ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2005 and 2004

Winona State University

A member of the Minnesota State Colleges and Universities system

WINONA STATE UNIVERSITY

**A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM**

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2005 and 2004

Prepared by:

Chief Financial Officer
Winona State University
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WINONA STATE UNIVERSITY

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2005 and 2004

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INTRODUCTION

October 26, 2005

MnSCU Board of Trustees
James H. McCormick, Chancellor
500 World Trade Center
30 East Seventh Street
St. Paul MN 55101

Dear Chancellor McCormick and MnSCU Trustees,

The 2005 fiscal year at Winona State University was marked by two significant events, the selection of a new president and the beginning of implementation of the Learning in the 21st Century initiative.

The Board of Trustees and members of the Chancellor's Office staff have supported Winona State University's efforts over the past two years to develop the vision for a new kind of public university that can prepare its students for life and work in the 21st century while, at the same time containing costs and improving productivity in a time of constrained public resources. The name under which this planning and implementation proceeds has changed from the Winona Experience to Learning for the 21st Century to reflect more accurately our intention to transform our university. Our primary focus is ***to prepare individuals for life, work and leadership in a rapidly-changing, competitive, and complex–and interconnected–global society.*** To do this, we will create distinctive learning opportunities, work together both within our curriculum and in the operation of the campus in innovative ways and, by so doing, we will contribute to the MnSCU mission of making a difference in the lives of Minnesotans.

In the following pages of this report, you'll find evidence that Winona State University's administration, faculty and staff take seriously their responsibility to serve the public interest. We are doing this through the design of our academic programs, through our growing partnerships with our sister institutions in MnSCU that open up pathways to educational advancement and opportunity and through our institutional relationships with the communities of SE Minnesota.

Winona State University
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Winona, Minnesota 55987.5838

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507.457.5000
www.winona.edu

Winona State University enjoyed a number of successes during this fiscal year.

- The WSU Foundation experienced its best year ever with more then $2.2 million in gifts received and assets growing to more than $25 million.

- The National Child Protection and Training Center at WSU continued its important work across the nation and received greater recognition and support for its programming from federal legislators as well as increased philanthropic support from individuals, businesses and foundations.

- Hundreds of WSU students participated in ever-expanding Travel Study opportunities including programs in Costa Rica, Tanzania, Jamaica, England and several Native American sites on the Northern Great Plains.

- Enrollment remained steady and the academic preparedness for college of new entering freshmen at WSU reached it highest point in the history of the institution.

- WSU was recognized as a top tier institution in US News and World Report's "America's Best Colleges" publication, was named among the "Best in the Midwest" by the Princeton review, and continued-- for a ninth consecutive year-- to be named one of "America's Best College Buys."

- During the summer, we prepared for the launch of the first year of implementation of the University of the 21st Century with a portfolio of projects supported by a combination of new tuition funds and reallocated resources from our base. We have begun to chart our progress and to adopt an experimental mode to the challenge of investing in Winona State University's future and the future of our students and the communities we serve. There will be more to report in our next fiscal year.

- WSU athletics enjoyed a banner year with nine Warrior teams winning conference championships, seven teams competing in NCAA tournaments, 10 athletes being named All-American, eight coaches earning Coach of the Year honors, two football players being drafted into the NFL, all while the academic performance of WSU athletes remained at levels far above the national average.

There are so many positive things to report about Winona State University, I have not tried to name them all. Collectively, they give evidence that this is a vibrant institution that is constantly finding ways to stretch to do more for students and for the community at large.

As you read the pages of this report, it will become clear that Winona State University and all its constituents remain focused on the institution's mission and purpose to serve the greater good of society as "a community of learners dedicated to improving our world."

I am proud to serve this institution and join with my colleagues here to applaud the work of those who set the stage in the past year to bring us to this point. I am pleased and genuinely excited to work so closely with people who care deeply and who have made a personal commitment to quality education for our students. I can say with confidence that we, as an institution, are ready to move into implementing the Learning in the 21st Century initiative at a strong, caring institution. We will be wise stewards of the resources entrusted to us by the state, by our students and by our donors.

