WINONA STATE UNIVERSITY

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2010 and 2009

Prepared by:

Winona State University
P.O. Box 5838
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of Winona State University, a member of Minnesota State Colleges and Universities at June 30, 2010, 2009 and 2008, 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 system. The 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 serving approximately 8,400 students and employing approximately 1,000 faculty and staff members. Winona State University is a premier regional university with graduate and undergraduate programs available. It offers 80 academic majors and 10 pre-professional programs.

FINANCIAL HIGHLIGHTS

The University's financial position remained sound at June 30, 2010, with assets of $242.9 million and liabilities of $92.3 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt, of $118.1 million, restricted assets of $19 million and unrestricted assets of $13.6 million. Total net assets increased 14.5 percent over fiscal year 2009. The increase in net assets is primarily attributable to continued investment in capital assets, net of related debt. This investment is made possible by state appropriation support as well as private fundraising support and student fees.

Operating revenue increased $1.3 million from fiscal year 2009 to fiscal year 2010. This is on top of a $5.7 million increase from fiscal year 2008 to fiscal year 2009. The two year total increase of $7 million is due primarily to an 8 percent tuition increase over the period as well as enrollment growth of 5.5 percent.

Operating expenses decreased $0.7 million from fiscal year 2009 to fiscal year 2010. This decline in expenditures is due to a reduction in laptop lease costs of approximately $300,000 and a reduction in facility repair and maintenance expenses. Total net assets increased $13 million for fiscal year 2010.

USING THE FINANCIAL STATEMENTS

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

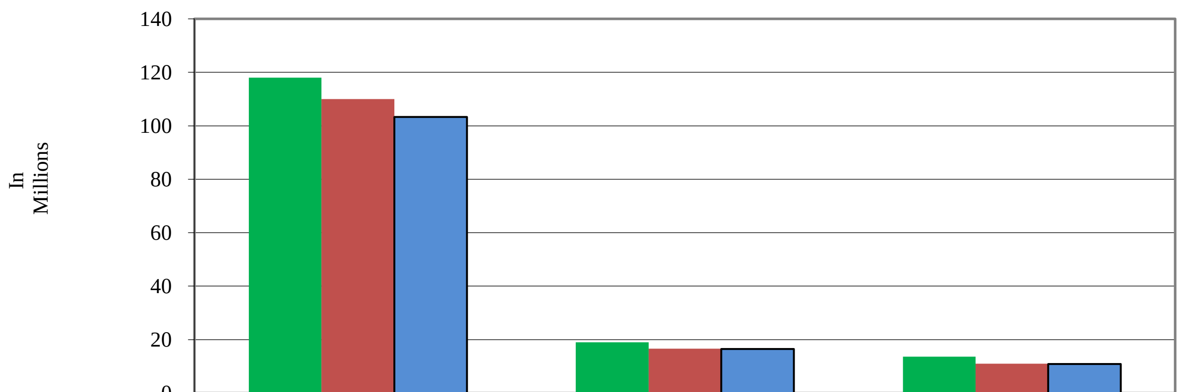
STATEMENTS OF NET ASSETS

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

Net Assets for Fiscal Years 2010, 2009 and 2008
(In Thousands)

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
Current assets	$ 50,991	$ 46,783	$ 4,208	$ 49,441	$ (2,658)
Restricted assets	47,654	48,724	(1,070)	43,966	4,758
Noncurrent assets	2,100	2,168	(68)	1,725	443
Capital assets, net	142,148	136,084	6,064	130,873	5,211
Total assets	242,893	233,759	9,134	226,005	7,754
Current liabilities	22,871	23,282	(676)	20,151	3,131
Noncurrent liabilities	69,416	72,883	(3,467)	75,184	(2,301)
Total liabilities	92,287	96,165	(4,143)	95,335	830
Total net assets	$ 150,606	$137,594	$ 13,012	$ 130,670	$ 6,924

Comparison of Net Assets
Fiscal Years 2010, 2009 and 2008



	Net Investment in Capital Assets	Restricted	Unrestricted
FY2010	118.07	18.95	13.58
FY2009	109.97	16.64	10.99
FY2008	103.34	16.42	10.91

Noncurrent restricted assets increased by $23.3 million due to revenue fund bond proceeds that were not fully expensed in fiscal year 2009 and from receiving interest on those unspent revenue bond proceeds. Current assets consist primarily of cash and investments. Unrestricted cash and investments totaled $44.2 million as of June 30, 2010. This is an increase of $6.2 million over fiscal year 2009 and represents 4.73 months of operating expenses (excluding depreciation). Total current assets cover current liabilities 2.2 times, an indicator of good liquidity.

Capital assets, net, increased by $29.36 million primarily due to the construction in progress on the new Integrated Wellness Complex and the New 2010 Residence Hall, along with the renovation of a couple athletic fields.

