

WINONA STATE UNIVERSITY

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

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2007 and 2006

Prepared by:

Chief Financial Officer
Winona State University
P.O. Box 5838
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WINONA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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INTRODUCTION

WINONA

STATE UNIVERSITY

October 29, 2007

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

Dear Trustees and Chancellor McCormick:

We are pleased to submit the Fiscal Year 2007 financial report of Winona State University. The accompanying financial statements show the financial position and results of operations ending on June 30, 2007.

As Winona State enters its sesquicentennial year, we celebrate our accomplishments and reaffirm our commitment to improving the well-being and quality of life of our citizens. We believe that the information in this financial report will confirm that our management of the university's resources has been prudent and responsible.

The past year has been one of great accomplishment and progress for our students, faculty, and staff. Some of our community's notable achievements include:

- We kicked off our sesquicentennial during homecoming on September 29. The festivities included a community picnic, live music, and campus cultural and performance events. Throughout the upcoming year we will host a series of events that celebrate our past while encouraging discussion about where our university is headed in the future.
- A count of 1,734 new entering freshman and 502 transfer students gives us one of our largest fall classes in our history. We are proud to attract students who share our values and are committed to our mission of building a community of learners improving our world.
- Our faculty continues to distinguish itself. They continue to expand academic initiatives focused on creating a university that is responsive and relevant to the demands of a new era. The faculty has been particularly active in building academic and research programs in the areas of increasing student success, global engagement, and sustainability.

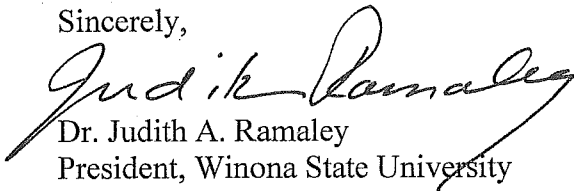


- Recently the WSU College of Science and Engineering began a pilot program with the United States Geological Survey (USGS) that will provide WSU students with research, work and internship opportunities while furthering the quality and quantity of research conducted by USGS scientists.
- We are making our campus more accommodating for teaching and learning. This summer, the renovation of Memorial Hall was completed to upgrade classroom, faculty office, activity, and locker room space to better serve our students. The renovation of Maxwell Hall remains on schedule for completion. Maxwell will serve as a center for core student support services when it is opened in the summer of 2008.
- Winona State continues to excel on the playing fields and in the classroom. In the past academic year, our intercollegiate athletic teams compiled a cumulative 3.19 GPA. Two students earned academic all-America honors: football player Shawn Cunningham and soccer defender Christine Beatty. Four student-athletes, all members of the track and field team, received NCAA Degree Completion Awards to complete their studies here at Winona State.
- Once again, Winona State has risen in the rankings as a “Top Tier Midwest Institution” by *U.S. News & World Report*. The university was also named among the “Best in the Midwest” by The Princeton Review, and for the eleventh straight year, one of “America’s Best College Buys.”

As we reflect on the past year, we reaffirm our commitment to remain responsible stewards of the public’s resources, efficient in our processes, and innovative as we develop programs and partnerships.

Winona State University is a proud member of the Minnesota State Colleges and Universities. We invite you to join us on our beautiful campus as we celebrate our 150th year.