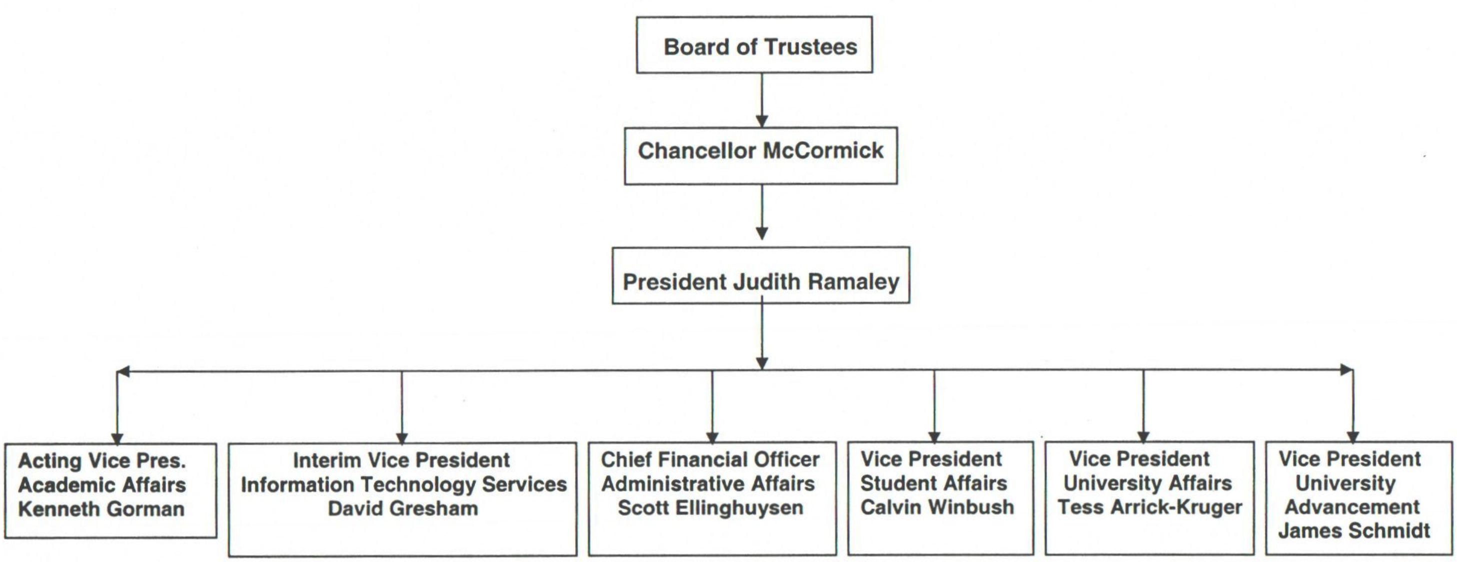
Sincerely,

Judith Ramaley

Dr. Judith A. Ramaley
President

MINNESOTA STATE COLLEGES AND UNIVERSITIES

Winona State University
September 22, 2005



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

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

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Winona State University, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Winona State University Foundation, Inc., a discretely presented component unit of Winona State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Winona State University, as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 30, 2005

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WINONA STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Winona State University, a member of Minnesota State Colleges and Universities at June 30, 2005, 2004 and 2003, 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 8,500 students. Approximately 760 faculty and staff members are employed by the University.

FINANCIAL HIGHLIGHTS

The University's financial position improved during fiscal year 2005. Assets totaled $140.4 million compared to $138.2 million in fiscal year 2004. Net assets totaled $98.9 million in fiscal year 2005 versus $94.6 million in fiscal year 2004.

Operating revenue increased $6.3 million from fiscal year 2004 to fiscal year 2005. This is on top of a $7.6 million increase from fiscal year 2003 to fiscal year 2004. The two year total increase of $13.9 million is due primarily to the 30 percent tuition increase and a 3 percent growth in overall enrollment.

Total revenue was flat from fiscal year 2004 to fiscal year 2005. The increased operating revenue was offset by a $0.2 million or 1 percent reduction in state appropriations and a $6 million reduction in capital appropriation. Over the two year period from fiscal year 2003 to fiscal year 2005, total revenues have increased $07 million.

Total expenses increased $6.6 million from fiscal year 2004 to fiscal year 2005. This growth in expenditures is due primarily to inflationary increases as well as expenses associated with the increased enrollment. Total net assets increased $4.3 million for fiscal year 2005.

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.

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

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.

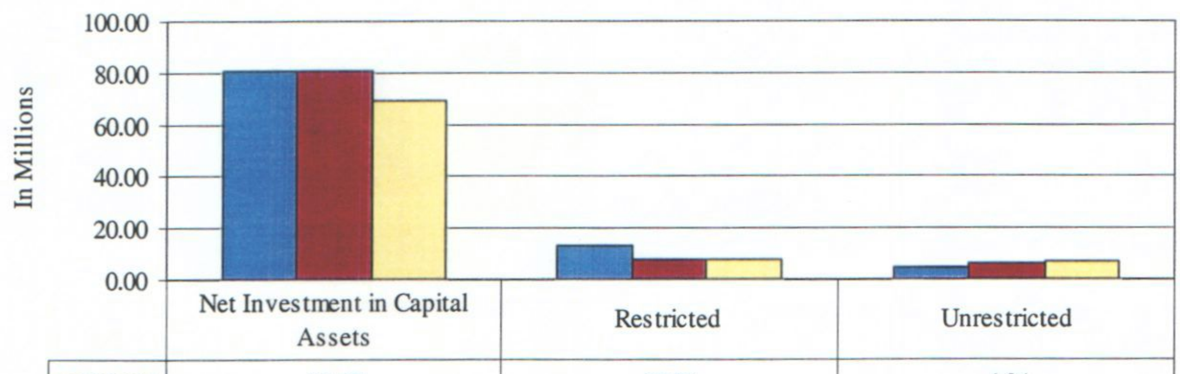
Net Assets
Fiscal Years 2005, 2004 and 2003
(In Thousands)

	2005	2004	Increase (Decrease) 2005-2004	2003	Increase (Decrease) 2004-2003
Current assets	$ 34,803	$ 32,903	$ 1,900	$ 30,505	$ 2,398
Restricted assets	2,107	2,954	(847)	4,260	(1,306)
Non-current assets	1,782	1,760	22	1,782	(22)
Capital assets, net	101,702	100,558	1,144	83,449	17,109
Total assets	140,394	138,175	2,219	119,996	18,179
Current liabilities	11,600	13,484	(1,884)	14,630	(1,146)
Non-current liabilities	29,884	30,070	(186)	21,422	8,648
Total liabilities	41,484	43,554	(2,070)	36,052	7,502
Total net assets	$ 98,910	$ 94,621	$ 4,289	$ 83,944	$ 10,677

Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled $28.7 million as of June 30, 2005. This is an increase of $2.1 million over fiscal year 2004 and represents 3.9 months of operating expenses (excluding depreciation).

Restricted assets decreased by $0.8 million primarily due to a shift from capitalizing a restricted construction-in-progress project to land. Capital assets, net, increased by $1.1 million due to finalizing the new science building construction, funding the construction of the press box at Maxwell Field, increased library purchases, and the renovation of a parking lot.