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $8.2 million at June 30, 2010. Accounts payable decreased $2.1 million as the result of on-going construction projects on campus in residence halls and academic facilities which neared completion during the summer of 2010.

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

Analysis of Net Assets for Fiscal Years 2010, 2009 and 2008
(In Thousands)

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
Capital assets, net of related debt	118,074	109,968	8,106	103,338	6,630
Restricted	18,951	16,637	2,314	16,424	213
Unrestricted	13,581	10,989	2,592	10,908	81
Total net assets	$ 150,606	$ 137,594	$ 13,012	$ 130,670	$ 6,924

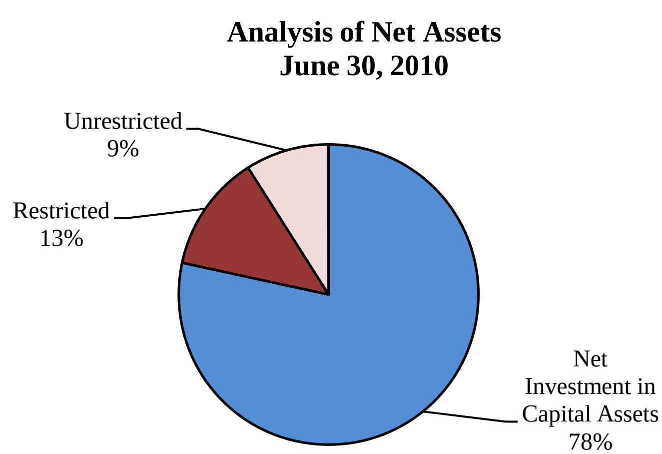
CAPITAL AND DEBT ACTIVITIES

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

Capital assets, as of June 30, 2010, total $170.8 million, net of accumulated depreciation of $80.6 million. Capital assets have shown growth over the past three years. Capital additions, net of retirements, were $35.8 million in 2010. Capital additions primarily consist of the construction of the new Integrated Wellness Complex and the New 2010 Residence Hall and the renovation of other academic facilities and student residence halls. The University has also invested in equipment and library materials.

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

As the graph illustrates, 78 percent of the University's net assets are related to the investment in capital assets.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

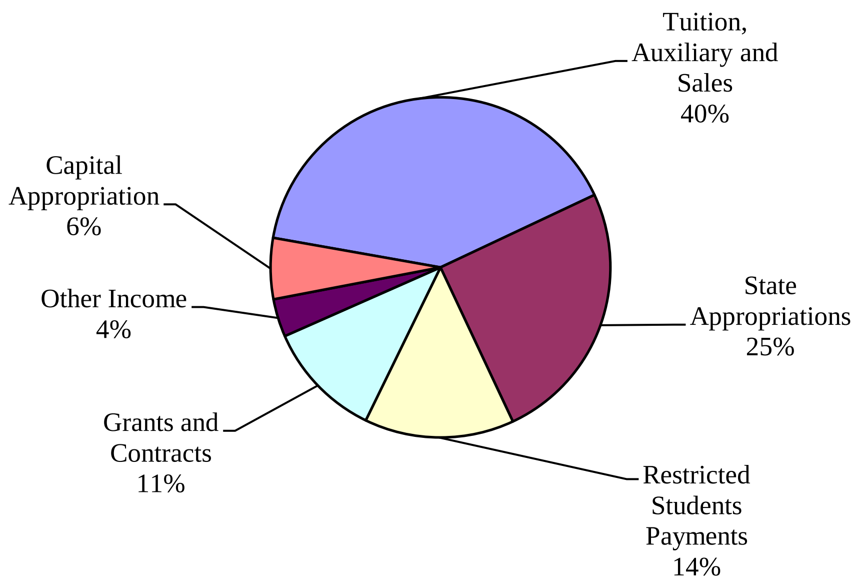
Revenues, Expenses and Changes in Net Assets for Fiscal Years 2010, 2009 and 2008
(In Thousands)

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
Operating revenue:					
Tuition, auxiliary and sales, net	$ 53,863	$ 53,388	$ 475	$ 50,642	$ 2,746
Restricted student payments, net	19,847	19,271	576	17,211	2,060
Other operating	1,279	1,005	274	1,112	(107)
Total operating revenue	74,989	73,664	1,325	68,965	4,699
Non-operating revenue:					
State appropriations	33,468	37,081	(3,613)	36,513	568
Capital appropriations	7,736	4,292	3,444	8,509	(4,217)
Federal and state grants, net	16,145	10,475	5,670	9,524	951
Other	3,547	5,662	(2,115)	2,258	3,404
Total non-operating revenue	60,896	57,510	3,386	56,804	706
Total revenue	135,885	131,174	4,711	125,769	5,405
Operating expense:					
Salaries and benefits	76,679	75,681	998	69,714	5,967
Supplies and services	33,500	36,921	(3,421)	36,948	(27)
Depreciation	7,830	7,375	455	6,822	553
Financial aid, net	1,938	685	1,253	890	(205)
Total operating expense	119,947	120,662	(715)	114,374	6,288
Non-operating expense	2,926	3,588	(662)	1,581	2,007
Total expense	122,873	124,250	(1,377)	115,955	8,295
Increase in net assets	13,012	6,924	6,088	9,814	(2,890)
Net assets, beginning of year	137,594	130,670	6,924	120,856	9,814
Net assets, end of year	$ 150,606	$ 137,594	$ 13,012	$ 130,670	$ 6,924

