (18) |
| Net reconciling items to be added to operating loss | <u>7,291</u> | <u>8,701</u> |
| Net cash flows used in operating activities | <u><u>\$ (29,232)</u></u> | <u><u>\$ (27,184)</u></u> |
| Non-Cash Transactions Investing, Capital, and Financing Activities | | |
| Capital projects on account | \$ 3,722 | \$ 1,480 |
| Change in fair market value of investments | (1,299) | (644) |
| Investment earnings on account | 142 | 272 |
| Amortization of bond premium | 96 | 86 |
| Loss on retirement of capital assets | (159) | (19) |

**WINONA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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 17. 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 \$10,000 and over for items purchased since July 1, 2008; \$5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and \$2,000 and over for items purchased prior to July 1, 2003. Buildings, building improvements, and internally developed software includes all projects with a cost of \$250,000 and over for projects started since July 1, 2008, and \$100,000 and over for projects started prior to July 1, 2008. All land and library collection purchases are capitalized regardless of amount spent.

Funds Held for Others — Funds held for others are primarily assets held for student organizations and funds held for students for their Campus Card.

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

Other long term liabilities include capital leases, compensated absences, net other postemployment benefits, workers' compensation claims, early termination benefits, and capital contributions associated with Perkins Loan agreements with the 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, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of \$11,024,459 and \$10,446,949. Sales are also net of cost of goods sold of \$3,332,533 and \$3,190,985 for fiscal years 2009 and 2008, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances of \$224,420 and \$150,122 for fiscal years 2009 and 2008, 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.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2008 accounts payable related to capital projects funded with general obligation bonds, in the amount of \$1,424,342, have been reclassified as restricted accounts payable.

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) | | |
|--|----------------|----------------|
| | 2009 | 2008 |
| Donations | \$1,323 | \$2,107 |
| Loans | 304 | 297 |
| Capital projects | 5,283 | 2,711 |
| Debt service | 1,978 | 1,789 |
| Faculty contracts | 731 | 630 |
| Total | <u>\$9,619</u> | <u>\$7,534</u> |

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

New Accounting Pronouncements — In 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 June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires, when governments invest in derivative instruments, that they be reported at fair market value. This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2010. The effect GASB Statement No. 53 will have on the fiscal year 2010 basic financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Cash and Cash Equivalents at June 30
(In Thousands)

| Carrying Amount | 2009 | 2008 |
|---------------------------------------|------------------|------------------|
| Cash, in bank | \$ 199 | \$ 287 |
| Change fund | 20 | 13 |
| Money markets | 260 | 982 |
| Cash, trustee account (US Bank) | 36,195 | 40,627 |
| Total local cash and cash equivalents | 36,674 | 41,909 |
| Total treasury cash accounts | 38,377 | 37,167 |
| Grand Total | <u>\$ 75,051</u> | <u>\$ 79,076</u> |

At June 30, 2009 and 2008, the University's bank balances were \$720,975 and \$1,466,281, 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 Maturity (yrs) | | Investment Maturity (yrs) | |
| | 2009 Fair Value | 2009 Weighted Maturity | 2008 Fair Value | 2008 Weighted Maturity |
| State investment pool cash equivalents | \$ 823 | 0.17 | \$ 460 | 0.14 |
| Corporate/municipal bonds | 1,129 | 4.48 | 990 | 4.59 |
| US agencies | 1,869 | 20.29 | 1,549 | 21.59 |
| US treasuries | — | 0.00 | 224 | 4.9 |
| Asset backed | 1 | 24.25 | 1 | 25.25 |
| Total | <u>3,822</u> | | <u>3,224</u> | |
| Portfolio weighted average maturity | | 11.29 | | 12.15 |
| Mutual stock funds | 749 | | 1,229 | |
| Corporate stock | 1,670 | | 2,831 | |
| Real estate | 16 | | 33 | |
| Total | <u>\$ 6,257</u> | | <u>\$ 7,317</u> | |

Securities Lending Transactions — State statutes do not prohibit the state of Minnesota from participating in securities lending transactions. The Minnesota State Board of Investment has, by way of Custodial Trust Agreements, authorized State Street Bank and Trust Company (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 2009 and 2008, 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 2009 or 2008. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo.

During fiscal years 2009 and 2008, 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, 2009 and 2008, 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.