Comparison of Net Assets - Fiscal Years 2005, 2004 and 2003



	Net Investment in Capital Assets	Restricted	Unrestricted
FY2005	80.67	13.30	4.94
FY2004	80.70	7.75	6.17
FY2003	69.33	7.96	6.65

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $5.7 million at June 30, 2005, an increase from fiscal year 2004. Accounts payable decreased $2.1 million as a result of the completion of the new science building and the payment of a lease with Rochester Community and Technical College from fiscal year 2004.

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

Analysis of Net Assets
Fiscal Years 2005, 2004, and 2003
(In Thousands)

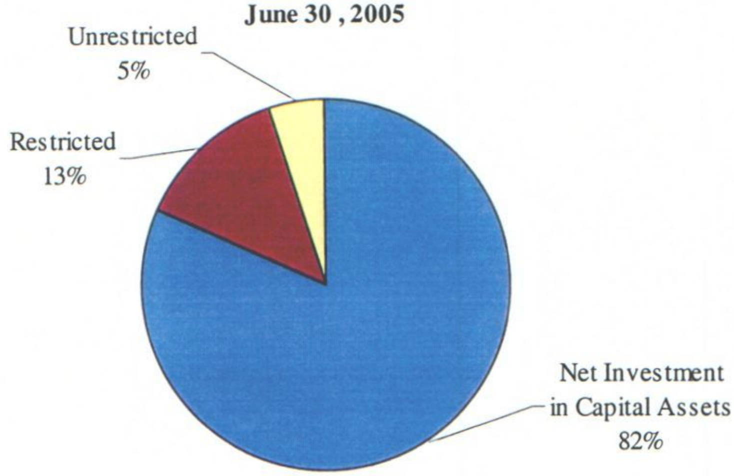
	2005	2004	Increase (Decrease) 2005-2004	2003	Increase (Decrease) 2004-2003
Capital assets, net of related debt	80,671	80,696	(25)	69,334	11,362
Restricted	13,297	7,751	5,546	7,956	(205)
Unrestricted	4,942	6,174	(1,232)	6,654	(480)
Total net assets	$98,910	$94,621	$ 4,289	$83,944	$ 10,677

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.

CAPITAL AND DEBT ACTIVITIES

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

Analysis of Net Assets
June 30 , 2005



As the graph illustrates, 82 percent of the University's net assets are related to the investment in capital assets. Unrestricted capital assets, as of June 30, 2005, totaled $101.7 million, net of accumulated depreciation of $55.1 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

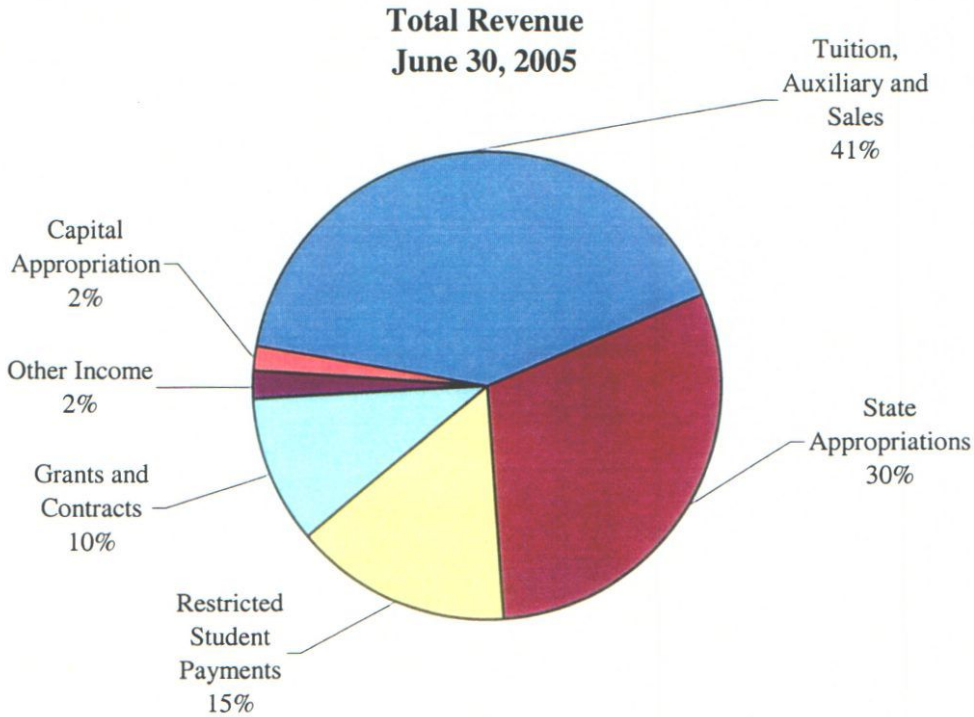
Revenues, Expenses and Changes in Net Assets
Fiscal Years 2005, 2004 and 2003
(In Thousands)

	2005	2004	Increase (Decrease) 2005-2004	2003	Increase (Decrease) 2004-2003
Operating revenue:					
Tuition, auxiliary and sales, net	$ 40,457	$ 35,514	$ 4,943	$ 29,426	$ 6,088
Restricted student payments, net	14,984	13,179	1,805	9,244	3,935
Grants and contracts, net	9,587	10,017	(430)	12,447	(2,430)
Total operating revenue	65,028	58,710	6,318	51,117	7,593
Non-operating revenue:					
State appropriations	29,839	30,079	(240)	32,342	(2,263)
Capital appropriations	1,707	7,694	(5,987)	12,754	(5,060)
Other	2,446	2,280	166	2,119	161
Total non-operating revenue	33,992	40,053	(6,061)	47,215	(7,162)
Total revenue	99,020	98,763	257	98,332	431
Operating expense:					
Salaries and benefits	57,976	54,266	3,710	53,904	362
Supplies and services	28,808	26,715	2,093	23,411	3,304
Depreciation	5,678	5,050	628	4,278	772
Financial aid, net	508	454	54	673	(219)
Total operating expense	92,970	86,485	6,485	82,266	4,219
Non-operating expense	1,761	1,601	160	865	736
Total expense	94,731	88,086	6,645	83,131	4,955
Increase in net assets	4,289	10,677	(6,388)	15,201	(4,524)
Net assets, beginning of year	94,621	83,944	10,677	68,743	15,201
Net assets, end of year	$ 98,910	$ 94,621	$ 4,289	$ 83,944	$ 10,677

Operating revenue increased $6.3 million which reflects an increase in tuition and fees, net, of $4.9 million and a $1.8 million increase in room and board.