Operating revenue increased $1.3 million which is a result of increased tuition, room and board fees and enrollment growth.

Operating expenses as of June 30, 2010 decreased by $0.7 million over fiscal year 2009. Compensation related costs increased only 1 percent due to minimal salary and health care cost increases. Compensation and benefits accounted for approximately 64 percent of the University's operating expenses in fiscal year 2010 and for approximately 63 percent for fiscal year 2009.

Total Revenue
June 30, 2010



Tuition, auxiliary, sales and state appropriations remain the primary sources of funding for the University, comprising 65 percent of the total revenue.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The State of Minnesota and the nation's economy continues on with the Great Recession. The State of Minnesota is forecasting a sizeable budget deficit for the coming biennium that will put a strain on the Universities resources. This situation will be monitored, as the competition for the State's resources from other areas of government will continue to intensify. Management believes that the University is well positioned to face these new economic realities.

REQUESTS FOR INFORMATION

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

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

WINONA STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009
(IN THOUSANDS)

Assets	2010	2009
Current Assets		
Cash and cash equivalents	$ 38,272	$ 31,720
Investments	5,952	6,257
Grants receivable	602	270
Accounts receivable, net	2,369	4,359
Prepaid expense	1,962	1,978
Inventory	990	1,133
Student loans and other assets, net	579	708
Securities lending collateral	265	358
Total current assets	50,991	46,783
Current Restricted Assets		
Cash and cash equivalents	18,969	43,331
Total current restricted assets	18,969	43,331
Noncurrent Restricted Assets		
Other assets	10	11
Construction in progress	28,675	5,382
Total noncurrent restricted assets	28,685	5,393
Total restricted assets	47,654	48,724
Noncurrent Assets		
Student loans and other assets, net	2,100	2,168
Capital assets, net	142,148	136,084
Total noncurrent assets	144,248	138,252
Total Assets	242,893	233,759
Liabilities		
Current Liabilities		
Salaries payable	8,237	7,869
Accounts payable	2,161	3,227
Unearned revenue	2,565	1,989
Payable from restricted assets	2,528	3,604
Interest payable	481	497
Funds held for others	857	768
Current portion of long-term debt	3,518	3,457
Other compensation benefits	2,259	1,513
Securities lending collateral	265	358
Total current liabilities	22,871	23,282
Noncurrent Liabilities		
Noncurrent portion of long-term debt	58,728	62,164
Other compensation benefits	8,159	8,202
Capital contributions payable	2,529	2,517
Total noncurrent liabilities	69,416	72,883
Total Liabilities	92,287	96,165
Net Assets		
Invested in capital assets, net of related debt	118,074	109,968
Restricted expendable, bond covenants	8,416	7,018
Restricted expendable, other	10,535	9,619
Unrestricted	13,581	10,989
Total Net Assets	$ 150,606	$ 137,594

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 1,683	$ 7,729
Investments	13,696	8,028
Pledges and contributions receivable	274	389
Other receivables	341	222
Prepaid expenses	9	-
Accrued investment/Interest income	15	22
Annuities/Remainder interests/Trusts	120	107
Total current assets	16,138	16,497
Noncurrent Assets		
Long-term pledges receivable	956	1,121
Buildings, property, and equipment, net	9,557	9,855
Other assets	878	875
Total noncurrent assets	11,391	11,851
Total Assets	$ 27,529	$ 28,348
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 693	$ 2,667
Interest payable	33	34
Annuities payable	35	46
Notes payable	307	294
Total current liabilities	1,068	3,041
Noncurrent Liabilities		
Notes payable	7,780	8,086
Total noncurrent liabilities	7,780	8,086
Total Liabilities	8,848	11,127
Net Assets		
Unrestricted	461	373
Temporarily restricted	5,000	3,813
Permanently restricted	13,220	13,035
Total Net Assets	18,681	17,221
Total Liabilities and Net Assets	$ 27,529	$ 28,348