The securities lending activity for Wells Fargo ceased in May 2009. Therefore, at June 30, 2009 there were no collateral balances or unsettled trades. As a result, the University's portion of the securities lending collateral was zero in fiscal year 2009. During 2008, Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the colleges and universities. The University's portion of the allocation was \$358,379 and \$876,832 as of June 30, 2009 and 2008, respectively.

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

Security Lending Analysis, June 30, 2009
(In Thousands)

| | State Street |
|----------------------------------|--------------|
| Fair value of securities on loan | \$6,587,602 |
| Collateral held | \$6,829,949 |
| Average duration | 37 days |
| Average weighted maturity | 201 days |

Security Lending Analysis, June 30, 2008
(In Thousands)

| | State Street | Wells Fargo |
|----------------------------------|--------------|-------------|
| Fair value of securities on loan | \$ 6,551,076 | \$ 101,584 |
| Collateral held | \$ 6,775,914 | \$ 102,968 |
| Average duration | 37 days | 113 days |
| Average weighted maturity | 393 days | 114 days |

3. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and Federal and State grant receivables. At June 30, 2009 and 2008, total accounts receivable balances for the University were \$5,117,512 and \$2,789,056, respectively, less an allowance for uncollectible receivables of \$758,922 and \$884,859, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

| | 2009 | 2008 |
|---|-----------------|-----------------|
| Sales and services | \$ 866 | \$ 1,038 |
| Tuition | 879 | 706 |
| Fees | 377 | 352 |
| Federal and state grants | 2 | 286 |
| Room and board | 303 | 276 |
| Interest | 24 | 29 |
| Third party obligations | 1 | — |
| Other | 2,666 | 102 |
| Total accounts receivable | 5,118 | 2,789 |
| Less allowance for uncollectible accounts | (759) | (885) |
| Net accounts receivable | <u>\$ 4,359</u> | <u>\$ 1,904</u> |

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

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

4. PREPAID EXPENSE

Prepaid expense consists of \$1,978,092 and \$1,789,235 for fiscal years 2009 and 2008, 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.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The University is responsible for loan collections. As of June 30, 2009 and 2008, the total loans receivable for this program were \$3,035,907 and \$2,621,093, respectively, less an allowance for uncollectible loans of \$467,805 and \$495,935, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2009 and 2008 follow:

| | Year Ended June 30, 2009 (In Thousands) | | | | |
|---------------------------------------|--|------------------|---------------|---------------------------|-------------------|
| | Beginning Balance | Increases | Decreases | Completed Construction | Ending Balance |
| Capital assets, not depreciated: | | | | | |
| Land | \$ 9,267 | \$ 184 | \$ — | \$ — | \$ 9,451 |
| Construction in progress | 14,279 | 15,339 | — | (17,345) | 12,273 |
| Total capital assets, not depreciated | <u>23,546</u> | <u>15,523</u> | <u>—</u> | <u>(17,345)</u> | <u>21,724</u> |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 154,192 | — | 1 | 17,345 | 171,536 |
| Equipment | 15,950 | 981 | 1,438 | — | 15,493 |
| Internally developed software | 124 | — | 124 | — | — |
| Library collections | 6,706 | 1,036 | 866 | — | 6,876 |
| Total capital assets depreciated | <u>176,972</u> | <u>2,017</u> | <u>2,429</u> | <u>17,345</u> | <u>193,905</u> |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 54,232 | 5,199 | 8 | — | 59,423 |
| Equipment | 11,135 | 1,194 | 1,398 | — | 10,931 |
| Library collections | 3,694 | 982 | 867 | — | 3,809 |
| Total accumulated depreciation | <u>69,061</u> | <u>7,375</u> | <u>2,273</u> | <u>—</u> | <u>74,163</u> |
| Total capital assets depreciated, net | <u>107,911</u> | <u>(5,358)</u> | <u>156</u> | <u>17,345</u> | <u>119,742</u> |
| Total capital assets, net | <u>\$ 131,457</u> | <u>\$ 10,165</u> | <u>\$ 156</u> | <u>\$ —</u> | <u>\$ 141,466</u> |