Operating expenses as of June 30, 2005 increased by $6.5 million over fiscal year 2004. Compensation related costs increased $3.7 million due to salary increases in fiscal year 2005 and escalating health care costs. Supplies and services increased $2 million due to higher energy costs, enrollment related expenditures, and increased residence hall expenses. The remaining increase is comprised of depreciation and financial aid expense.

Nonoperating revenue decreased $6 million in fiscal year 2005. State appropriations decreased $0.2 million due to budget reductions from the state of Minnesota. Capital appropriations also decreased $6 million due to the impending completion of the new science building. Nonoperating expenses increased $0.1 million primarily due to the increased interest expense associated with the new science building and revenue bonds.



Tuition, auxiliary, sales and state appropriations remain the primary sources of funding for the University, comprising 71 percent of the total revenue. Tuition revenue increased in fiscal year 2005 as a result of a 15 percent increase, while state appropriation actually decreased $0.2 million.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

REQUESTS FOR INFORMATION

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

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

WINONA STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	$ 22,353	$ 20,662
Investments	6,339	5,887
Grants receivable	152	227
Accounts receivable, net	1,808	1,330
Prepaid expense	1,589	1,577
Inventory	934	945
Student loans and other assets, net	607	527
Securities lending collateral	1,021	1,748
Total current assets	34,803	32,903
Current Restricted Assets		
Cash and cash equivalents	2,092	1,097
Investments	-	561
Total current restricted assets	2,092	1,658
Noncurrent Restricted Assets		
Other assets	15	16
Construction in progress	-	1,280
Total noncurrent restricted assets	15	1,296
Total restricted assets	2,107	2,954
Noncurrent Assets		
Student loans and other assets, net	1,782	1,760
Capital assets, net	101,702	100,558
Total noncurrent assets	103,484	102,318
Total Assets	140,394	138,175
Liabilities		
Current Liabilities		
Salaries payable	5,684	5,066
Accounts payable	1,144	3,266
Deferred revenue	1,059	868
Interest Payable	63	-
Funds held for others	373	368
Current portion of long-term debt	1,396	1,361
Compensated absences payable/Workers' compensation	860	807
Securities lending collateral	1,021	1,748
Total current liabilities	11,600	13,484
Noncurrent Liabilities		
Noncurrent portion of long-term debt	21,020	21,614
Compensated absences payable/Workers' compensation	6,503	6,131
Capital contributions payable	2,361	2,325
Total noncurrent liabilities	29,884	30,070
Total Liabilities	41,484	43,554
Net Assets		
Invested in capital assets, net of related debt	80,671	80,696
Restricted expendable, bond covenants	5,167	2,027
Restricted expendable, other	8,130	5,724
Unrestricted	4,942	6,174
Total Net Assets	$ 98,910	$ 94,621

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Assets		
Cash and cash equivalents	$ 1,866	$ 1,452
Receivables		
Promises to give	1,123	694
Fees and other proceeds	160	186
Interest and dividends	16	15
Investments at fair value	9,937	8,406
Beneficial interest in perpetual trusts	130	124
Cash value of life insurance	41	37
Student housing project	11,041	11,337
Other assets	723	-
Equipment, net	-	3
Total assets	$ 25,037	$ 22,254
Liabilities and Net Assets		
Liabilities		
Grants and accounts payable	$ 47	$ 45
Accrued interest payable	38	39
Mortgage payable	9,421	9,651
Total liabilities	9,506	9,735
Net Assets		
Unrestricted	739	618
Temporarily restricted	5,507	3,784
Permanently restricted	9,285	8,117
Total net assets	15,531	12,519
Total Liabilities and Net Assets	$ 25,037	$ 22,254

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, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Operating Revenues		
Tuition, auxiliary and sales, net	$ 40,457	$ 35,514
Restricted student payments, net	14,984	13,179
Federal grants	5,453	5,750
State grants	3,324	3,454
Other income	810	813
Total operating revenues	65,028	58,710
Operating Expenses		
Salaries	57,976	54,266
Purchased services	18,504	18,346
Supplies	4,721	4,965
Repairs and maintenance	1,920	1,107
Depreciation	5,678	5,050
Financial aid, net	508	454
Other expense	3,663	2,297
Total operating expenses	92,970	86,485
Operating loss	(27,942)	(27,775)
Nonoperating Revenues (Expenses)		
Appropriations	29,839	30,079
Private grants	1,474	1,559
Interest income	791	669
Interest expense	(1,145)	(1,016)
Grants to other organizations	(616)	(585)
Total nonoperating revenue (expenses)	30,343	30,706
Income Before Other Revenues, Expenses, Gains, or Losses	2,401	2,931
Capital appropriations	1,707	7,694
Donated assets and supplies	-	12
Gain on disposal of capital assets	181	40
Change in net assets	4,289	10,677
Total Net Assets - Beginning of Year	94,621	83,944
Total Net Assets - End of Year	$ 98,910	$ 94,621