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, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Revenues		
Tuition, net	$ 37,188	$ 36,939
Fees, net	4,747	4,472
Sales, net	11,928	11,977
Restricted student payments, net	19,847	19,271
Other income	1,279	1,005
Total operating revenues	74,989	73,664
Operating Expenses		
Salaries	76,679	75,681
Purchased services	21,665	23,632
Supplies	4,904	5,326
Repairs and maintenance	1,656	2,145
Depreciation	7,830	7,375
Financial aid, net	1,938	685
Other expense	5,275	5,818
Total operating expenses	119,947	120,662
Operating loss	(44,958)	(46,998)
Nonoperating Revenues (Expenses)		
Appropriations	33,468	37,081
Federal grants	11,244	6,640
State grants	4,901	3,835
Private grants	2,448	2,212
Interest income	1,039	(327)
Interest expense	(2,289)	(2,646)
Grants to other organizations	(637)	(615)
Total nonoperating revenues (expenses)	50,174	46,180
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	5,216	(818)
Capital appropriations	7,736	4,292
Capital grants	-	3,000
Gain on disposal of capital assets	60	450
Change in net assets	13,012	6,924
Total Net Assets, Beginning of Year	137,594	130,670
Total Net Assets, End of Year	$ 150,606	$ 137,594

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Support and Revenue		
Contributions	$ 1,635	$ 2,052
Investment income	235	422
Realized gains and (losses)	1,124	(1,683)
Unrealized losses	(42)	(1,714)
Program income	1,368	1,297
Fundraising income	130	108
Total support and revenue	4,450	482
Expenses		
Program Services		
Program services	714	723
Scholarships	903	920
University activities	1,240	3,552
Special projects	45	53
Total program services	2,902	5,248
Supporting services		
Management and general	46	44
Fundraising expenses	42	57
Total supporting services	88	101
Total expenses	2,990	5,349
Change in Net Assets	1,460	(4,867)
Net Assets, Beginning of Year	17,221	22,088
Net Assets, End of Year	$ 18,681	$ 17,221

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	$ 78,189	$ 77,037
Cash repayment of program loans	307	319
Cash paid to suppliers for goods or services	(37,588)	(41,811)
Cash payments to employees	(75,607)	(74,022)
Financial aid disbursements	(1,926)	(623)
Cash payments of program loans	(261)	(763)
Net cash flows used in operating activities	(36,886)	(39,863)
Cash Flows from Noncapital Financing Activities		
Appropriations	33,468	37,081
Agency activity	89	23
Federal grants	10,914	6,796
State grants	4,901	3,835
Private grants	2,448	2,212
Grants to other organizations	(637)	(615)
Net cash flows from noncapital financing activities	51,183	49,332
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(36,790)	(15,253)
Capital appropriation	7,736	4,292
Capital grants	2,625	375
Proceeds from sale of capital assets	(1,452)	608
Proceeds from borrowing	98	308
Proceeds from bond premium	92	113
Interest paid	(2,306)	(2,597)
Repayment of lease principal	(261)	(246)
Repayment of bond principal	(3,195)	(1,861)
Net cash flows used in capital and related financing activities	(33,453)	(14,261)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,000	
Purchase of investments	(169)	(239)
Investment earnings	515	1,006
Net cash flows from investment activities	1,346	767
Net Increase in Cash and Cash Equivalents	(17,810)	(4,025)
Cash and Cash Equivalents, Beginning of Year	75,051	79,076
Cash and Cash Equivalents, End of Year	$ 57,241	$ 75,051

The notes are an integral part of the financial statements.

WINONA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Loss	$ (44,958)	$ (46,998)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	7,830	7,375
Provision for loan defaults	(19)	(28)
Loan principal repayments	307	319
Loans issued	(261)	(763)
Loans forgiven	40	29
Change in assets and liabilities		
Inventory	143	(315)
Accounts receivable	(661)	166
Accounts payable	(948)	(1,252)
Salaries payable	368	729
Other compensation benefits	703	931
Capital contributions payable	12	61
Unearned revenues	576	(127)
Other	(18)	10
Net reconciling items to be added to operating loss	8,072	7,135
Net cash flows used in operating activities	$ (36,886)	$ (39,863)
Non-Cash Transactions Investing, Capital, and Financing Activities		
Capital projects on account	$ 2,609	$ 3,722
Change in fair market value of investments	526	(1,299)
Investment earnings on account	39	142
Amortization of bond premium	103	96
Loss on retirement of capital assets	-	(159)

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), as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets; statements of revenues, expenses and changes in net assets; and statements of cash flows include financial activities of Winona State University.

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB statement No. 39, *Determining Whether Certain Organizations are Component Units.* The Winona State University Foundation is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 17. Complete financial statements may be obtained from the Winona State University Foundation, Eighth & Johnson Streets, P.O. Box 5838, Winona, MN 55987-5838.

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

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

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

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

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

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

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

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

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

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

Investments — The Minnesota State Board of Investment invests the University's balances in the state treasury, except for the Revenue Fund, as part of a state investment pool. This asset is reported as a cash equivalent. Interest income earned on pooled investments is retained by the Office of the Chancellor and allocated to the colleges and universities as part of the appropriation allocation process.