Year Ended June 30, 2008
(In Thousands)

| | Beginning | | | Completed | Ending |
|---------------------------------------|-------------------|------------------|--------------|----------------|-------------------|
| | Balance | Increases | Decreases | Construction | 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 | <u>13,681</u> | <u>18,017</u> | <u>34</u> | <u>(8,118)</u> | <u>23,546</u> |
| Capital assets, depreciated: | | | | | |
| Buildings and improvements | 144,574 | 1,500 | — | 8,118 | 154,192 |
| Equipment | 15,919 | 833 | 802 | — | 15,950 |
| Internally developed software | — | 124 | — | — | 124 |
| Library collections | 6,560 | 1,043 | 897 | — | 6,706 |
| Total capital assets depreciated | <u>167,053</u> | <u>3,500</u> | <u>1,699</u> | <u>8,118</u> | <u>176,972</u> |
| 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 | <u>63,906</u> | <u>6,822</u> | <u>1,667</u> | <u>—</u> | <u>69,061</u> |
| Total capital assets depreciated, net | <u>103,147</u> | <u>(3,322)</u> | <u>32</u> | <u>8,118</u> | <u>107,911</u> |
| Total capital assets, net | <u>\$ 116,828</u> | <u>\$ 14,695</u> | <u>\$ 66</u> | <u>\$ —</u> | <u>\$ 131,457</u> |

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

| | 2009 | 2008 |
|-------------------------------|-----------------|-----------------|
| Purchased services | \$ 26 | \$ 2,153 |
| Repairs and maintenance | 248 | 807 |
| Supplies | 141 | 392 |
| Employee benefits | 107 | 110 |
| Capital expenditures | 1,754 | 84 |
| Capital projects | 118 | 56 |
| Grants to other organizations | 1 | 31 |
| Other | 832 | 784 |
| Total | <u>\$ 3,227</u> | <u>\$ 4,417</u> |

In addition, as of June 30, 2009 and 2008, the University had payable from restricted assets in the amounts of \$3,604,296 and \$1,424,342, which was related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long-term debt for fiscal years 2009 and 2008 follow:

| | Year Ended June 30, 2009 (In Thousands) | | | | |
|--------------------------|--|---------------|-----------------|------------------|-----------------|
| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
| Liabilities for: | | | | | |
| Bond premium/discount | \$ 833 | \$ 113 | \$ 96 | \$ 850 | \$ — |
| Capital leases | 1,026 | — | 246 | 780 | 260 |
| General obligation bonds | 19,537 | 308 | 1,373 | 18,472 | 1,405 |
| Revenue bonds | 45,907 | — | 388 | 45,519 | 1,792 |
| Total long term debt | <u>\$ 67,303</u> | <u>\$ 421</u> | <u>\$ 2,103</u> | <u>\$ 65,621</u> | <u>\$ 3,457</u> |

| | 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 | <u>\$ 26,107</u> | <u>\$ 43,117</u> | <u>\$ 1,921</u> | <u>\$ 67,303</u> | <u>\$ 1,940</u> |

The changes in other compensation benefits for fiscal years 2009 and 2008 are follows:

| | Year Ended June 30, 2009 (In Thousands) | | | | |
|-----------------------------------|--|-----------------|-----------------|-----------------|-----------------|
| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
| Liabilities for: | | | | | |
| Compensated absences | \$ 7,959 | \$ 1,625 | \$ 1,184 | \$ 8,400 | \$ 914 |
| Early termination benefits | 484 | 445 | 369 | 560 | 457 |
| Net other postemployment benefits | 206 | 478 | 283 | 401 | — |
| Workers' compensation | 135 | 252 | 33 | 354 | 142 |
| Total other compensation benefits | <u>\$ 8,784</u> | <u>\$ 2,800</u> | <u>\$ 1,869</u> | <u>\$ 9,715</u> | <u>\$ 1,513</u> |

| | 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 |
| Net other postemployment benefits | — | 491 | 285 | 206 | — |
| Workers' compensation | 214 | — | 79 | 135 | 48 |
| Total other compensation benefits | <u>\$ 8,114</u> | <u>\$ 2,345</u> | <u>\$ 1,675</u> | <u>\$ 8,784</u> | <u>\$ 1,419</u> |

Bond Premium — In fiscal year 2009 and 2008, bonds were issued resulting in premiums of \$113,096 and \$130,123, 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 11 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, food service, student union, and other revenue-producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates between 3.38 percent and 6.5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 18.86 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$67,959,802. Principal and interest paid for the current year and total customer net revenues were \$2,100,896 and \$19,875,000, 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 9 for details.