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total
Support and Revenue					
Contributions	$ 278	$ 1,911	$ 779	$ 2,968	$ 1,511
Fee income and other proceeds	12	257	-	269	147
Fundraising events	-	115	-	115	75
Investment income	222	467	-	689	1,007
Change in value of perpetual trust	-	-	6	6	6
Housing	713	119	-	832	707
Net assets released from restrictions by satisfaction of expenditure requirements	796	(796)	-	-	-
Reclassifications	(34)	(349)	383	-	-
Total support and revenue	1,987	1,724	1,168	4,879	3,453
Expenses					
Program services:					
Scholarships	460	-	-	460	487
Grants and expenditures supporting Winona State University activities	515	-	-	515	534
Housing	779	-	-	779	636
Special projects	47	-	-	47	40
Scholarship committee	7	-	-	7	10
Supporting services					
Management and general	24	-	-	24	29
Fundraising					
Fundraising events	22	-	-	22	17
Fundraising programs	7	-	-	7	8
Development and stewardship	6	-	-	6	9
Total expenses	1,867	-	-	1,867	1,770
Change in net assets	120	1,724	1,168	3,012	1,683
Net Assets, Beginning of Year	619	3,783	8,117	12,519	10,836
Net Assets, End of Year	$ 739	$ 5,507	$ 9,285	$ 15,531	$ 12,519

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	$ 58,826	$ 53,080
Federal grants	5,528	5,868
State grants	3,324	3,454
Cash repayment of program loans	505	446
Cash paid to suppliers for goods or services	(33,271)	(28,769)
Cash payments to employees	(56,935)	(53,954)
Financial aid disbursements	(472)	(488)
Cash payments of program loans	(584)	(552)
Net cash used by operating activities	(23,079)	(20,915)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	29,839	30,079
Private grants	1,474	1,559
Agency activity	(210)	(311)
Grants to other organizations	(616)	(585)
Net cash flows from noncapital financing activities	30,487	30,742
Cash Flows from Capital and Related Financing Activities		
Capital appropriation	1,707	7,694
Proceeds from sale of capital assets	213	72
Proceeds from borrowing	743	9,627
Proceeds from bond premium	101	448
Investment in capital assets	(5,861)	(24,305)
Interest paid	(1,049)	(1,151)
Repayment of lease principal	(195)	(171)
Repayment of note principal	(32)	(2,323)
Repayment of bond principal	(1,181)	(1,126)
Net cash flows used in capital and related financing activities	(5,554)	(11,235)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	561	-
Investment earnings	625	644
Purchase of investments	(354)	(2,712)
Net cash flows from investing activities	832	(2,068)
Net Increase in Cash and Cash Equivalents	2,686	(3,476)
Cash and Cash Equivalents, Beginning of Year	21,759	25,235
Cash and Cash Equivalents, End of Year	$ 24,445	$ 21,759

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Operating Loss	$ (27,942)	$ (27,775)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	5,678	5,050
Provision for loan defaults	14	87
Loan principal repayments	505	446
Loans issued	(584)	(552)
Forgiven loans	43	54
Change in assets and liabilities		
Inventory	11	(129)
Accounts receivable	(358)	370
Grants receivable	75	118
Accounts payable	(1,777)	1,892
Salaries payable	618	(22)
Compensated absences payable	473	324
Workers' compensation payable	(48)	11
Capital contributions payable	36	(33)
Deferred revenues	190	274
Other	(13)	(1,030)
Net reconciling items to be added to operating loss	4,863	6,860
Net cash flow used in operating activities	$ (23,079)	$ (20,915)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 26	$ 273
Loss on retirement of capital assets	32	-

WINONA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Winona State University, a member of the Minnesota State Colleges and Universities system, conform to generally accepted accounting principles (GAAP) in the United States, as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows include financial activities of Winona State University.

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units.* The Winona State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Winona State University Foundation, Eighth & Johnson Streets, P.O. Box 5838, Winona, MN 55987-5838.

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

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

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

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

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

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

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

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

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

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

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

Cash in the Revenue Fund is invested separately. The Fund contracts with the Minnesota State Board of Investment for investment management services. Investments are reported at fair value. Restricted investments are investments held in the Revenue Fund for capital projects and debt service.

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

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

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

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

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

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

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

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

Other long-term liabilities include notes payable, capital leases, compensated absences, workers' compensation claims, 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.

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

Operating Activities — Operating activities as reported in the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private grants, and investment income.

Tuition, Auxiliary and Sales — Tuition, auxiliary and sales are presented net of scholarships. Sales are also net of cost of goods sold of $2,802,124 and $2,761,570 for fiscal years 2005 and 2004, respectively.

Federal Grants — Winona State University participates in several federal grant programs. The largest include Pell, Supplemental Educational Opportunity Grant, Carl D. Perkins, and Federal Work Study. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

Restricted Student Payments — Restricted student payments consist of room, board, and fee revenue restricted for payment of revenue bonds.

Use of Estimates — To prepare the basic financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to allowances for uncollectible accounts, scholarship allowances, workers' compensation claims and compensated absences.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year's presentation. The method used to calculate the amount of scholarship allowance applied to tuition, fees, and room and board was revised for fiscal year 2005. This revision was applied to fiscal year 2004, and resulted in reclassifications of tuition, auxiliary and sales, and financial aid expense. These reclassifications had no effect on net assets previously reported.

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

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted expendable: Net assets subject to externally-imposed stipulations. Net asset restrictions for Winona State University are as follows:
  Restricted for bond covenants — revenue bond restrictions.
  Restricted for other — includes restrictions for the following:
    Donations — restricted per donor requests.
    Loans — University contributed capital for Perkins loans.
    Capital projects — restricted for completion of capital projects.
    Debt services — legally restricted for bond debt repayments.
    Faculty contract obligations — faculty development and travel required by contracts.
    Legislatively mandated programs — appropriation law restricts the use of funds.