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

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

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

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

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

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

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

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

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

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

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

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

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

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of $13,310,974 and $11,024,459 for fiscal years 2010 and 2009, respectively. Sales are also net of cost of goods sold of $3,276,752 and $3,332,533 for fiscal years 2010 and 2009, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances of $774,959 and $224,420 for fiscal years 2010 and 2009, 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. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* During fiscal year 2010, $2,103,169 of federal aid was received through the American Recovery and Reinvestment Act of 2009. Of this amount, $846,070 was used to mitigate tuition increases that would have otherwise been necessary. 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.

Capital Grants — The University receives federal, state, and private grants which are restricted for the acquisition or construction of capital assets.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2009 federal and state grant revenue, in the amount of $6,639,832 and $3,834,716 respectively, have been reclassified from operating to nonoperating revenue. This reclassification increases the total operating loss by $10,474,548 while increasing total nonoperating revenue by the same amount. Fiscal year 2009 fees in the amount of $6,675,043 have been reclassified to sales and service.

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. For fiscal year 2010, the estimate used to calculate the allowance for uncollectible accounts was changed to align more closely to historical receivable collections.

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)

	2010	2009
Donations	$ 846	$ 1,323
Loans	306	304
Capital projects	6,675	5,283
Debt service	1,893	1,978
Faculty contracts	815	731
Total	$ 10,535	$ 9,619

- *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.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Cash and Cash Equivalents at June 30 (In Thousands)

Carrying Amount	2010	2009
Cash, in bank	$ 48	$ 199
Change fund	13	20
Money markets	1,580	260
Cash, trustee account (US Bank)	13,195	36,195
Total local cash and cash equivalents	14,836	36,674
Total treasury cash accounts	42,405	38,377
Grand Total	$ 57,241	$ 75,051

At June 30, 2010 and 2009, the University's bank balances were $1,951,712 and $720,975, 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.

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

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.

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)

	2010 Investment Maturity		2009 Investment Maturity	
	Fair Value	Weighted Maturity (yrs)	Fair Value	Weighted Maturity (yrs)
State investment pool cash equivalents	$ 579	0.21	$ 823	0.17
Corporate/municipal bonds	690	6.52	1,129	4.48
US agencies	1,329	19.76	1,869	20.29
US treasuries	42	0.25	—	—
Asset backed	1	23.25	1	24.25
Total	2,641		3,822	
Portfolio weighted average maturity		11.70		11.29
Mutual stock funds	875		749	
Corporate stock	2,403		1,670	
Real estate	33		16	
Total	$ 5,952		$ 6,257	

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 2010 and 2009, 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. The securities lending activity for Wells Fargo ceased in May 2009. 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 2010 or 2009. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo.

During fiscal years 2010 and 2009, 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, 2010 and 2009, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The University's securities lending collateral was $264,733 and $358,379 as of June 30, 2010 and 2009, respectively.

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

Security Lending Analysis, State Street, at June 30
(In Thousands)

	2010	2009
Fair value of securities on loan	$3,720,274	$6,587,602
Collateral held	$3,845,017	$6,829,949
Average duration	8 days	37 days
Average weighted maturity	43 days	201 days

3. ACCOUNTS RECEIVABLE

Accounts receivable balances are primarily receivables from students, a few businesses and Federal and State grant receivables. At June 30, 2010 and 2009, total accounts receivable balances for the University were $3,117,999 and $5,117,512, respectively, less an allowance for uncollectible receivables of $749,229 and $758,922, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2010	2009
Sales and services	$ 1,089	$ 866
Tuition	820	879
Fees	366	377
Federal and state grants	—	2
Room and board	338	303
Interest	26	24
Third party obligations	11	1
Other	468	2,666
Total accounts receivable	3,118	5,118
Less allowance for uncollectible accounts	(749)	(759)
Net accounts receivable	$ 2,369	$ 4,359

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

Fiscal Year 2010	Allowance Percentage
Less than 1 year	15%
1 to 3 years	45%
3 to 5 years	70%
Over 5 years	95%

Fiscal Year 2009	Allowance Percentage
Less than 1 year	2%
1 to 2 years	50%
Over 2 years	100%

4. PREPAID EXPENSE

Prepaid expense consists of $1,893,293 and $1,978,092 for fiscal years 2010 and 2009, 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. Additionally, a portion of the prepaid expense, $68,720 for fiscal year 2010, consists of prepaid funds for software maintenance.

5. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. The University is responsible for loan collections. As of June 30, 2010 and 2009, the total loans receivable for this program were $2,949,191 and $3,035,907, respectively, less an allowance for uncollectible loans of $448,808 and $467,805, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 9,451	$ —	$ —	$ —	$ 9,451
Construction in progress	12,273	35,532	—	(4,260)	43,545
Total capital assets, not depreciated	21,724	35,532	—	(4,260)	52,996
Capital assets, depreciated:					
Buildings and improvements	171,536	—	—	4,260	175,796
Equipment	15,493	895	726	—	15,662
Library collections	6,876	976	856	—	6,996
Total capital assets depreciated	193,905	1,871	1,582	4,260	198,454
Less accumulated depreciation:					
Buildings and improvements	59,423	5,710	—	—	65,133
Equipment	10,931	1,121	510	—	11,542
Library collections	3,809	999	856	—	3,952
Total accumulated depreciation	74,163	7,830	1,366	—	80,627
Total capital assets depreciated, net	119,742	(5,959)	216	4,260	117,827
Total capital assets, net	$ 141,466	$ 29,573	$ 216	$ —	$ 170,823

Year Ended June 30, 2009
(In Thousands)

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

7. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2010	2009
Purchased services	$ 42	$ 26
Repairs and maintenance	104	248
Supplies	246	141
Employee benefits	82	107
Capital expenditures	1,011	1,754
Capital projects	82	118
Other	594	833
Total	$ 2,161	$ 3,227

In addition, as of June 30, 2010 and 2009, the University had payable from restricted assets in the amounts of $2,527,528 and $3,604,296, which was related to capital projects financed by general obligation bonds and revenue bonds.

8. LONG TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets.

The changes in long term debt for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 850	$ 92	$ 103	$ 839	$ —
Capital leases	780	—	261	519	277
General obligation bonds	18,472	98	1,410	17,160	1,404
Revenue bonds	45,519	—	1,791	43,728	1,837
Total long term debt	$ 65,621	$ 190	$ 3,565	$ 62,246	$ 3,518

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium/discount	$ 833	$ 113	$ 96	$ 850	$ —
Capital leases	1,026	—	246	780	260
General obligation bonds	19,537	308	1,373	18,472	1,405
Revenue bonds	45,907	—	388	45,519	1,792
Total long term debt	$ 67,303	$ 421	$ 2,103	$ 65,621	$ 3,457

The changes in other compensation benefits for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 8,400	$ 2,109	$ 2,146	$ 8,363	$ 903
Early termination benefits	560	1,207	515	1,252	1,252
Net other postemployment benefits	401	488	333	556	—
Workers' compensation	354	70	177	247	104
Total other compensation benefits	$ 9,715	$ 3,874	$ 3,171	$ 10,418	$ 2,259

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 7,959	$ 1,625	$ 1,184	$ 8,400	$ 914
Early termination benefits	484	445	369	560	457
Net other postemployment benefits	206	478	283	401	—
Workers' compensation	135	252	33	354	142
Total other compensation benefits	$ 8,784	$ 2,800	$ 1,869	$ 9,715	$ 1,513

Bond Premium — In fiscal year 2010 and 2009, bonds were issued resulting in premiums of $91,744 and $113,096, respectively. Amortization is calculated using the straight-line method and amortized over the average remaining life of the bonds.

Capital Leases — Liabilities for capital leases include those leases that meet the criteria in FASB Accounting Standards Codification (ACS) 840, Leases (previously FAS Statement No.13). See Note 11 for additional information.

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 2.0 percent to 5.5 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 $300,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, food service, student union, and other revenue producing and related facilities at the state universities. Revenue bonds currently outstanding have interest rates between 3.38 percent and 6.5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 17.96 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $64,211,484. Principal and interest paid for the current year and total customer net revenues were $3,732,148 and $20,769,433, respectively.

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

Early Termination Benefits — Early termination benefits are benefits received by faculty for discontinuing services earlier than planned. See Note 9 for details.

Net Other Postemployment Benefit — Other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 10 for further details.

Workers' Compensation — The state of Minnesota Management and Budget manages the self insured workers compensation claims activities. The reported liabilities for workers' compensation of $247,380 and $354,326 at June 30, 2010 and 2009, respectively, are based on claims filed for injuries to state employees occurring prior to the fiscal year end. It is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $2,529,087 and $2,517,416 at June 30, 2010 and 2009, respectively, represent the amount the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $11,671 and $61,257 for the fiscal years 2010 and 2009, respectively.

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

Fiscal Years	Capital Leases		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 277	$ 23	$ 1,404	$ 827	$ 1,837	$ 1,891
2012	242	6	1,407	757	1,908	1,823
2013	—	—	1,367	688	1,970	1,749
2014	—	—	1,317	620	2,038	1,671
2015	—	—	1,279	555	2,121	1,586
2016-2020	—	—	5,693	1,863	10,754	6,571
2021-2025	—	—	3,877	633	12,199	4,069
2026-2030	—	—	816	57	10,901	1,123
Total	$ 519	$ 29	$ 17,160	$ 6,000	$ 43,728	$ 20,483

9. EARLY TERMINATION BENEFITS

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. Minnesota Statutes section 136F.481 authorized the Minnesota State Colleges and Universities Board of Trustees to implement an early separation incentive program (BESI) in fiscal year 2010. Additionally, 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, including number of retired employees receiving the benefit, and the amount of future liability as of the end of fiscal years 2010 and 2009.