Sincerely,

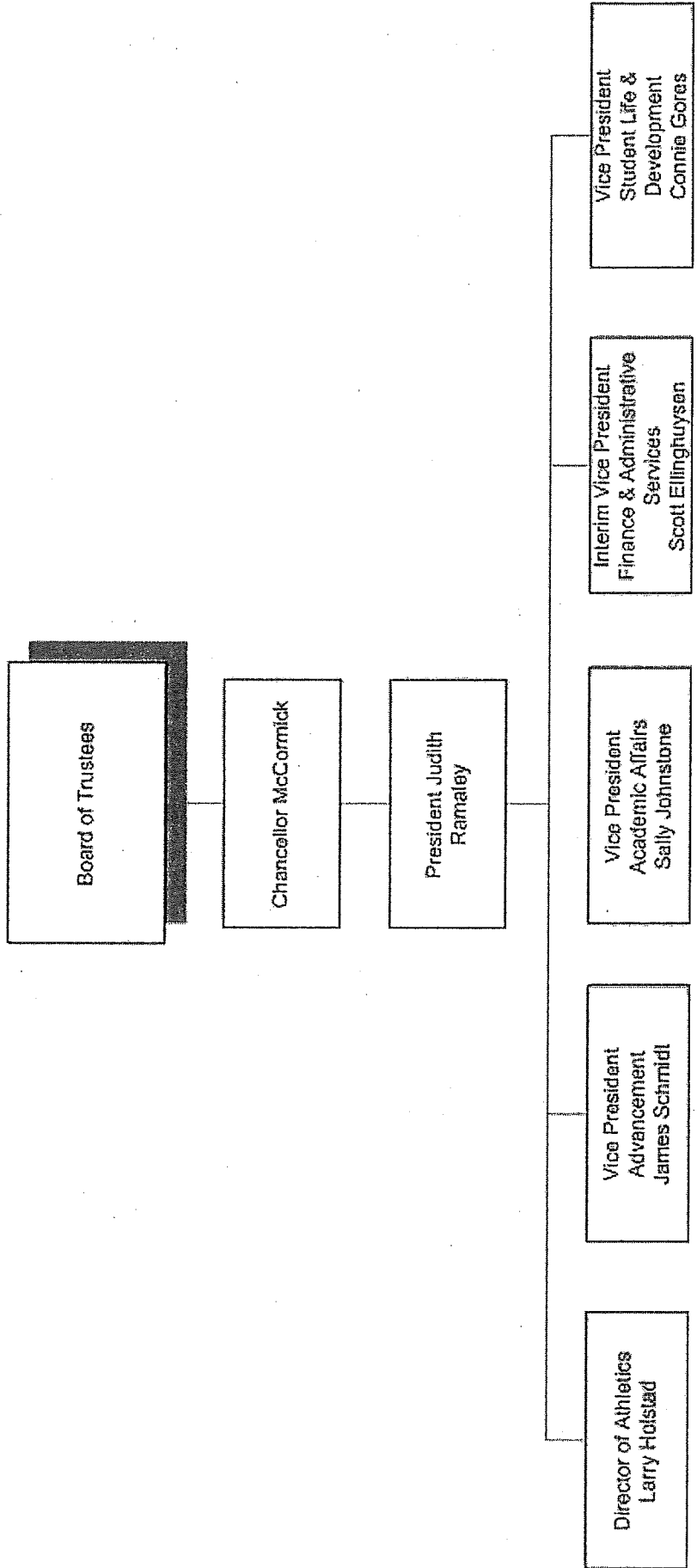


Dr. Judith A. Ramaley
President, Winona State University

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MINNESOTA STATE COLLEGES AND UNIVERSITIES

Winona State University
September 20, 2007



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 (the University), a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2007 and 2006, 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, 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, 2007 and 2006, 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 November 2, 2007, 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.



LarsonAllen LLP

Minneapolis, Minnesota
November 2, 2007

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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, 2007, 2006 and 2005, 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, with at least one from each of Minnesota's eight congressional districts. 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 950 faculty and staff members are employed by the University. Winona State University is a premier regional university with graduate and undergraduate programs. The University offers 80 academic majors and ten pre-professional programs.

FINANCIAL HIGHLIGHTS

The University's financial position remained sound at June 30, 2007, with assets of \$175.5 million and liabilities of \$54.7 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 \$93.4 million, restricted assets of \$14.9 million and unrestricted assets of \$12.5 million. Total net assets increased 10.7 percent over fiscal year 2006. The increase in net assets is primarily attributable to an increase in tuition and enrollment as well as state appropriation.

Operating revenue increased \$5.9 million from fiscal year 2006 to fiscal year 2007. This is on top of a \$4.5 million increase from fiscal year 2005 to fiscal year 2006. The two year total increase of \$10.4 million is due primarily to a 16 percent tuition increase over the period as well as a strong enrollment.

Nonoperating and other revenue increased \$1.5 million from fiscal year 2006 to fiscal year 2007. The primary reason for this increase is due to an increase in state appropriation of \$1.2 million.

Total expenses increased \$5.9 million from fiscal year 2006 to fiscal year 2007. This growth in expenditures is due to investments in renovations of our facilities as well as normal inflationary increases. Total net assets increased \$11.7 million for fiscal year 2007.

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
Fiscal Years 2007, 2006 and 2005
(In Thousands)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Current assets	\$ 51,804	\$ 41,126	\$ 10,678	\$ 34,803	\$ 6,323
Restricted assets	5,194	4,293	901	2,107	2,186
Noncurrent assets	1,702	1,869	(167)	1,782	87
Capital assets, net	<u>116,828</u>	<u>112,173</u>	<u>4,655</u>	<u>101,702</u>	<u>10,471</u>
Total assets	<u>175,528</u>	<u>159,461</u>	<u>16,067</u>	<u>140,394</u>	<u>19,067</u>
Current liabilities	21,336	16,936	4,400	11,600	5,336
Noncurrent liabilities	<u>33,336</u>	<u>33,391</u>	<u>(55)</u>	<u>29,884</u>	<u>3,507</u>
Total liabilities	<u>54,672</u>	<u>50,327</u>	<u>4,345</u>	<u>41,484</u>	<u>8,843</u>
Total net assets	<u>\$ 120,856</u>	<u>\$ 109,134</u>	<u>\$ 11,722</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>

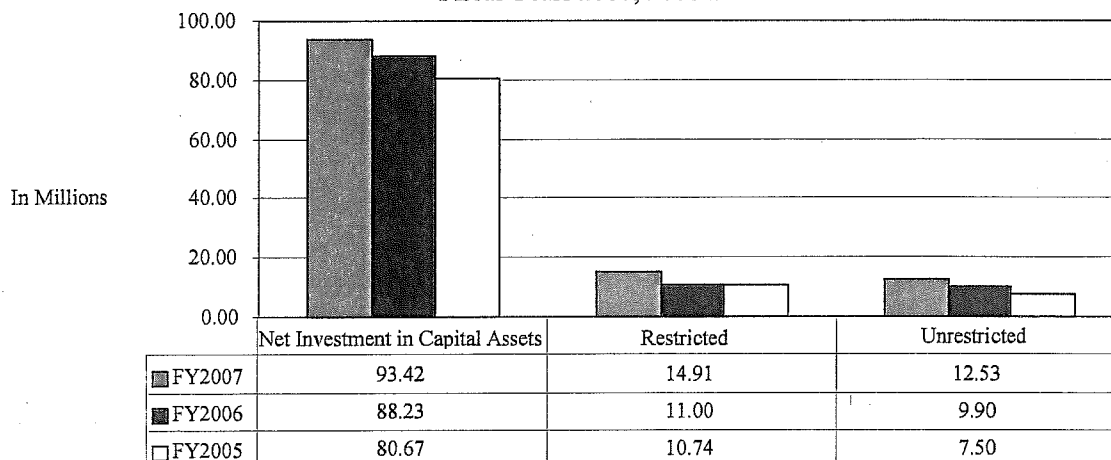
Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled \$41.1 million as of June 30, 2007. This is an increase of \$8.4 million over fiscal year 2006 and represents five months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.4 times, an indicator of good liquidity.