Restricted for Other
(In Thousands)

	2005	2004
Donations	$4,418	$ 2,817
Loans	787	279
Capital projects	834	585
Debt service	1,589	1,577
Faculty contracts	502	429
Legislatively mandated programs	—	37
Total	$8,130	$ 5,724

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

New Accounting Pronouncement — Effective July 1, 2004, Minnesota State Colleges and Universities adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under this statement, deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk are disclosed. Disclosure of investments that have fair values and that are highly sensitive to changes in interest rates are included. Deposit and investment policies are also disclosed. The implementation of GASB Statement No. 40 had no affect on net assets.

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

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

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement is effective for the Minnesota State Colleges and Universities for the year ending June 30, 2006. The effect GASB Statement No. 47 will have on the fiscal year 2006 basic financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Minnesota Statutes, Section 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2005	2004
Cash – in bank	$ (56)	$ (153)
Money markets	2,067	3,006
Change fund	22	21
Cash – treasury account	22,412	18,885
Total	$ 24,445	$ 21,759

At June 30, 2005 and 2004, the University's bank balances were $2,242,535 and $3,012,775 respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

The University's balance in the treasury, except for the Revenue Fund, is invested by Minnesota State Board of Investment as part of the state investment pool. This asset is reported as a cash equivalent.

Investments — The Minnesota State Board of investment (SBI) manages the majority of the state's investments. All investments managed by SBI are governed by Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24 broadly restricts investments to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds. Generally, when applicable, the statutes limit investments to those rated within the top four quality rating categories of a nationally recognized rating agency. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

Within statutory parameters, SBI has established investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards. SBI has conducted detailed analyses of each of the funds under its control. These studies guide the ongoing management of the funds and are updated periodically.

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

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal investment policy for custodial credit risk.

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 11A.24. This statute limits investments to the top four quality rating categories of a nationally recognized rating agency.

At June 30, Winona State University had pooled securities and quality ratings as shown below.

Quality Rating as of June 30, 2005
(In Thousands)

Investment Type	Fair Value	BBB or Better	BB or Lower	Not Rated
Corporate Bonds	$ 1,292	$ 1,088	$ 182	$ 22
Mortgage Backed Securities	199	199	—	—
US Agencies	457	457	—	—
US Treasuries	76	76	—	—
External Cash Equiv Pools	978	597	—	381
Totals	$ 3,002	$ 2,417	$ 182	$ 403

Quality ratings for fiscal year 2004 SBI pooled investments could not be determined.

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 Minnesota Statutes, Section 11A.24.

Interest Rate Risk — Interest rate risk is a risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, the University had the following investments and maturities:

Fair Value as of June 30, 2005
(In Thousands)

		Investment Maturities (years)			
Investment Type	Fair Value	< 1	1 to 5	6 to 10	> 10
Corporate bonds	$ 1,292	$ 20	$ 1,272	$ —	$ —
Mortgage backed securities	199	—	—	—	199
US Agencies	457	—	—	—	457
US Treasuries	76	29	—	—	47
Cash equivalent pools	978	978	—	—	—
Total	3,002	$ 1,027	$ 1,272	$ —	$ 703
Mutual funds	807				
Corporate stock	2,512				
Real estate	18				
Total	$ 6,339				

Fair Value as of June 30, 2004
(In Thousands)

Investment Type	Fair Value	Investment Maturities (years) < 1	1 to 5	6 to 10	> 10
FNMA Global	$ 85	$ 85	$ —	$ —	$ —
FNMA	192	192	—	—	—
Treasury bills	299	284	—	—	15
Bonds	1,875	—	1,875	—	—
Cash equivalent pools	837	837	—	—	—
Mortgage backed securities	598	399	—	—	199
Total	3,886	$ 1,797	$ 1,875	$ —	$ 214
Stocks	1,845				
Mutual funds	717				
Total	$ 6,448				

Securities Lending Transactions — State statutes do not prohibit the state of Minnesota from participating in securities lending transactions. The Minnesota State Board of Investment has, by way of Custodial Trust Agreements, authorized State Street Bank and Trust Company and Wells Fargo Bank, Minnesota, N.A., to act as agents in lending Minnesota's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal years 2005 and 2004, State Street and Wells Fargo lent on behalf of the State of Minnesota certain securities held by State Street or Wells Fargo as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required by Wells Fargo to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities plus accrued interest, and by State Street to deliver collateral for each loan in amounts equal to not less than 102 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal years 2005 or fiscal year 2004. In addition, there were no losses during the fiscal years resulting from default of the borrowers.

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

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

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

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

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

During fiscal years 2005 and 2004, 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, 2005 and 2004, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

Minnesota State Colleges and University's portion of the securities lending collateral was allocated to the colleges and universities. The University's portion of the allocation was $1,021,240 and $1,747,528 as of June 30, 2005 and 2004, respectively.

3. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The University is responsible for loan collections. As of June 30, 2005 and 2004, the total loans receivable for this program was $2,714,496 and $2,678,027, respectively, less an allowance for uncollectible loans of $ 497,854 and $483,522, respectively.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students and a few businesses. At June 30, 2005 and 2004, total accounts receivable balances for the University were $2,512,951 and $1,906,405, respectively, less an allowance for uncollectible receivables of $705,251 and $575,730, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2005	2004
Tuition	$ 860	$ 669
Sales and services	616	486
Third party obligations	28	38
Other	142	129
Interest Income	188	50
Fees	381	317
Federal and state grants	32	45
Room and board	266	172
Total accounts receivable	2,513	1,906
Less allowance for uncollectible accounts	(705)	(576)
Net accounts receivable	$ 1,808	$ 1,330

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

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

5. PREPAID EXPENSE

Prepaid expense consists of $1,589,275 and $1,576,891 for fiscal years 2005 and 2004, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statutes, Section 16A.641 requires all state agencies to have on hand on December 1, of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2005 and 2004 follow:

Year Ended June 30, 2005
(In Thousands)

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

Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 3,220	$ 2,500	$ —	$ —	$ 5,720
Construction-in-progress	14,903	19,824	800	(30,152)	3,775
Total capital assets, not depreciated	18,123	22,324	800	(30,152)	9,495
Capital assets, depreciated:					
Buildings and improvements	90,685	108	—	30,152	120,945
Equipment	16,062	967	578	—	16,451
Library collections	4,756	883	369	—	5,270
Total capital assets depreciated	111,503	1,958	947	30,152	142,666
Less accumulated depreciation:					
Buildings and improvements	35,239	2,930	—	—	38,169
Equipment	8,575	1,367	535	—	9,407
Library collections	2,363	753	369	—	2,747
Total accumulated depreciation	46,177	5,050	904	—	50,323
Total capital assets, depreciated, net	65,326	(3,092)	43	30,152	92,343
Total capital assets, net	$ 83,449	$ 19,232	$ 843	$ —	$ 101,838

7. LONG-TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long-term obligations for fiscal years 2005 and 2004 follow:

Year Ended June 30, 2005
(In Thousands)

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

Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 11,908	$ 4,643	$ 748	$ 15,803	$ 980
Compensated absences	6,405	1,262	1,036	6,631	729
Workers' compensation	296	88	77	307	78
Capital contributions	2,358	—	33	2,325	—
Capital leases	2,052	—	171	1,881	196
Notes payable	155	—	123	32	32
Revenue bonds payable	—	4,984	146	4,838	153
Bonds premium payable	—	448	27	421	—
Total	$ 23,174	$ 11,425	$ 2,361	$ 32,238	$ 2,168

General Obligation Bonds Liability — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.5 to 7 percent. Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bond liability 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 $100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at the state universities.

Bond Premium — In fiscal year 2005 and 2004 bonds were issued, resulting in a premium of $101,121 and $448,370, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

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

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self-insured workers compensation claims activities. The reported liabilities for workers' compensation of $258,937 and $307,219 at June 30, 2005 and 2004, respectively, are based on claims filed for injuries to state employees occurring prior to the fiscal year end, and is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $2,361,433 and $2,325,413 at June 30, 2005 and 2004, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program.

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

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

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

Fiscal Years	General Obligation Bonds		Capital Leases		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 1,028	$ 764	$ 207	$ 92	$ 161	$ 246
2007	1,040	717	220	79	169	238
2008	1,007	665	233	66	178	230
2009	1,009	614	246	53	187	220
2010	1,012	563	261	38	197	211
2011-2015	4,814	2,058	519	29	1,156	887
2016-2020	3,735	938	—	—	1,509	532
2021-2025	1,919	177	—	—	1,128	97
Total	$ 15,564	$ 6,496	$ 1,686	$ 357	$ 4,685	$ 2,661

8. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2005	2004
Capital projects	$ 26	$ 273
Repairs and maintenance	289	775
Purchased services	379	1,107
Other	295	923
Grants to other organizations	—	50
Supplies	155	138
Total	$ 1,144	$ 3,266

9. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space and laptops. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2005 and 2004, totaled approximately $6,755,454 and $3,600,569, 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
2006	$ 3,788
2007	936
2008	266
2009	279
2010	293
2011-2015	1,697
2016-2020	2,162
2021-2025	2,754
Thereafter	1,472
Total	$ 13,647

Capital Leases — Winona State University leased a generator with a final payment occurring in fiscal year 2012. The lease meets the criteria of a capital lease as defined by the Financial Accounting Standard's Board Pronouncement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of the agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2005 and 2004, totaled $24,952 and $52,201 respectively, and is included in other income on the statements of revenues, expenses, and changes in net assets. Future expected income receipts for existing lease agreements are $1,837 in fiscal year 2006.

10. TUITION, AUXILIARY AND SALES

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

For the Year Ended June 30 (In Thousands)		
	2005	2004
Tuition	$ 34,727	$ 30,384
Fees	10,524	9,952
Sales, net	3,561	3,556
Restricted student payments	15,027	13,280
Subtotal	63,839	57,172
Less scholarship allowance	(8,398)	(8,479)
Total	$ 55,441	$ 48,693

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

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

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

For the Year Ended June 30, 2004
(In Thousands)

Description	Salaries	Other	Total
Instruction	$ 28,394	$ 1,418	$ 29,812
Research	1,181	219	1,400
Public service	309	94	403
Academic support	5,986	3,358	9,344
Student services	5,375	2,367	7,742
Institutional support	5,646	2,550	8,196
Operation & maintenance of plant	2,673	2,554	5,227
Depreciation	—	5,050	5,050
Scholarships & fellowships	—	454	454
Auxiliary enterprises	4,702	14,155	18,857
Total operating expenses	$ 54,266	$ 32,219	$ 86,485

12. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. The statutory authority for SERF is Minnesota Statutes, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2005	$ 445
2004	420
2003	406

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. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 percent and 1.7 percent. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

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

(In Thousands)	
Fiscal Year	Amount
2005	$ 474
2004	490
2003	487

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

Individual Retirement Account Plan (IRAP) —

Participation — Each employee who is in unclassified service is required to participate in TRF or IRAP upon achieving eligibility. An unclassified employee is one who serves in a position deemed unclassified according to Minnesota Statutes. This includes presidents, vice presidents, deans, administrative or service faculty, teachers, and other managers and professionals in academic and academic support programs. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 percent of a full academic year, excluding summer session. An employee remains a participant of the plan, even if employed for less than 25 percent of a full academic year in subsequent years.