MnSCU Board Early Separation Incentive Program — Employees of the University accepted incentives in the form of contributions to a health care savings plan and cash payments in return for voluntarily separating from employment by the University. The number of employees who received this benefit and the amount of future liability for those employees as of June 30, 2010 follow:

Fiscal Year	Number of Employees	Future Liability (In thousands)
2010	19	$ 899

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 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	8	$ 353
2009	13	552

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 2010 and 2009 follow:

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	0	$—
2009	1	8

10. NET OTHER POSTEMPLOYMENT BENEFITS

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

As of July 1, 2008 there were approximately 43 retirees receiving health benefits from the health plan.

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

The following table shows the components of the annual OPEB cost for 2010and 2009, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2010	2009
Annual required contribution (ARC)	$ 485	$ 476
Interest on net OPEB obligation	19	10
Adjustment to ARC	(16)	(8)
Annual OPEB cost	488	478
Contributions during the year	(333)	(283)
Increase in net OPEB obligation	155	195
Net OPEB obligation, beginning of year	401	206
Net OPEB obligation, end of year	$ 556	$ 401

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2010 and 2009 were:

For Year Ended June 30
(In Thousands)

	2010	2009
Beginning of year OPEB obligation	$ 401	$ 206
Annual OPEB cost	488	478
Employer contribution	(333)	(283)
End of Year net OPEB obligation	$ 556	$ 401
Percentage contributed	68.24%	59.21%

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

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2008	—	$5,155	$5,155	0.00%	$58,879	8.76%

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

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

In the July 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long term investment yield on the general assets, using an underlying long term inflation assumption of 3 percent. The annual healthcare cost trend rate is 8.97 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30 year period.

11. LEASE AGREEMENTS

Capital Leases — Winona State University leased a generator with final payment occurring in fiscal year 2012. Liabilities for capital leases include those leases that meet the criteria in the FASB ASC 840, *Leases* (previously FAS No. 13). Which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of the agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

Operating Leases — The University is committed under various leases primarily for building space and laptops. These leases are considered for accounting purposes to be operating leases. Lease expenses for the years ended June 30, 2010 and 2009, totaled approximately $7,228 and $7,579,851, 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
2011	$ 6,887
2012	3,951
2013	1,198
2014	691
2015	691
2016-2020	3,454
2021-2025	3,454
2026-2030	1,578
Total	$ 21,904

Income Leases — The University has entered into income lease agreements, primarily for building space. Lease income for the years ended June 30, 2010 and 2009, totaled $47,465 and $38,914, 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 $30,514 in fiscal year 2011.

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2010
(In Thousands)

Description	Salaries	Other	Total
Academic support	$ 8,249	$ 3,403	$ 11,652
Institutional support	9,185	3,918	13,103
Instruction	39,722	1,939	41,661
Operation & maintenance of plant	3,487	4,931	8,418
Public service	139	154	293
Research	106	329	435
Student services	7,881	3,037	10,918
Auxiliary enterprises	7,910	15,789	23,699
Depreciation	—	7,830	7,830
Scholarships & fellowships	—	1,938	1,938
Total operating expenses	$ 76,679	$ 43,268	$ 119,947

For the Year Ended June 30, 2009
(In Thousands)

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

13. EMPLOYEE PENSION PLANS

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

State Employees Retirement Fund (SERF)

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

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

Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund. The statutory authority for SERF is Minnesota Statutes, Chapter 352. Beginning July 1, 2007 the funding requirement for both employer and employee was 4.25 percent. The funding contribution rate increases 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. For the period July 1, 2009 to June 30, 2010, the funding requirement is 4.75 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
2010	$ 610
2009	601
2008	538

Teachers Retirement Fund (TRF)

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 percent and 1.7 percent for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for TRF is Minnesota Statutes, Chapter 354. Effective July 1, 2007, the funding requirement is 5.5 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases will be phased in with a 0.5 percent increase occurring every July 1 over four years until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions.