Capital assets, net, increased by \$4.7 million primarily due to completing the renovation of Pasteur Hall, an academic building, renovating Maxwell Hall, a future site for the Integrated Academic Services and the National Child Protection and Training Center, and renovating Wabasha Hall, the site for the childcare center, health services and fitness center during the Maxwell Hall renovation.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled \$6.5 million at June 30, 2007. Accounts payable increased \$1.8 million as the result of on going construction projects on campus in residence halls and academic facilities which neared completion during the summer of 2007.

Restricted assets increased by approximately \$0.9 million due to receiving capital appropriation funds that were not fully expended in fiscal year 2007 and from receiving interest on revenue bond proceeds that have not been spent.

Comparison of Net Assets
Fiscal Years 2007, 2006 and 2005



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

Capital assets have shown growth over the past three years. Capital additions, net of retirements, were \$9.3 million in fiscal year 2007. Capital additions primarily comprise of completing the renovation of Pasteur 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, 2007, included renovation of the Memorial Hall Locker Rooms and its HVAC system and renovation projects within revenue fund buildings.

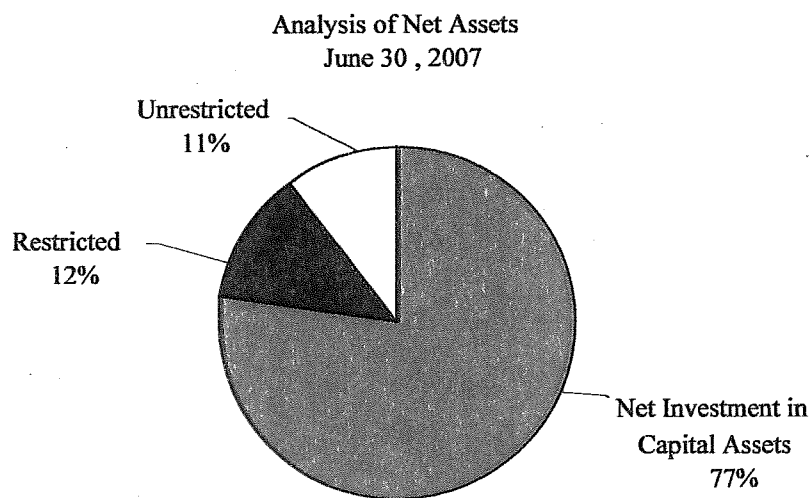
Invested in capital assets, net of related debt, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Restricted net assets primarily include donations received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

Analysis of Net Assets
Fiscal Years 2007, 2006, and 2005
(In Thousands)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Capital assets, net of related debt	93,419	88,233	5,186	80,671	7,562
Restricted	14,907	11,004	3,903	10,742	262
Unrestricted	12,530	9,897	2,633	7,497	2,400
Total net assets	<u>\$ 120,856</u>	<u>\$ 109,134</u>	<u>\$ 11,722</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement its long range plan to modernize its complement of older facilities, balanced with new construction. As the graph illustrates, 77 percent of the University's net assets are related to investment in capital assets.



Unrestricted capital assets, as of June 30, 2007, total \$116.8 million, which is net of accumulated depreciation of \$63.9 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 non operating revenue.

Revenues, Expenses and Changes in Net Assets Fiscal Years 2007, 2006 and 2005 (In Thousands)

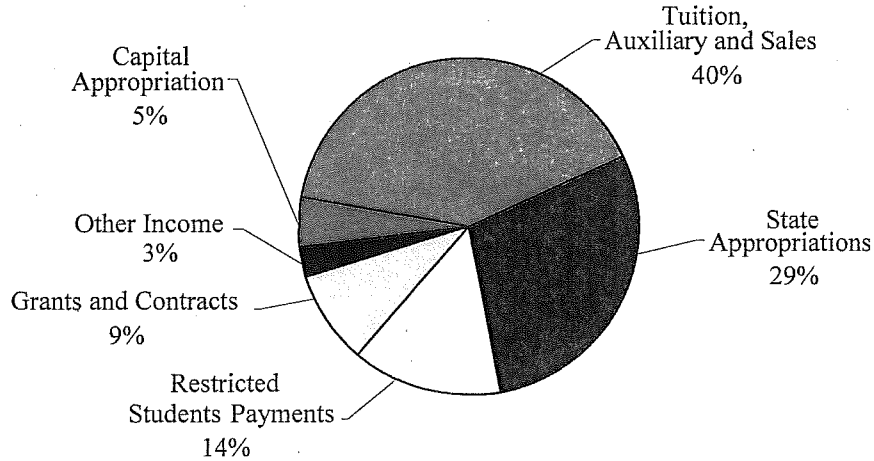
	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Operating revenue:					
Tuition, auxiliary and sales, net	\$ 47,881	\$ 44,142	\$ 3,739	\$ 40,457	\$ 3,685
Restricted student payments, net	16,718	16,139	579	14,984	1,155
Grants and contracts, net	10,795	9,213	1,582	9,587	(374)
Total operating revenue	<u>75,394</u>	<u>69,494</u>	<u>5,900</u>	<u>65,028</u>	<u>4,466</u>
Nonoperating revenue:					
State appropriations	34,017	32,809	1,208	29,839	2,970
Capital appropriations	5,453	5,112	341	1,707	3,405
Other	3,436	3,505	(69)	2,446	1,059
Total nonoperating revenue	<u>42,906</u>	<u>41,426</u>	<u>1,480</u>	<u>33,992</u>	<u>7,434</u>
Total revenue	<u>118,300</u>	<u>110,920</u>	<u>7,380</u>	<u>99,020</u>	<u>11,900</u>
Operating expense:					
Salaries and benefits	64,111	62,382	1,729	57,976	4,406
Supplies and services	33,834	30,134	3,700	28,808	1,326
Depreciation	6,377	5,952	425	5,678	274
Financial aid, net	684	572	112	508	64
Total operating expense	<u>105,006</u>	<u>99,040</u>	<u>5,966</u>	<u>92,970</u>	<u>6,070</u>
Nonoperating expense	<u>1,572</u>	<u>1,656</u>	<u>(84)</u>	<u>1,761</u>	<u>(105)</u>
Total expense	<u>106,578</u>	<u>100,696</u>	<u>5,882</u>	<u>94,731</u>	<u>5,965</u>
Increase in net assets	11,722	10,224	1,498	4,289	5,935
Net assets, beginning of year	109,134	98,910	10,224	94,621	4,289
Net assets, end of year	<u>\$ 120,856</u>	<u>\$ 109,134</u>	<u>\$ 11,722</u>	<u>\$ 98,910</u>	<u>\$ 10,224</u>

