MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2003

MINNESOTA STATE
UNIVERSITY
MANKATO

A member of the Minnesota State Colleges and Universities System.

MINNESOTA STATE UNIVERSITY, MANKATO

A MEMBER OF THE
MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2003

Prepared by:

Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, Minnesota 56001

Office of the Chancellor
Minnesota State Colleges and Universities
500 Wells Fargo Place
30 East 7th Street
St. Paul, Minnesota 55101

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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2003

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INTRODUCTION

November 20, 2003

Chancellor James H. McCormick
Members of the Board of Trustees
Minnesota State Colleges and Universities
500 Wells Fargo Place
30 East 7th Street
St. Paul, MN 55101

Dear Chancellor McCormick and Trustees:

I am pleased to submit to you the audited annual financial statements for Minnesota State University, Mankato for the fiscal year ending June 30, 2003. This report includes the financial statements and disclosures necessary to accurately present the financial condition and results of operation for the year. The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Minnesota State University, Mankato is one of thirty-three colleges and universities in the Minnesota State Colleges and Universities system. It has been my privilege to serve as President since July 1, 2002. During my first year, the University transitioned through several key leaderships positions. A new leadership team is in place for the fiscal year 2004 bringing dynamic and invigorated leadership to the modern university.

Now in its 135th year, Minnesota State University, Mankato today serves approximately 14,000 students, our largest enrollment in a decade. Our student body includes nearly 600 international students from 71 countries. Our six colleges—Allied Health and Nursing; Arts and Humanities; Business; Education; Science, Engineering and Technology; and Social and Behavioral Sciences—feature 150 undergraduate programs of study, including 16 preprofessional programs, and 82 graduate programs. The University employs more than 1,400 faculty and staff (600 full-time instructional faculty, 80 percent with terminal degrees). Twenty-four national accrediting agencies, including the North Central Association of Colleges, have accredited Minnesota State. Our alumni number 94,000 worldwide.

Minnesota State offers bachelor's, master's, associate, and specialist degrees, as well as graduate certificates. Nationally recognized programs include engineering, experiential education, computer science, nursing, business, law enforcement, theatre and dance, and graduate programs in rehabilitation services and speech communication. Our most popular programs are business, computer and information sciences, education, health professions, and law enforcement. Minnesota State houses several renowned centers for applied research, including the Center on Aging, Center for Applied Social Services, Center for School-University Partnerships, Healthcare Education-Industry Partnership, Kessel Institute for the Study of Peace and Change, Water

OFFICE OF THE PRESIDENT
309 WIGLEY ADMINISTRATION CENTER • MANKATO, MN 56001
PHONE 507-389-1111 (V) • 800-627-3529 (MRS / TTY) • FAX 507-389-6200
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Resources Center, and the Women's Center. Students have garnered national recognition for their solar car team, Formula SAE Collegiate Design team, Emuseum, student newspaper, theatre performances, and cheer team.

Division I WCHA men's and women's hockey are sources of great pride for students and community members, and Division II NCC men's baseball, basketball, cross country, football, golf, swimming, tennis, track, and wrestling, as well as Division II NCC women's basketball, cross country, golf, soccer, softball, swimming, tennis, track, and volleyball round out the Maverick Athletics program with 600 student athletes participating. Eleven of these athletic teams were nationally ranked within the past year. In addition, MSU's Athletic Division was recognized as 22^{nd} in the Director's Cup Standings last season by the National Association of Collegiate Directors Association.

Campus facilities are a particular point of pride for Minnesota State thanks to private contributions in recent years resulting in new and upgraded buildings. Our new 25,000 square-foot Technology Center housed in Memorial Library is the hub of campus technology. Myers Field House was recently renovated ($11 million) including an eight-lane NCAA-sanctioned track. The $17 million privately-funded Taylor Center, with the 4,800 seat Bresnan Arena, is home to Maverick basketball, volleyball, and wrestling; commencement ceremonies; high school tournaments; and major concerts and lectures. An $8.6 million renovation to the Centennial Student Union is expected to be completed in early 2005, and student recreation/fitness center renovations totaling $8.4 million will begin in April 2004.