Net 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 10 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 \$354,326 and \$134,580 at June 30, 2009 and 2008, 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 \$2,517,416 and \$2,456,159 at June 30, 2009 and 2008, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is \$61,257 and \$123,182 for the fiscal years 2009 and 2008, 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 | Capital Leases | | General Obligation Bonds | | Revenue Bonds | |
|-----------------|----------------|----------|-----------------------------|----------|---------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$ 260 | \$ 38 | \$ 1,405 | \$ 913 | \$ 1,792 | \$ 1,957 |
| 2011 | 277 | 23 | 1,400 | 831 | 1,837 | 1,891 |
| 2012 | 243 | 6 | 1,402 | 761 | 1,908 | 1,823 |
| 2013 | — | — | 1,362 | 692 | 1,970 | 1,749 |
| 2014 | — | — | 1,312 | 623 | 2,038 | 1,671 |
| 2015-2019 | — | — | 5,969 | 2,169 | 10,604 | 7,025 |
| 2020-2024 | — | — | 4,404 | 837 | 12,055 | 4,603 |
| 2025-2029 | — | — | 1,218 | 108 | 13,315 | 1,721 |
| Total | \$ 780 | \$ 67 | \$ 18,472 | \$ 6,934 | \$ 45,519 | \$ 22,440 |

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts: Inter Faculty Organization (IFO), 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 2009 and 2008.

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 2009 and 2008 follow:

| Fiscal Year | Number of Faculty | Future Liability (In thousands) |
|-------------|----------------------|------------------------------------|
| 2009 | 13 | \$ 552 |
| 2008 | 13 | 424 |

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 2009 and 2008 follow:

| Fiscal Year | Number of Faculty | Future Liability (In thousands) |
|-------------|----------------------|------------------------------------|
| 2009 | 1 | \$ 8 |
| 2008 | 2 | 59 |

10. NET OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single employer fully insured plan, as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2008 there were approximately 43 retirees receiving health benefits from the health plan.

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

The following table shows the components of the annual OPEB cost for 2009 and 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

| Components of the Annual OPEB Cost (In Thousands) | | |
|--|--------|--------|
| | 2009 | 2008 |
| Annual required contribution (ARC) | \$ 476 | \$ 491 |
| Interest on net OPEB obligation | 10 | — |
| Adjustment to ARC | (8) | — |
| Annual OPEB cost | 478 | 491 |
| Contributions during the year | (283) | (285) |
| Increase in net OPEB obligation | 195 | 206 |
| Net OPEB obligation, beginning of year | 206 | — |
| Net OPEB obligation, end of year | \$ 401 | \$ 206 |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2009 and 2008 were as follows:

| For Year Ended June 30 (In Thousands) | | |
|--|--------|--------|
| | 2009 | 2008 |
| Beginning of year OPEB obligation | \$ 206 | \$ — |
| Annual OPEB cost | 478 | 491 |
| Employer contribution | (283) | (285) |
| End of Year net OPEB obligation | \$ 401 | \$ 206 |
| Percentage contributed | 59.21% | 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, 2008 | — | \$5,155 | \$5,155 | 0.00% | \$54,009 | 9.54% |

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, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long-term investment yield on the general assets, using an underlying long-term inflation assumption of 3 percent. The annual healthcare cost trend rate is 8.97 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

11. LEASE AGREEMENTS

Capital Leases — Winona State University leased a generator 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, 2009 and 2008, totaled approximately \$7,579,851 and \$8,058,240, 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 |
| 2010 | \$ 7,237 |
| 2011 | 4,259 |
| 2012 | 1,341 |
| 2013 | 716 |
| 2014 | 691 |
| 2015-2019 | 3,454 |
| 2020-2024 | 3,453 |
| 2025-2029 | 2,187 |
| Total | <u>\$ 23,338</u> |

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2009 and 2008, totaled \$38,914 and \$40,192, 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 \$65,583 in fiscal year 2010.