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrators group. For faculty, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. For administrators, the employer rate was 6 percent and the employee rate 4 percent prior to July 1, 2004. Effective July 1, 2004, the employee rate increased to 4.5 percent. The contributions are made under the authority of Minnesota Statutes, Chapter 354B. Required contributions for Winona State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2005	$ 1,104	$ 825
2004	1,037	766
2003	1,032	765

Supplemental Retirement Plan (SRP) —

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

Contributions — Participants contribute to the SRP portion of the plan 5 percent of the eligible compensation up to a defined maximum annual contribution as specified in the following table;

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

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

(In Thousands)	
Fiscal Year	Amount
2005	$ 759
2004	760
2003	773

13. POSTRETIREMENT BENEFITS

Early retirement programs provided for the cost of health insurance benefits to be paid for retired University employees of $52,796 and $39,789 for fiscal years 2005 and 2004, respectively and early retirement incentive of $298,288 and $273,882, respectively. There are 10 faculty members currently receiving the health insurance benefit.

14. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Automobile liability coverage is required by the state and is provided by the Risk Management Fund. The University also purchased optional physical damage coverage for their newest or most expensive vehicles.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also purchased professional liability for employed physicians and student health services professional liability insurance. Property coverage offered by the Minnesota Risk Management Fund are as follows:

Institution deductible	\$500 to \$50,000
Fund responsibility	Deductible to\$2,000,000
Primary re-insurer coverage	\$2,000,001 to \$12,000,000
Multiple re-insurers' coverage	\$12,000,001 to \$1,000,000,000
Bodily injury and property damage per person	\$300,000
Bodily injury and property damage per occurrence	\$1,000,000
Annual maximum paid by fund, excess by reinsurer	\$5,000,000
Maintenance deductible for additional claims	\$25,000

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

Minnesota State Colleges and Universities participates in 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 year ended June 30, 2005 and 2004.

Workers' Compensation Liability
(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/05	\$ 307	\$ 38	\$ 86	\$ 259
Fiscal Year Ended 6/30/04	\$ 296	\$ 88	\$ 77	\$ 307

15. COMMITMENTS

Future commitments consist of construction projects to be funded by general obligation bond proceeds, revenue bond proceeds or operating revenues. The University has a project in progress that has incurred costs of \$1.47 million for land acquisition and preparation for the future site of a residence center with an estimated completion date of the fall of 2009.

16. SEGMENT INFORMATION

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

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

	2005	2004
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	$ 6,725	$ 4,829
Restricted assets	1,737	2,954
Noncurrent assets	20,349	19,172
Total assets	28,811	26,955
Liabilities		
Current liabilities	1,479	2,364
Noncurrent liabilities	4,799	4,951
Total liabilities	6,278	7,315
Net Assets:		
Invested in capital assets, net of related debt	16,566	17,026
Restricted	5,967	2,614
Total net assets	$ 22,533	$ 19,640
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 15,154	$ 13,305
Operating expenses	(12,352)	(12,140)
Net operating income	2,802	1,165
Nonoperating revenues (expenses)	91	(278)
Change in net assets	2,893	887
Net assets, beginning of year as restated	19,640	18,753
Net asset, end of year	$ 22,533	$ 19,640
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$ 2,900	$ 2,906
Investing activities	1,001	(510)
Capital and related financing activities	(1,408)	(2,011)
Net increase (decrease)	2,493	385
Cash beginning of year	4,813	4,428
Cash end of year	$ 7,306	$ 4,813

17. RELATED PARTY TRANSACTIONS

The University received $1,807,776 and $1,706,195 from its Foundation for scholarships and other University support in fiscal years 2005 and 2004, respectively. Also, the University operates the East Lake Apartments which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

In addition, the University's Foundation will be constructing a new press box at an estimated cost of $1.49 million. Winona State University will be leasing the building site to the Foundation for $1 dollar. Subsequent to June 30, 2005 the Winona State Foundation has completed its portion of the press box and has transferred all rights and ownership of the building to Winona State University.

18. COMPONENT UNITS

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following foundation affiliated with Winona State University is a legally separate, tax-exempt entity and reported as a component unit.

The Winona State University Foundation is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the Board and the resources held by the Foundation can only be used by, or for, the benefit of the University.

The Foundation's relationship with the institution is such that exclusion of the Foundations' financial statements would cause the University financial statements to be misleading or incomplete. The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board. Net assets, which are classified on the existence or absence of donor-imposed restrictions, are classified and reported according to the following classes:

- Unrestricted: Net assets that are not subject to donor-imposed stipulations.

- Temporarily Restricted Net Assets: Net assets subject to donor-imposed restrictions as to how the assets be used.

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

Investments — The Foundation adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held By Not-for-Profit Organizations*, in 1997. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Schedule of Investments at June 30
(In Thousands)

Investments	2005	2004
Equities (Stocks)	$2,038	$1,331
Certificates of Deposits	15	25
US Government Securities	1,119	339
Mutual Funds	6,282	6,354
Fixed Income Securities/Bonds	483	357
Total Investments	$9,937	$8,406

Long-Term Obligations — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of $9,420,740. Future scheduled debt payments table follows:

Year Ended June 30 (In Thousands)	
2006	$ 242
2007	255
2008	266
2009	279
2010	293
Thereafter	8,086
Total	$ 9,421

SUPPLEMENTARY SECTION

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

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

We have audited the financial statements of Winona State University as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We did not audit the financial statements of Winona State University Foundation, Inc., a discretely presented component unit of Winona State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Winona State University Foundation, Inc. were not audited in accordance with G*overnment Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 30, 2005