MSU strives to be a good neighbor and community partner serving as a regional economic and cultural hub. We have formed a Cities/Colleges/and University Advisory Council consisting of Mankato/North Mankato, Bethany Lutheran and Gustavus Adolphus colleges and South Central Technical College which meets regularly to work together on community issues ranging from long-term planning to safety to diversity. Thousands of people from across southern Minnesota and northern Iowa travel to MSU for its award-winning theatre and musical productions; readings by renowned poets and authors; presentations by business and industry leaders; MSU for Seniors program; art exhibitions; and nationally-known speakers. MSU also hosts a wide variety of cultural and ethnic events which reflect the University's exciting diversity.

Minnesota State University, Mankato contributed in significant ways to the strategic directions and goals of the Minnesota State Colleges and Universities Annual Work Plan. To increase access and opportunity, a Friday/Saturday class initiative was launched as an option for nontraditional students. The University hosted a Fulbright scholar, Ambassador Damodar Gautam. He provided global insights to both faculty and students. Students and faculty in the Allied Health and Nursing programs were involved through clinical training, shadowing, and service learning projects in numerous community outreach programs to the underserved culturally diverse and poor populations including the Open Door Health Center, the Nine County Head Start programs and the Rural Aids Action Network.

In response to state needs, new degree programs in Development and Cognitive Disabilities and Early Childhood at the undergraduate level and at the graduate level, Curriculum and Instruction Specialist, Talent Development and Gifted Education Specialist, Forensics Master of Fine Arts, and Ethnic and Multicultural Master of Science were developed and approved this year.

Two new dual degree graduate programs with William Mitchell College of Law were started in Health Science and Women's Studies. The dual degree program with Public Administration admitted its first student this year.

MSU's 3rd Annual Undergraduate Research Conference was held in April 2003, with 127 students participating. The undergraduate research program offers faculty and students the opportunity to collaborate and design research projects that reflect their interests. Faculty mentors provide guidance, experience, knowledge and resources to assist students with their projects.

Our students successfully passed external examinations with a 100% pass rate on the ANCC Family Practitioner Certification Exam, a 100% pass rate by Dental Hygiene students on their Board Exam, and 100% of engineering students passed the Fundamentals in Engineering Exam—the best rate in Minnesota.

Our University is a modern university—dynamic, inclusive, innovative, collaborative, and technological. We established a planning process that provided clear direction, was inclusive and resulted in five strategic priorities with achievable timelines of 2 to 3 years. Our strategic priorities are:

Priority I: Develop and Implement Campus-wide Plans

A Public Relations & Marketing Plan to promote MSU as a "modern university" known for providing relevant, high quality undergraduate and graduate programs throughout the region and state.

An Enrollment Management Plan to determine the overall size of the University and the composition of the student body.

Continued development and refinement of the **Campus Facilities Master Plan**, including the integration of an outdoor recreation and athletic plan and the facilities plans developed for the CSU and Residential Life.

Fundraising from the private sector – communicating our critical needs and goals to the private sector, and increasing support through a new campaign for endowment, scholarships, and other needs.

Priority II: Promote Diversity

MSU will develop a comprehensive **plan that promotes diversity** across all levels of the University community.

Priority III: Establish a Distance Learning Plan

MSU will create an administrative structure and funding mechanisms that will support high quality **distance learning** instruction. This will include technology, e-learning, and mediated distance courses.

Priority IV: Review and Enhance Graduate Education

MSU will develop funding mechanisms which permit the institution to grow and **improve select graduate programs** – on-campus, off-campus, technologically mediated distance, and hybrid.

Priority V: Enhance Academic Excellence in Undergraduate Studies

MSU will continue to assess and **improve academic programs**, and uphold and strengthen standards for academic achievement.

Minnesota State University, Mankato community members are actively engaged in developing and implementing plans to achieve these priorities with timelines for successful completion in the next few years.

The University's financial statements were audited by Larsen, Allen, Weishair, & Co., LLP. Included with these financial statements are a statement of net assets, a statement of revenue, expense and changes in net assets, and a statement of cash flows. These financial statements show that the University's financial position remained stable during fiscal year 2003. The University ended fiscal year 2003 with total net assets of $106.6 million. Net assets increased during fiscal year 2003 by $1.8 million. Lastly, the University's general fund reserve increased to $3.8 million. This reserve serves to protect the institution in cases of sudden reductions in revenue, enrollment or state appropriation. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report.

The responsibility for the accuracy, reliability, fairness, and completeness of the information in this report rests with Finance and Administration staff from Minnesota State University, Mankato and Finance Division staff from the Chancellor's office. The completion of this report truly represents a combined effort, and we rely on both units in providing this assurance. Accordingly, the many people who assisted in this effort are deserving of our appreciation.