Operating revenue increased \$5.9 million which reflects an increase in tuition and fees and room and board.

Operating expenses as of June 30, 2007 increased by \$6 million over fiscal year 2006. Compensation related costs increased \$1.7 million due to salary increases in fiscal year 2007 and rising health care costs. Compensation and benefits continue to account for approximately 61 percent of the University's operating expenses. Supplies and services increased \$3.7 million due to increased construction and improvements to the fiscal plant on campus as well as inflationary increases. The remaining increase is comprised of depreciation and financial aid expense.

Nonoperating revenue increased \$1.5 million in fiscal year 2007. The increase is primarily due to an increase in State appropriations of \$1.2 million. Nonoperating expenses decreased \$0.1 million.

Total Revenue
June 30, 2007



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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue its strong financial condition. The State of Minnesota's economic condition has improved which has allowed the State Legislature to increase their investment in higher education. However, this situation must be monitored as the competition for the state's resources from other areas of government, will continue to impact the University and shift the burden for the cost of education onto the students.

REQUESTS FOR INFORMATION

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

Vice President of Finance and Administrative Services
Winona State University
PO Box 5838
Winona, MN 55987

**WINONA STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(IN THOUSANDS)**

Assets	2007	2006
Current Assets		
Cash and cash equivalents	\$ 31,973	\$ 25,607
Investments	9,164	7,144
Grants receivable	190	145
Accounts receivable, net	2,859	2,863
Prepaid expense	1,942	1,602
Inventory	777	637
Student loans and other assets, net	522	368
Securities lending collateral	4,377	2,760
Total current assets	<u>51,804</u>	<u>41,126</u>
Current Restricted Assets		
Cash and cash equivalents	5,181	4,279
Total current restricted assets	<u>5,181</u>	<u>4,279</u>
Noncurrent Restricted Assets		
Other assets	13	14
Total noncurrent restricted assets	<u>13</u>	<u>14</u>
Total restricted assets	<u>5,194</u>	<u>4,293</u>
Noncurrent Assets		
Student loans and other assets, net	1,702	1,869
Capital assets, net	116,828	112,173
Total noncurrent assets	<u>118,530</u>	<u>114,042</u>
Total Assets	<u>175,528</u>	<u>159,461</u>
Liabilities		
Current Liabilities		
Salaries payable	6,466	6,504
Accounts payable	4,381	2,572
Unearned revenue	2,418	1,038
Interest payable	79	83
Funds held for others	397	376
Current portion of long-term debt	1,824	1,749
Compensated absences/Early termination/Workers' compensation	1,394	1,291
Advances to other schools	-	563
Securities lending collateral	4,377	2,760
Total current liabilities	<u>21,336</u>	<u>16,936</u>
Noncurrent Liabilities		
Noncurrent portion of long-term debt	24,283	24,196
Compensated absences/Early termination/Workers' compensation	6,720	6,769
Capital contributions payable	2,333	2,426
Total noncurrent liabilities	<u>33,336</u>	<u>33,391</u>
Total Liabilities	<u>54,672</u>	<u>50,327</u>
Net Assets		
Invested in capital assets, net of related debt	93,419	88,233
Restricted expendable, bond covenants	8,265	5,148
Restricted expendable, other	6,642	5,856
Unrestricted	12,530	9,897
Total Net Assets	<u>\$ 120,856</u>	<u>\$ 109,134</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 AS OF JUNE 30, 2007 AND 2006
 (IN THOUSANDS)

	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 636	\$ 1,675
Investments	16,097	12,129
Pledges and contributions receivable	1,187	913
Other receivables	173	33
Accrued investment/Interest income	28	22
Annuities/Remainder interests/Trusts	143	131
Total current assets	<u>18,264</u>	<u>14,903</u>
Noncurrent Assets		
Property and equipment, net	10,447	10,744
Other assets	217	133
Total noncurrent assets	<u>10,664</u>	<u>10,877</u>
Total Assets	<u>\$ 28,928</u>	<u>\$ 25,780</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 102	\$ 138
Interest payable	36	37
Notes payable	266	255
Total current liabilities	<u>404</u>	<u>430</u>
Noncurrent Liabilities		
Notes payable	<u>8,660</u>	<u>8,924</u>
Total noncurrent liabilities	<u>8,660</u>	<u>8,924</u>
Total Liabilities	<u>9,064</u>	<u>9,354</u>
Net Assets		
Unrestricted	951	833
Temporarily restricted	8,178	5,338
Permanently restricted	10,735	10,255
Total Net Assets	<u>19,864</u>	<u>16,426</u>
Total Liabilities and Net Assets	<u>\$ 28,928</u>	<u>\$ 25,780</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, 2007 AND 2006
 (IN THOUSANDS)