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

| For the Year Ended June 30, 2009 (In Thousands) | | | |
|--|-----------|-----------|------------|
| Description | Salaries | Other | Total |
| Academic support | \$ 7,221 | \$ 3,419 | \$ 10,640 |
| Institutional support | 8,203 | 4,800 | 13,003 |
| Instruction | 40,859 | 2,229 | 43,088 |
| Operation & maintenance of plant | 3,361 | 5,353 | 8,714 |
| Public service | 139 | 90 | 229 |
| Research | 440 | 164 | 604 |
| Student services | 8,066 | 3,074 | 11,140 |
| Auxiliary enterprises | 7,392 | 17,792 | 25,184 |
| Depreciation | — | 7,375 | 7,375 |
| Scholarships & fellowships | — | 685 | 685 |
| Total operating expenses | \$ 75,681 | \$ 44,981 | \$ 120,662 |

| For the Year Ended June 30, 2008 (In Thousands) | | | |
|--|-----------|-----------|------------|
| Description | Salaries | Other | Total |
| Academic support | \$ 6,586 | \$ 3,680 | \$ 10,266 |
| Institutional support | 7,945 | 5,549 | 13,494 |
| Instruction | 36,858 | 2,108 | 38,966 |
| Operation & maintenance of plant | 3,225 | 4,737 | 7,962 |
| Public service | 169 | 211 | 380 |
| Research | 779 | 306 | 1,085 |
| Student services | 7,584 | 3,303 | 10,887 |
| Auxiliary enterprises | 6,568 | 17,054 | 23,622 |
| Depreciation | — | 6,822 | 6,822 |
| Scholarships & fellowships | — | 890 | 890 |
| Total operating expenses | \$ 69,714 | \$ 44,660 | \$ 114,374 |

13. 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. Beginning July 1, 2007 the funding requirement for both employer and employee increases 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 |
| 2009 | \$ 601 |
| 2008 | 538 |
| 2007 | 478 |

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 for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. Effective July 1, 2006, employer and employee contributions were 5 percent and 5.5 percent respectively. Effective July 1, 2007, 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 |
| 2009 | \$ 522 | \$ 522 |
| 2008 | 462 | 462 |
| 2007 | 461 | 501 |

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) | | |
|--------------------|-----------------|-----------------|
| <u>Fiscal Year</u> | <u>Employer</u> | <u>Employee</u> |
| 2009 | \$ 1,634 | \$ 1,220 |
| 2008 | 1,391 | 1,038 |
| 2007 | 1,354 | 1,013 |

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.

| <u>Member Group</u> | <u>Eligible Compensation</u> | <u>Maximum Annual Contributions</u> |
|--|------------------------------|-------------------------------------|
| Inter Faculty Organization (IFO) | \$6,000 to \$51,000 | \$2,250 |
| Minnesota State University Association | \$6,000 to \$50,000 | \$2,200 |
| Administrative and Service Faculty (MSUAASF) | \$6,000 to \$60,000 | \$2,700 |
| Administrators | \$6,000 to \$60,000 | \$2,700 |

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

| (In Thousands) | |
|--------------------|---------------|
| <u>Fiscal Year</u> | <u>Amount</u> |
| 2009 | \$ 906 |
| 2008 | 765 |
| 2007 | 829 |

14. 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)

| | 2009 | 2008 |
|--|-----------|-----------|
| CONDENSED STATEMENTS OF NET ASSETS | | |
| Assets | | |
| Current assets | \$ 9,290 | \$ 11,831 |
| Restricted assets | 41,411 | 41,946 |
| Noncurrent restricted assets | 5,393 | 596 |
| Noncurrent assets | 28,756 | 26,626 |
| Total assets | 84,850 | 80,999 |
| Liabilities | | |
| Current liabilities | 5,736 | 3,112 |
| Noncurrent liabilities | 44,044 | 45,775 |
| Total liabilities | 49,780 | 48,887 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 22,769 | 20,511 |
| Restricted | 12,301 | 11,601 |
| Total net assets | \$ 35,070 | \$ 32,112 |
| CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | | |
| Operating revenues | \$ 19,875 | \$ 17,557 |
| Operating expenses | (15,707) | (14,405) |
| Net operating income | 4,168 | 3,152 |
| Nonoperating revenues (expenses) | (1,207) | 199 |
| Gain (loss) on disposal of capital assets | (3) | (9) |
| Change in net assets | 2,958 | 3,342 |
| Net assets, beginning of year | 32,112 | 28,770 |
| Net asset, end of year | \$ 35,070 | \$ 32,112 |
| CONDENSED STATEMENTS OF CASH FLOWS | | |
| Net cash provided (used) by: | | |
| Operating activities | \$ 4,820 | \$ 5,906 |
| Investing activities | 705 | 425 |
| Capital and related financing activities | (8,539) | 33,159 |
| Net increase (decrease) | (3,014) | 39,490 |
| Cash, beginning of year | 52,732 | 13,242 |
| Cash, end of year | \$ 49,718 | \$ 52,732 |