Respectfully submitted,

the original letter was signed by Richard Davenport

Richard Davenport
President

Enclosure

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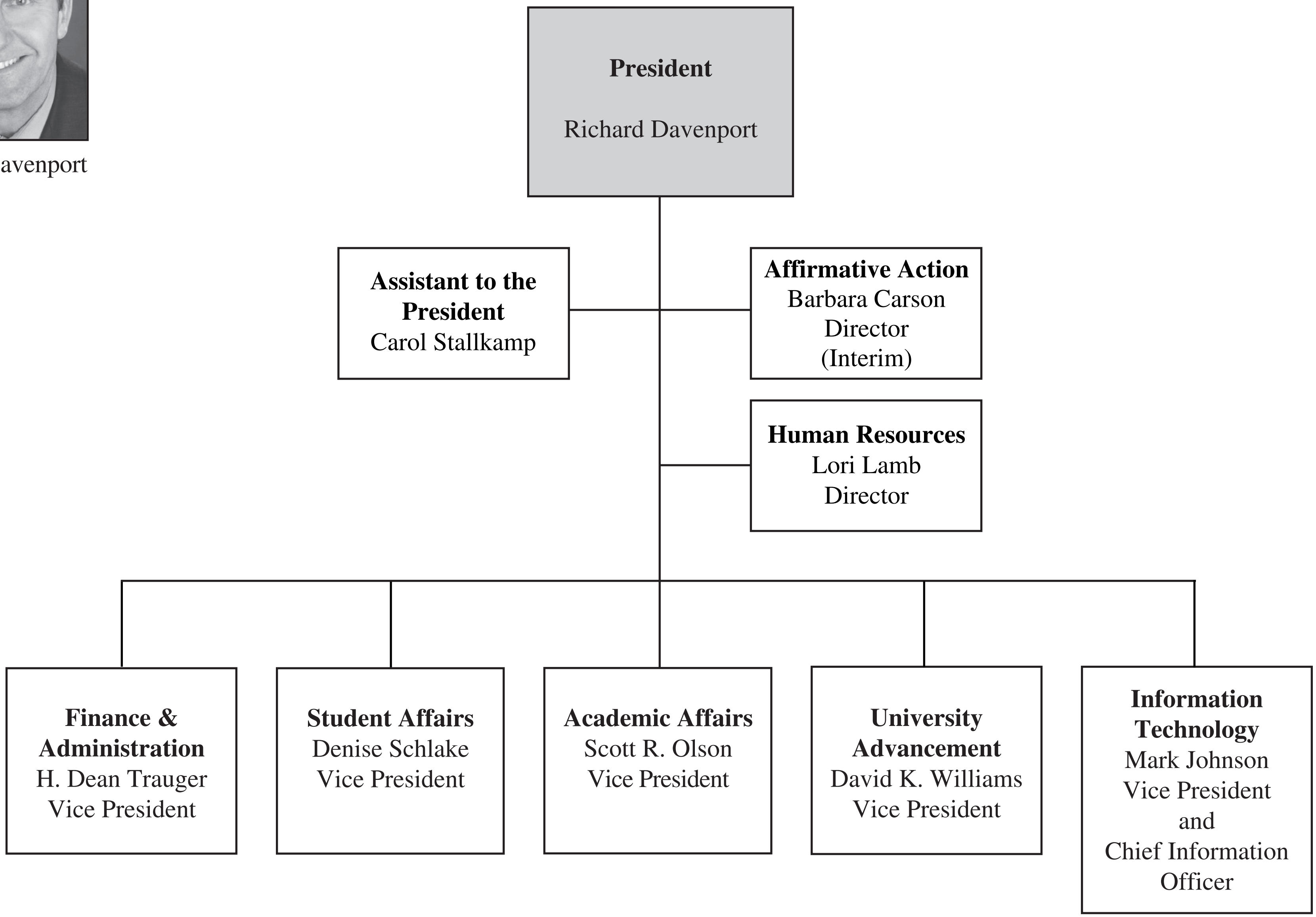
Richard Davenport

University Administration Organization

Minnesota State University, Mankato
September 1, 2003



The financial activity of Minnesota State University, Mankato is included in this report. The University is one of 33 colleges and universities included in the Minnesota State Colleges and Universities' annual financial report which is issued separately.