	2007	2006
Operating Revenues		
Tuition, auxiliary, and sales, net	\$ 47,881	\$ 44,142
Restricted student payments, net	16,718	16,139
Federal grants	5,147	4,792
State grants	4,191	3,469
Other income	1,457	952
Total operating revenues	<u>75,394</u>	<u>69,494</u>
Operating Expenses		
Salaries	64,111	62,382
Purchased services	22,783	20,236
Supplies	4,460	4,446
Repairs and maintenance	1,722	1,490
Depreciation	6,377	5,952
Financial aid, net	684	572
Other expense	4,869	3,962
Total operating expenses	<u>105,006</u>	<u>99,040</u>
Operating loss	<u>(29,612)</u>	<u>(29,546)</u>
Nonoperating Revenues (Expenses)		
Appropriations	34,017	32,809
Private grants	1,523	1,355
Interest income	1,913	1,148
Interest expense	(1,200)	(1,196)
Grants to other organizations	(316)	(460)
Total nonoperating revenue (expenses)	<u>35,937</u>	<u>33,656</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	6,325	4,110
Capital appropriations	5,453	5,112
Donated assets and supplies	-	966
Gain on disposal of capital assets	(56)	36
Change in net assets	<u>11,722</u>	<u>10,224</u>
Total Net Assets, Beginning of Year	109,134	98,910
Total Net Assets, End of Year	<u>\$ 120,856</u>	<u>\$ 109,134</u>

The notes are an integral part of the financial statements.

**WINONA STATE UNIVERSITY FOUNDATION
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
 (IN THOUSANDS)**

	2007	2006
Support and Revenue		
Contributions	\$ 2,325	\$ 1,982
Investment income	2,326	974
Unrealized gains	11	1
Program income	1,174	193
Fundraising income	171	205
Other income	-	893
Total support and revenue	<u>6,007</u>	<u>4,248</u>
Expenses		
Program Services		
Program services	763	771
Scholarships	599	547
University activities	1,077	1,869
Special projects	39	43
Total program services	<u>2,478</u>	<u>3,230</u>
Supporting services		
Management and general	32	31
Fundraising expenses	59	92
Total supporting services	<u>91</u>	<u>123</u>
Total Expenses	<u>2,569</u>	<u>3,353</u>
Change in Net Assets	3,438	895
Net Assets, Beginning of Year	16,426	15,531
Net Assets, End of Year	<u>\$ 19,864</u>	<u>\$ 16,426</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
 (IN THOUSANDS)

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	\$ 70,765	\$ 63,851
Cash repayment of program loans	523	512
Federal grants	5,117	4,803
State grants	4,191	3,469
Cash paid to suppliers for goods or services	(35,369)	(31,414)
Cash payments to employees	(64,096)	(60,863)
Financial aid disbursements	(775)	(517)
Cash payments of program loans	(442)	(459)
Net cash flows used in operating activities	<u>(20,086)</u>	<u>(20,618)</u>
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	34,017	32,809
Agency activity	254	-
Private grants	1,523	1,355
Loans to/from other schools	(563)	563
Grants to other organizations	(316)	(460)
Net cash flows from noncapital financing activities	<u>34,915</u>	<u>34,267</u>
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(11,203)	(15,158)
Capital appropriation	5,035	4,548
Proceeds from sale of capital assets	50	78
Proceeds from borrowing	1,704	4,778
Proceeds from bond premium	242	196
Interest paid	(1,317)	(1,153)
Repayment of lease principal	(219)	(207)
Repayment of note principal	-	-
Repayment of bond principal	(1,715)	(1,218)
Net cash flows used in capital and related financing activities	<u>(7,423)</u>	<u>(8,136)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	-	206
Purchase of investments	(1,154)	422
Investment earnings	1,016	(700)
Net cash flows from investment activities	<u>(138)</u>	<u>(72)</u>
Net Increase in Cash and Cash Equivalents	7,268	5,441
Cash and Cash Equivalents, Beginning of Year	29,886	24,445
Cash and Cash Equivalents, End of Year	<u>\$ 37,154</u>	<u>\$ 29,886</u>

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
 (IN THOUSANDS)

	2007	2006
Operating Loss	<u>\$ (29,612)</u>	<u>\$ (29,546)</u>
Adjustment to Reconcile Operating Loss to Net Cash Flows used in Operating Activities		
Depreciation	6,377	5,952
Provision for loan defaults	71	(40)
Loan principal repayments	523	512
Loans issued	(442)	(459)
Loans forgiven	15	34
Donated supplies	-	966
Change in assets and liabilities		
Inventory	(140)	298
Accounts receivable	364	(131)
Grants receivable	(45)	7
Accounts payable	1,215	205
Salaries payable	(38)	821
Compensated absences payable/Early termination benefit	47	749
Workers' compensation	7	(52)
Capital contributions payable	(93)	65
Unearned revenues	1,380	(20)
Other	285	21
Net reconciling items to be added to operating loss	<u>9,526</u>	<u>8,928</u>
Net cash flows used in operating activities	<u>\$ (20,086)</u>	<u>\$ (20,618)</u>
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	\$ 1,610	\$ 1,250
Change in fair market value of investments	866	310
Investment earnings on account	505	549
Amortization of bond premium	75	55
Loss on retirement of capital assets	(56)	-

**WINONA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 and 2006**

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 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
Library collections	7 years

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

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

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

Other long-term liabilities include notes payable, capital leases, compensated absences, workers' compensation claims, early termination benefits, and capital contributions associated with Perkins Loan agreements with the U. S. Dept. of Education.