Required contributions for Winona State University were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 531
2009	522
2008	462

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Fund includes two plans: an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer defined contribution plans authorized by Minnesota Statutes, Chapter 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities System unclassified employees. The plans cover unclassified teachers, librarians, administrators and certain other staff. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA–CREF). Separately issued financial statements can be obtained from TIAA-CREFF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

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

Contributions — There are two member groups participating in the IRAP: a faculty group and an administrators group. For both faculty and administrators, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for Winona State University were:

	(In Thousands)	
Fiscal Year	Employer	Employee
2010	$ 1,618	$ 1,208
2009	1,634	1,220
2008	1,391	1,038

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 $60,000	$2,700

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

(In Thousands)	
Fiscal Year	Amount
2010	$ 920
2009	906
2008	765

14. SEGMENT INFORMATION

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

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

	2010	2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets		
Current assets	$ 10,700	$ 9,290
Restricted assets	18,368	41,411
Noncurrent restricted assets	28,685	5,393
Noncurrent assets	29,216	28,756
Total assets	86,969	84,850
Liabilities		
Current liabilities	5,974	5,736
Noncurrent liabilities	42,214	44,044
Total liabilities	48,188	49,780
Net Assets:		
Invested in capital assets, net of related debt	23,690	22,769
Restricted	15,091	12,301
Total net assets	$ 38,781	$ 35,070
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 20,769	$ 19,875
Operating expenses	(15,897)	(15,707)
Net operating income	4,872	4,168
Nonoperating revenues (expenses)	(1,159)	(1,207)
Loss on disposal of capital assets	(2)	(3)
Change in net assets	3,711	2,958
Net assets, beginning of year	35,070	32,112
Net asset, end of year	$ 38,781	$ 35,070
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$ 6,431	$ 4,820
Investing activities	273	705
Capital and related financing activities	(28,358)	(8,539)
Net decrease	(21,654)	(3,014)
Cash, beginning of year	49,718	52,732
Cash, end of year	$ 28,064	$ 49,718

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 $15.9 million for the new Wellness Center which has an estimated completion date of August 2010. The Wellness Center will be funded with general obligation funds of $8.4 million, revenue bond proceeds of $7 million and private funding of $3.3 million.

During fiscal year 2010, construction continued on the $30 million residence hall, which has an estimated completion date of August 2010. As of June 30, 2010, $23.1 million had been expended on the project.

New commitments made by the University during fiscal year 2010 include multiple building improvement projects. New commitment projects are estimated to cost a total of $3.7 million and include projects such as residence hall renovations, roof repairs, and academia building remodels. As of June 30, 2010 the University has expended approximately $2.3 for these improvement projects.

16. RISK MANAGEMENT

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

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

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

Institution deductible	$500 to $50,000
Fund responsibility	$1,000,000
Primary re insurer coverage	$1,000,000 to $25,000,000
Catastrophic reinsurance	$25,000,00 to $1,000,000,000
Bodily injury and property damage per person	$500,000
Bodily injury and property damage per occurrence	$1,500,000
Annual maximum paid by fund, excess by reinsurer	$4,000,000
Maintenance deductible for additional claims	$25,000

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

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

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

The following table presents changes in the balances of workers' compensation liability during the fiscal years ended June 30, 2010 and 2009.

Workers' Compensation Liability
(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/10	$ 354	$ 70	$ 177	$ 247
Fiscal Year Ended 6/30/09	135	252	33	354

17. COMPONENT UNITS

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

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

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

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the FASB ASC 958-205, *Presentations of Financial Statements* (previously FAS Statement No. 117). Net assets, which are classified on the existence or absence of donor imposed restrictions, are classified and reported according to the following classes:

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

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

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

The University received $2,902,942 and $2,247,482 from its Foundation for scholarships and other University support in fiscal years 2010 and 2009, respectively. In addition, the University received $3,000,000 from its Foundation for a portion of the Wellness Center in fiscal year 2009. Also, the University operates the East Lake Apartments which are owned by the Foundation and leased by the University. The University collects the revenue and pays the expenses for the apartments. The residual goes to the Foundation as operating lease payments.

Investments — The foundation's investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities*, (previously FAS 124). Under ASC 958-320, 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 position.

Schedule of Investments at June 30
(In Thousands)

Investments	2010	2009
Money market & certificate of deposit	$ 250	$ 250
Fixed Income/bonds/US treasuries	2,062	2,458
Equity based mutual funds	10,775	—
Equity securities	609	5,320
Total investments	$13,696	$ 8,028

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

Schedule of Capital Assets at June 30
(In Thousands)

Investments	2010	2009
Capital assets, not depreciated:		
Land	$ 552	$ 552
Total capital assets, not depreciated	552	552
Capital assets, depreciated		
Buildings and improvements	10,745	10,745
Equipment	281	281
Total capital assets, depreciated	11,026	11,026
Total accumulated depreciation	2,021	1,723
Total capital assets depreciated, net	9,005	9,303
Total capital assets, net	$ 9,557	$ 9,855

Long Term Obligations — Winona State University Foundation has a mortgage payable to finance the construction and start up operations of the student housing project of $8,087.

Future scheduled debt payments table follows:

Year Ended June 30
(In Thousands)

2011	$ 307
2012	323
2013	339
2014	356
2015	373
Thereafter	6,389
Total	$ 8,087