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

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

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Minnesota State Colleges and Universities
1450 Energy Park Drive, Suite 300
St. Paul, Minnesota 55108

We have audited the accompanying financial statements of Minnesota State University – Mankato, a campus of Minnesota State College and Universities, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University – Mankato as of June 30, 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Larson, Allen, Weishair & Co., LLP

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, 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 supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express not opinion on it.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

October 15, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Minnesota State University, Mankato, a member of the Minnesota State Colleges and Universities System, for the fiscal year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes, which follow this section.

Minnesota State University, Mankato is one of 33 colleges and universities comprising the Minnesota State Colleges and Universities System. The Minnesota State Colleges and Universities System is governed by a 15 member Board of Trustees appointed by the Governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at large. Three student trustees, one from a state university, one from a community college, and one from a technical college, serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public institution of higher learning with approximately 14,000 students including 1,700 graduate and professional students. Approximately 1,400 faculty and staff members are employed by the University. Additionally, the University has over 94,000 alumni.

Seven colleges comprise the University's academic programs. The seven colleges are as follows.

Allied Health & Nursing	Graduate Studies and Research
Arts and Humanities	Science, Engineering and Technology
Business	Education
Social and Behavioral Science	

The University offers students opportunities for bachelor, master, associate, and specialist degrees, as well as graduate certificates. Students can choose from 82 graduate and 150 undergraduate programs of study, including 16 pre-professional programs. The University is accredited by 24 national accrediting agencies including the North Central Association of Colleges.

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2003. Assets totaled $160.8 million compared to liabilities of $54.3 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 $92.2 million, restricted assets of $8.5 million, and unrestricted assets of $5.9 million.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement 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, including GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement Nos. 35, 37 and 38. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into three net asset categories.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes 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 fiscal year. Capital assets are stated at historical cost less an allowance for depreciation, with current fiscal year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net assets. A summary of the University's assets, liabilities and net assets as of June 30, 2003 and 2002, respectively, is as follows (in thousands):

	2003	2002
Current assets	$ 36,941	$ 36,702
Restricted assets	19,093	19,853
Noncurrent assets		
Student loans, receivable net	6,621	6,746
Capital assets, net	98,173	97,878
Total assets	160,828	161,179
Current liabilities	16,802	18,754
Noncurrent liabilities	37,458	37,669
Total liabilities	54,260	56,423
Net assets	$106,568	$104,756

Current unrestricted assets consist primarily of cash, cash equivalents and investments totaling $31.7 million at June 30, 2003. This is an increase of $1.1 million over the prior year and represents approximately 2.9 months of operating expenses (excluding depreciation).

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $7.6 million at June 30, 2003, a decrease of $0.6 million over the prior year caused primarily by the late settlement date of the faculty contract in 2002. Included in the salary payable accrual is $4.1 million representing approximately two months of earned salary for faculty who have elected to receive salaries over twelve months on a September 1 – August 31 year.

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets as of June 30, 2003 and 2002, respectively, are summarized as follows (in thousands):

	2003	2002
Invested in capital assets, net of related debt	$ 92,169	$ 93,175
Restricted	8,512	8,117
Unrestricted	5,887	3,464
Total net assets	$ 106,568	$ 104,756

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 assets, primarily includes funding received for specific purposes, bond covenants, capital projects, donations, and debt service.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its older facilities while planning for new construction. Capital assets as of June 30, 2003, totaled $98.4, net of accumulated depreciation of $91.1 million.

Capital outlay totaled $9.6 million in 2003, a decrease of $5.1 million from the prior fiscal year. Capital outlays are primarily comprised of recently completed new buildings, replacement and renovation of existing facilities, as well as significant investments in equipment and library materials. Construction of the Meyers Field House, phase II of the student athletic facilities project, was the major capital expenditure in fiscal year 2003. Other major capital expenditures for fiscal year 2003 included Carkoski Commons dining hall renovation, Centennial Student Union food service renovation, utility plant boiler and roof replacement, Warren Street storm sewer and water line replacements, fire alarm replacements in various locations, equipment, and library materials. Current fiscal year capital asset additions were funded primarily through capital appropriations of which $3.6 million was received in fiscal year 2003. Funding for equipment and library materials generally comes from regular appropriations and operating revenue.

Bonds payable totaled $22.7 million at June 30, 2003. These bonds were issued in prior fiscal years to finance building construction, remodeling and repairs. The majority of the bonds payable, $18.9 million, is related to student union and residential life building projects.