Minnesota State Colleges and Universities may finance the construction, renovation and acquisition of facilities for student residences and student unions through the sale of revenue bonds. These activities are accounted for and reported in the Revenue Fund included herein. Details on the Revenue Fund bonds are available in the separately audited and issued Revenue Fund financial report. Copies are available from the financial reporting director, Minnesota State Colleges and Universities, Wells Fargo Place, 30 7th St. E., Suite 350, St. Paul, MN 55101-7804.

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

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

Tuition, Auxiliary, and Sales — Tuition, auxiliary, and sales are presented net of scholarships. Sales are also net of cost of goods sold of \$2,980,311 and \$2,770,992 for fiscal years 2007 and 2006, respectively.

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

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

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

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

- *Invested in capital assets, net of related debt:* capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted expendable:* net assets subject to externally imposed stipulations. Net asset restrictions for Winona State University are as follows:
 - Restricted for bond covenants* — revenue bond restrictions.
 - Restricted for other* — includes restrictions for the following:

- Donations* — restricted per donor requests.
- Loans* — University contributed capital for Perkins loans.
- Capital projects* — restricted for completion of capital projects.
- Debt services* — legally restricted for bond debt repayments.
- Faculty contract obligations* — faculty development and travel required by contracts.

Restricted for Other (In Thousands)		
	2007	2006
Donations	\$2,446	\$2,038
Loans	282	293
Capital projects	1,372	1,376
Debt service	1,942	1,602
Faculty contracts	600	547
Total	<u>\$6,642</u>	<u>\$5,856</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 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). This statement requires employers to accrue the cost of postretirement medical plans while employees who will receive these benefits are providing services to the employer. GASB Statement No. 45 is effective for the Minnesota State Colleges and Universities for the year ending June 30, 2008. The net OPEB obligation reported on the fiscal year 2008 financial statements will be \$206,000.

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2007	2006
Cash in bank	\$ (56)	\$ 172
Money markets	1,972	2,399
Change fund	22	22
Cash in treasury account	35,216	27,293
Total	<u>\$37,154</u>	<u>\$ 29,886</u>

At June 30, 2007 and 2006, the University's bank balances were \$2,258,357 and \$2,692,785 respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

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

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

Within statutory parameters, SBI has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

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

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Board procedure 7.5.1 requires compliance with Minnesota Statutes, Section 118A.03 and further excludes the use of FDIC insurance when meeting collateral requirements.

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04. This statute limits investments to the top quality rating categories of a nationally recognized rating agency.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long-term debt investments.

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

Fair Value as of June 30 (In Thousands)				
Investment Type	Investment Maturity(yrs)		Investment Maturity(yrs)	
	2007 Fair Values	2007 Weighted Maturity	2006 Fair Values	2006 Weighted Maturity
Corporate/municipal bonds	\$ 962	5.16	\$ 867	6.27
State investment pool cash equivalents	831	0.20	613	0.18
US agencies	1,119	22.11	699	20.86
US treasuries	1,124	4.40	955	5.40
Asset backed	1	26.25	—	—
Total	<u>4,037</u>		<u>3,134</u>	
Portfolio weighted average maturity		8.63		8.07
Certificate of deposit	504		—	
Mutual stock funds	1,340		1,045	
Corporate stock	3,248		2,937	
Real estate	35		28	
Total	<u>\$ 9,164</u>		<u>\$ 7,144</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 2007 and 2006, 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 2007 or 2006. 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, 2007
(In Thousands)

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

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

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

During fiscal years 2007 and 2006, 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, 2007 and 2006, 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 \$4,376,567 and \$2,759,749 as of June 30, 2007 and 2006, 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, 2007 and 2006, the total loans receivable for this program were \$2,531,021 and \$2,627,168, respectively, less an allowance for uncollectible loans of \$ 529,374 and \$458,006, respectively.

4. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students and a few businesses. At June 30, 2007 and 2006, total accounts receivable balances for the University were \$3,771,150 and \$3,597,278, respectively, less an allowance for uncollectible receivables of \$912,376 and \$734,273, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2007	2006
Tuition	\$ 702	\$ 828
Sales and services	780	708
Third party obligations	10	26
Interest	491	549
Fees	390	403
Federal and state grants	12	28
Capital projects	981	563
Room and board	291	300
Other	114	192
Total accounts receivable	<u>3,771</u>	<u>3,597</u>
Less allowance for uncollectible accounts	(912)	(734)
Net accounts receivable	<u>\$ 2,859</u>	<u>\$ 2,863</u>

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

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

5. PREPAID EXPENSE

Prepaid expense consists of \$1,942,065 and \$1,602,036 for fiscal years 2007 and 2006, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statutes, Section 16A.641 requires all state agencies to have on hand December 1 of each year an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2007 and 2006 follow:

	Year Ended June 30, 2007 (In Thousands)				
	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	\$ 7,371	\$ 692	\$ —	\$ —	\$ 8,063
Construction in progress	9,944	9,058	—	(13,384)	5,618
Total capital assets, not depreciated	<u>17,315</u>	<u>9,750</u>	<u>—</u>	<u>(13,384)</u>	<u>13,681</u>
Capital assets, depreciated:					
Buildings and improvements	131,190	—	—	13,384	144,574
Equipment	16,837	812	1,730	—	15,919
Library collections	6,132	1,001	573	—	6,560
Total capital assets depreciated	<u>154,159</u>	<u>1,813</u>	<u>2,303</u>	<u>13,384</u>	<u>167,053</u>
Less accumulated depreciation:					
Buildings and improvements	45,370	4,179	—	—	49,549
Equipment	10,662	1,266	1,204	—	10,724
Library collections	3,269	937	573	—	3,633
Total accumulated depreciation	<u>59,301</u>	<u>6,382</u>	<u>1,777</u>	<u>—</u>	<u>63,906</u>
Total capital assets depreciated, net	<u>94,858</u>	<u>(4,569)</u>	<u>526</u>	<u>13,384</u>	<u>103,147</u>
Total capital assets, net	<u>\$ 112,173</u>	<u>\$ 5,181</u>	<u>\$ 526</u>	<u>\$ —</u>	<u>\$ 116,828</u>

Year Ended June 30, 2006
(In Thousands)

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

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 2007 and 2006 follow:

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	\$ 17,095	\$ 1,704	\$ 1,131	\$ 17,668	\$ 1,223
Capital leases	1,479	—	219	1,260	233
Revenue bonds payable	6,749	—	359	6,390	368
Bonds premium payable	622	242	75	789	—
Compensated absences	7,193	2,548	2,306	7,435	986
Workers' compensation	207	82	75	214	64
Early termination benefits	660	186	381	465	344
Capital contributions	2,426	—	93	2,333	—
Total	<u>\$ 36,431</u>	<u>\$ 4,762</u>	<u>\$ 4,639</u>	<u>\$ 36,554</u>	<u>\$ 3,218</u>

Year Ended June 30, 2006
(In Thousands)

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

General Obligation Bonds Liability — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 1.5 to 6 percent. Minnesota State Colleges and Universities is responsible for paying one-third of the debt service for certain general obligation bonds sold for those capital projects, as specified in the authorizing legislation. This debt obligation is allocated to the colleges and universities based upon the specific projects funded. The general obligation bond liability financial statements represent the University's share.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed \$150,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union, food service and parking purposes at the state universities. Revenue bonds currently outstanding have interest rates of 4.2 to 6.5 percent.

Bond Premium — In fiscal year 2007 and 2006, bonds were issued resulting in premiums of \$242,464 and \$195,829, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

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

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self insured workers compensation claims activities. The reported liabilities for workers' compensation of \$213,733 and \$207,366 at June 30, 2007 and 2006, 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 \$2,332,977 and \$2,426,034 at June 30, 2007 and 2006, 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 *Accounting for Leases*. See Note 9 for details.

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

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

Fiscal Years	General		Capital Leases		Revenue Bonds	
	Obligation Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2008	\$ 1,223	\$ 868	\$ 233	\$ 66	\$ 368	\$ 309
2009	1,226	807	246	53	388	294
2010	1,229	745	261	38	407	276
2011	1,229	683	276	23	422	258
2012	1,232	621	244	6	443	239
2013-2017	5,527	2,228	—	—	2,279	857
2018-2022	4,262	961	—	—	1,685	355
2023-2027	1,740	146	—	—	398	11
Total	<u>\$ 17,668</u>	<u>7,059</u>	<u>\$ 1,260</u>	<u>\$ 186</u>	<u>\$ 6,390</u>	<u>\$ 2,599</u>

8. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30 (In Thousands)

	2007	2006
Capital projects	\$ 1,610	\$ 1,250
Repairs and maintenance	401	55
Purchased services	1,503	562
Capital expenditures	157	538
Employee benefits	11	18
Grants to other organizations	29	7
Supplies	148	71
Other	522	71
Total	<u>\$ 4,381</u>	<u>\$ 2,572</u>

9. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space and laptops. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2007 and 2006, totaled approximately \$8,071,973 and \$7,239,955, 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
2008	\$ 5,762
2009	1,409
2010	789
2011	789
2012	789
2013-2017	3,465
2018-2022	3,465
2023-2027	3,465
2028-2032	173
Total	<u>\$ 20,106</u>

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.

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2007 and 2006, totaled \$52,965 and \$22,044, 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 \$33,600 in fiscal year 2008.

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)		
	2007	2006
Tuition	\$ 41,537	\$ 37,193
Fees	11,410	11,240
Sales, net	4,415	4,111
Restricted student payments	16,873	16,245
Subtotal	74,235	68,789
Less scholarship allowance	(9,636)	(8,508)
Total	<u>\$ 64,599</u>	<u>\$ 60,281</u>

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

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

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

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

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

12. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. The statutory authority for SERF is Minnesota Statutes, Chapter 352. 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
2007	\$ 478
2006	425
2005	445

Teachers Retirement Fund (TRF)

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 percent and 1.7 percent. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. The funding requirements were 5 percent for both employer and employee for coordinated members. Effective July 1, 2006 the funding requirements for employees increased to 5.5 percent. Actual contributions were 100 percent of required contributions. Required contributions for Winona State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	\$ 461	\$ 501
2006	415	415
2005	474	474

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 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 354B. Required contributions for Winona State University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	\$ 1,354	\$ 1,013
2006	1,080	810
2005	1,104	825

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
2007	\$ 829
2006	693
2005	759

13. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Certain bargaining unit contracts: Inter Faculty Organization (IFO), and Minnesota State University Association of Administrative Service Faculty (MSUAASF); provide for this benefit. The following is a description of the different benefit arrangements for each contract, including number of retired faculty receiving the benefit, and the amount of future liability as of the end of fiscal years 2007 and 2006.