15. 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 \$3.7 million for the new Wellness Center which has an estimated completion date of August 2010. The Wellness Center will be funded with general obligation funds of \$8.4 million, revenue bond proceeds of \$7 million and private funding of \$3 million.

During fiscal year 2009, construction began on the \$30 million residence hall, which has an estimated completed date of August 2010. As of June 30, 2008, \$4.3 million had been expended on the project.

New commitments made by the University during fiscal year 2009 include multiple building improvement projects. New commitment projects are estimated to cost a total of \$8.2 million and include projects such as residence hall renovations, roof repairs, plumbing and electrical upgrades, envelope testing, boiler replacements, and sporting venue upgrades. As of June 30, 2009 the University has expended approximately \$3.6 million for these improvement projects.

16. 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 | \$1,000,000 |
| Primary re insurer coverage | \$1,000,000 to \$25,000,000 |
| Catastrophic reinsurance | \$25,000,00 to \$1,000,000,000 |
| Bodily injury and property damage per person | \$400,000 |
| 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, 2009 and 2008.

| | Workers' Compensation Liability (In Thousands) | | | |
|---------------------------|---|------------------------------|----------|---------------------|
| | Beginning Liability | Net Additions and Changes | Payments | Ending Liability |
| Fiscal Year Ended 6/30/09 | \$ 135 | \$ 252 | \$ 33 | \$ 354 |
| Fiscal Year Ended 6/30/08 | 214 | — | 79 | 135 |

17. 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.

The University received \$2,247,482 and \$2,194,119 from its Foundation for scholarships and other University support in fiscal years 2009 and 2008, respectively. In addition, the University received \$3,000,000 from its Foundation for a portion of the Wellness Center in fiscal year 2009. Also, the University operates the East Lake Apartments which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

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 | 2009 | 2008 |
|---------------------------------------|----------|----------|
| Money market & certificate of deposit | \$ 250 | \$ 5 |
| Fixed Income/bonds/US treasuries | 2,458 | 4,916 |
| Equity securities | 5,320 | 10,563 |
| Total investments | \$ 8,028 | \$15,484 |

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

| Schedule of Capital Assets at June 30 (In Thousands) | | |
|---|-----------------|------------------|
| Investments | 2009 | 2008 |
| Capital assets, not depreciated: | | |
| Land | \$ 552 | \$ 552 |
| Total capital assets, not depreciated | <u>552</u> | <u>552</u> |
| Capital assets, depreciated | | |
| Buildings and improvements | 10,745 | 10,745 |
| Equipment | 281 | 281 |
| Total capital assets, depreciated | <u>11,026</u> | <u>11,026</u> |
| Total accumulated depreciation | <u>1,723</u> | <u>1,427</u> |
| Total capital assets depreciated, net | <u>9,303</u> | <u>9,599</u> |
| Total capital assets, net | <u>\$ 9,855</u> | <u>\$ 10,151</u> |

Long Term Obligations — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of \$8,380,199.

Future scheduled debt payments table follows:

| Year Ended June 30 (In Thousands) | |
|--------------------------------------|-----------------|
| 2010 | \$ 294 |
| 2011 | 307 |
| 2012 | 323 |
| 2013 | 339 |
| 2014 | 356 |
| Thereafter | <u>6,761</u> |
| Total | <u>\$ 8,380</u> |

SUPPLEMENTAL SECTION



Expert advice. When you need it.SM

**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 30, 2009

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, 2009, and have issued our report thereon dated October 30, 2009. We did not audit the financial statements of Winona State University Foundation, a component unit of the University. These statements were audited by other auditors for the years ended June 30, 2009. 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.



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

This page intentionally left blank.