Additional information on capital and debt activities can be found in the notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the University's results of operations for the fiscal year. A summarized statement for the years ended June 30, 2003 and 2002, respectively, follows (in thousands):

	2003	2002
Operating revenue:		
Student tuition and fees	$ 54,925	$ 48,193
Less: scholarship allowances	6,456	2,960
Net student tuition and fees	48,469	45,233
Room and board	10,615	10,474
Less: scholarship allowances	1,223	608
Net room and board	9,392	9,866
Other revenue	25,490	25,767
Total operating revenue	83,351	80,866
Nonoperating revenue:		
State appropriations	54,530	54,028
Donated capital asset additions	297	16,527
Capital appropriations	3,588	5,141
Other	2,137	1,933
Total nonoperating revenue	60,552	77,629
Total revenue	143,903	158,495
Operating expense:		
Salaries and benefits	92,549	84,495
Supplies and services	31,523	26,259
Depreciation	7,794	7,537
Financial aid, net of scholarships	8,102	10,158
Total operating expense	139,968	128,449
Nonoperating expense:		
Loss on disposal of capital assets	47	1,090
Grants	165	133
Interest expense	1,911	586
Total nonoperating expense	2,123	1,809
Total expense	142,091	130,258
Increase in net assets	1,812	28,237
Net assets, beginning of year	104,756	76,519
Net assets, end of year	$106,568	$ 104,756

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Tuition revenue increased in fiscal year 2003 as a result of an 8.5 percent increase in tuition coupled with an increase in enrollment of 4.5 percent. This increase was mitigated on the financial statements by a change in the method for calculating the scholarship allowance. The scholarship allowance calculation change resulted in approximately a 50 percent increase in the scholarship allowance figures for fiscal year 2003. In 2003, total appropriations decreased by $1.1 million to $58.1 million, with $3.6 million of this total coming in the form of capital appropriations.

The resources expended for compensation increased $8.1 million to $92.5 million in fiscal year 2003. Of this increase, salaries increased about 5.7 percent as a result of annual salary increases. Salary related employee benefits increased 11.5 percent primarily reflecting the continued sharp rise in health care costs. During fiscal year 2003, additional faculty and staff were hired to accommodate the University's enrollment increase, another factor that led to the overall salary expenditure increase.

STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended June 30, 2003 and 2002 , respectively, as adjusted follows (in thousands):

	2003	2002
Cash received from operations	$ 84,678	$ 81,848
Cash expended for operations	(132,056)	(119,346)
Net cash used in operating activities	(47,378)	(37,498)
Net cash provided by noncapital financing activities	55,680	54,396
Net cash expended for capital and related financial activities	(8,617)	9,546
Net cash provided by investing activities	2,133	(3,432)
Net increase in cash and cash equivalents	1,818	23,012
Cash and cash equivalents, beginning of year	42,958	19,946
Cash and cash equivalents, end of year	$ 44,776	$ 42,958

The University's cash and cash equivalents increased $1.8 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 34, include state appropriations.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue its strong financial condition and level of excellence. However, the University may face challenges in maintaining adequate state appropriation support. An economic downturn in the state of Minnesota has resulted in actual state revenues not keeping up with inflationary pressures. This factor, coupled with student enrollment that has increased by approximately 20 percent during the past 5 years, may result in a serious financial challenge for the University in fiscal years 2004, 2005, and beyond.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Minnesota State University, Mankato'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 for Finance & Administration
Minnesota State University, Mankato
334 Wigley Administration Center
Mankato, Minnesota 56001

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003

Assets	
Current Assets	
Cash and cash equivalents	$ 29,104,138
Investments	2,573,829
Interest receivable	43,067
Grants receivable	1,096,905
Accounts receivable, (net of allowance for uncollectibles of $643,346)	2,043,427
Prepaid assets	631,014
Inventory	23,254
Other assets	191,617
Securities lending collateral	1,233,475
Total current assets	36,940,726
Restricted assets	
Cash	15,672,525
Investments	3,109,042
Other assets	62,989
Construction in progress	248,628
Total restricted assets	19,093,184
Noncurrent Assets	
Loans receivable, (net of allowance for uncollectibles of $155,475)	6,620,712
Construction in progress	555,307
Equipment	26,404,835
Library collections	8,447,228
Buildings and improvements	152,994,334
Land	910,695
Less accumulated depreciation	(91,139,535)
Total noncurrent assets	104,793,576
Total Assets	$ 160,827,486

The notes are an integral part of the financial statements.