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 2007 and 2006 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	13	\$465
2006	14	\$633

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

The MSUAASF contract allows faculty members who meet certain eligibility and combination of age and years of service requirements to receive an early retirement incentive cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for those faculty as of the end of fiscal years 2007 and 2006 follow:

<u>Fiscal Year</u>	<u>Number of Faculty</u>	<u>Future Liability (In thousands)</u>
2007	—	\$—
2006	1	\$27

14. RISK MANAGEMENT

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

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

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also purchased professional liability for employed physicians and student health services professional liability insurance.

Property coverage offered by the Minnesota Risk Management Fund are as follows:

Institution deductible	\$500 to \$75,000
Fund responsibility	\$1,500,000
Primary re insurer coverage	\$1,500,001 to \$12,000,000
Catastrophic reinsurance	\$12,000,001 to \$500,000,000
Bodily injury and property damage per person	\$300,000
Bodily injury and property damage per occurrence	\$1,000,000
Annual maximum paid by fund, excess by reinsurer	\$5,000,000
Maintenance deductible for additional claims	\$25,000

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

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

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2007 and 2006.

Workers' Compensation Liability (In Thousands)				
	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/07	\$ 207	\$ 82	\$ 75	\$ 214
Fiscal Year Ended 6/30/06	\$ 259	\$ —	\$ 52	\$ 207

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 \$2.3 million for renovation of an existing building into an integrated student services building with an estimated completion date of spring 2008. This project is estimated to cost a total of \$11.2 million. Costs of approximately \$1.7 million of a \$4 million project has been incurred for the renovation of the existing University locker rooms and related heating and ventilated system with an estimated completion date of August 2007. The University has also incurred costs of approximately \$109 thousand related to pre-design on two future projects as well as for the demolition of an acquired building for the future location of additional parking. The demolition is estimated to cost \$0.8 million. The University's revenue fund has also incurred costs of approximately \$1.3 million for

the renovation and needed upgrades to some of its revenue fund buildings. These projects are estimated to cost a total of \$2.9 million. Some of these projects also reduce the current deferred maintenance.

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)

	<u>2007</u>	<u>2006</u>
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	\$ 11,751	\$ 8,110
Restricted assets	4,552	4,293
Noncurrent assets	22,884	22,443
Total assets	<u>39,187</u>	<u>34,846</u>
Liabilities		
Current liabilities	4,103	2,784
Noncurrent liabilities	6,314	6,702
Total liabilities	<u>10,417</u>	<u>9,486</u>
Net Assets:		
Invested in capital assets, net of related debt	19,133	18,836
Restricted	9,637	6,524
Total net assets	<u>\$ 28,770</u>	<u>\$ 25,360</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$ 17,142	\$ 16,368
Operating expenses	(14,109)	(13,702)
Net operating income	3,033	2,666
Nonoperating revenues (expenses)	390	161
Gain (loss) on disposal of capital assets	(13)	0
Change in net assets	3,410	2,827
Net assets, beginning of year	25,360	22,533
Net asset, end of year	<u>\$ 28,770</u>	<u>\$ 25,360</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 4,627	\$ 3,620
Investing activities	666	457
Capital and related financing activities	(2,124)	(1,310)
Net increase (decrease)	3,169	2,767
Cash, beginning of year	10,073	7,306
Cash, end of year	<u>\$ 13,242</u>	<u>\$ 10,073</u>

17. RELATED PARTY TRANSACTIONS

The University received \$2,478,320 and \$3,229,946 from its Foundation for scholarships and other University support in fiscal years 2007 and 2006, respectively. Also, the University operates the East Lake Apartments which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

18. COMPONENT UNITS

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

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

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

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

- *Unrestricted*: net assets that are not subject to donor imposed stipulations.
- *Temporarily Restricted Net Assets*: net assets subject to donor imposed restrictions as to how the assets be used.
- *Permanently Restricted Net Assets*: net assets subject to donor imposed stipulations that they be maintained permanently by each foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specific purposes.

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

Schedule of Investments at June 30
(In Thousands)

Investments	2007	2006
Equities (stocks)	\$ 1,471	\$ 2,272
Certificates of deposits	10	80
US Government securities	1,315	1,031
Mutual funds	12,937	8,435
Fixed income securities/bonds	364	311
Total investments	<u>\$16,097</u>	<u>\$12,129</u>

Capital Assets — The Foundation has developed student housing to be used by the students of Winona State University. As of June 30, 2007 and 2006, the Foundation's investment in student housing consists of the following:

For the Year Ended June 30 (In Thousands)		
	2007	2006
Land and improvements	\$ 551,843	\$ 551,843
Building and improvements	10,745,361	10,745,361
Building equipment	280,573	280,573
Total	11,577,777	11,577,777
Accumulated depreciation	(1,130,441)	(833,750)
Student Housing, net	\$ 10,447,336	\$ 10,744,027

Long-Term Obligations — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of \$9,179,382.

Future scheduled debt payments table follows:

Year Ended June 30 (In Thousands)	
2008	\$ 266
2009	279
2010	293
2011	307
2012	323
Thereafter	7,458
Total	\$ 8,926

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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 GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Winona State University (the University) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 2, 2007. We did not audit the financial statements of Winona State University Foundation, 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

Internal Control Over Financial Reporting (Continued)

Our consideration of the 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 the 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 detect any items which we would consider to be material weaknesses in internal control over financial reporting.

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 test 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.


LarsonAllen LLP

Minneapolis, Minnesota
November 2, 2007

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