Liabilities		
Current Liabilities		
Salaries payable	$	7,565,963
Accounts payable		3,643,420
Deferred revenue		1,551,511
Funds held in trust		199,181
Notes payable		170,881
Capital lease payable		639,791
Compensated absences payable		880,324
Workers' compensation liabilities		25,740
Revenue bonds payable		552,222
General obligation bonds payable		292,005
Other liabilities		47,103
Securities lending collateral		1,233,475
Total current liabilities		16,801,616
Noncurrent Liabilities		
Notes payable		47,298
Compensated absences payable		8,670,156
Workers' compensation liabilities		71,527
Revenue bonds payable		18,368,063
General obligation bonds payable		3,528,189
Capital contributions payable		6,773,024
Total noncurrent liabilities		37,458,257
Total Liabilities		54,259,873
Net Assets		
Invested in capital assets, net of related debt		92,169,413
Restricted		
Donations		1,246,006
Perkins loans		783,362
Bond covenants		3,552,892
Capital projects		1,498,187
Debt service		423,090
Faculty contracts		907,062
Legislatively mandated purposes		100,181
Unrestricted		5,887,420
Total Net Assets	$	106,567,613

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MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Tuition, (net of scholarship allowance of $5,279,360)	$ 39,826,662
Fees, (net of scholarship allowance of $1,176,920)	8,642,669
Sales and service, net	8,059,911
Room and board, (net of scholarship allowance of $1,223,365)	9,391,768
Federal grants	9,204,025
State grants	5,949,060
Other income	2,276,732
Total operating revenues	83,350,827
Operating Expenses	
Salaries	92,549,392
Purchased services	15,129,869
Supplies	7,132,558
Repairs and maintenance	2,800,236
Depreciation	7,794,282
Financial aid, (net of scholarship allowance of $7,679,645)	8,102,271
Other expense	6,459,900
Total operating expenses	139,968,508
Operating income (loss)	(56,617,681)
Nonoperating Revenues (Expenses)	
Appropriations	54,530,336
Private grants	1,573,745
Interest income	563,070
Interest expense	(1,911,253)
Grants to other organizations	(165,293)
Total nonoperating revenue (expenses)	54,590,605
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,027,076)
Capital appropriation	3,588,444
Donated capital assets	297,295
Gain (loss) on disposal of capital assets	(46,800)
Change in net assets	1,811,863
Total Net Assets - Beginning of Year	104,755,750
Total Net Assets - End of Year	$ 106,567,613

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003

Cash Flows from Operating Activities	
Cash received from customers	$ 68,089,976
Federal grants	9,204,025
State grants	5,949,060
Cash repayment of program loans	1,435,217
Cash payments of program loans	(1,444,581)
Financial aid disbursements	(7,849,112)
Cash paid to suppliers for goods or services	(30,249,167)
Cash payments to employees	(92,513,311)
Net cash provided (used) by operating activities	(47,377,893)
Cash Flows from Noncapital and Related Financing Activities	
Appropriations	54,530,336
Private grants	1,315,160
Other nonoperating expenses	(165,299)
Net cash provided (used) by noncapital financing activities	55,680,197
Cash Flows from Capital and Related Financing Activities	
Capital appropriation	3,588,444
Proceeds from borrowing	659,935
Proceeds from sale of capital assets	14,997
Investment in capital assets	(10,174,955)
Interest paid	(1,911,253)
Repayment of notes	(292,560)
Repayment of lease	(272,084)
Repayment of bond principal	(229,832)
Net cash provided (used) by capital and related financing activities	(8,617,308)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	10,118,838
Investment earnings	546,540
Purchase of investments	(8,531,904)
Net cash provided (used) by investment activities	2,133,474
Net Increase (Decrease) in Cash and Cash Equivalents	1,818,470
Cash and Cash Equivalents, July 1, 2002	42,958,193
Cash and Cash Equivalents, June 30, 2003	$ 44,776,663

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003

Operating Income (Loss)	$ (56,617,681)
Adjustment to Reconcile Operating Income to	
Net Cash Flows from Operating Activities	
Depreciation	7,794,282
Transfers of equipment to chancellor's office relating to PALS	1,390,978
Provision for loan defaults	(118,778)
Loan principal repayments	1,435,217
Loans issued	(1,444,581)
Forgiven loans	253,159
Change in assets and liabilities	
Accounts receivable	(68,710)
Inventories	10,026
Accounts payable	340,776
Salaries payable	(682,960)
Compensated absences payable	748,506
Workers' compensation payable	(29,465)
Capital contributions payable	18,108
Funds held in trust	21,005
Deferred revenues	(60,061)
Other assets and liabilities	(367,714)
Net reconciling items to be added (deducted) from operating income	9,239,788
Net cash flow from operating activities	$ (47,377,893)
Non cash transactions	
Donated arts plaza	297,295

MINNESOTA STATE UNIVERSITY, MANKATO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State University, Mankato, 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 statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows include financial activities of Minnesota State University, Mankato.

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. Minnesota State University, Mankato, receives a portion of the Minnesota State Colleges and Universities' appropriation. The operations of most student organizations, including the student senate, are included in the reporting entity because the Board of Trustees has certain fiduciary responsibilities for these resources. Organizations that are not financially accountable to Minnesota State University, Mankato, such as the Minnesota State University, Mankato Foundation, Inc., are not included.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis is used in preparation of all financial statements. Revenues are recognized when they are earned and expenses are recognized as they are incurred. The University reports as a business-type activity, as defined by GASB Statement No. 34 and amended by GASB Statement Nos. 35, 37 and 38.

Minnesota State Colleges and Universities applies all applicable Financial Accounting Standards Board pronouncements 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 September 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 annual allocations to the colleges and universities.

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 the next biennium.

Cash and Cash Equivalents — At June 30, 2003, the cash balance represents cash in the state treasury and in 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.

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

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

Investments are reported at fair value.

Receivables and Payables — Receivables are shown net of an allowance for uncollectibles. Notes payable consists of state Energy Efficiency Program loans and future Taylor Center obligations. Loans received under the state Energy Efficiency Program are interest free. Energy companies grant the loans in order to improve energy efficiency in university buildings.

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

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	20 years
Equipment	3-20 years
Library Collections	7 years

Equipment includes all items over $2,000. Buildings and building improvements over $100,000 as well as all land and library collection acquisitions are capitalized.

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. The University may also enter into capital lease agreements for certain capital assets. Other long-term liabilities include notes payable, compensated absences and workers' compensation claims.

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 annual financial report.

Operating Activities — Operating activities as reported in the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made 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, as defined by GASB Statement No. 34, including state appropriations, private grants, and investment income.

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

Tuition, fees, room and board, sales and services — Tuition, fees and room and board are presented net of scholarships. Sales and services are net of cost of goods sold.

Federal Grants — The University participates in several federal grant programs. The largest programs include Pell, Supplemental Educational Opportunity Grant (SEOG), Federal Work Study, TRIO and AmeriCorps.

Net Assets — Resources are 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: Net assets subject to externally-imposed stipulations. Net asset restrictions for the University are as follows:

Restricted for donations — restricted per donor requests.
Restricted for loans — university capital contributed for Perkins loans
Restricted for bond covenants — revenue bond restrictions
Restricted for capital projects — restricted for completion of capital projects.
Restricted for debt service — legally restricted for bond debt repayments.
Restricted for faculty contract obligations — amounts for faculty development and travel as required by various faculty contracts.
Restricted for legislatively mandated programs — programs where appropriation law restricts the use of the funds for various programs.

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

New Accounting Pronouncement — In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement is effective for the University for the year ending June 30, 2004. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The University has not yet determined the effect GASB Statement No. 39 will have on its fiscal year 2004 financial statements.

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, and auxiliary and student activities.

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

Minnesota State University, Mankato was not fully collateralized for four days during the year. The maximum amount under collateralized during the year was $5,569,933. As of June 30, 2003, Minnesota State University, Mankato was fully collateralized.

At year end, all cash and cash equivalents were fully insured or collateralized with securities held by the state or its agent in the state's or University's name.

Carrying Amount	Total
Cash - in bank	$ 1,037,279
Money market	2,608,220
Cash - treasury account	41,131,164
Total	$ 44,776,663

At June 30, 2003, the University's local bank balances were $4,475,782. 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 cash is reported as a cash equivalent. Cash in the Revenue Fund is invested separately. The fund contracts with the Minnesota State Board of Investment for investment management services.

Investments — Minnesota Statute, Section 11A.24, broadly restricts investment of cash in the state treasury to obligations and stocks of U.S. and Canadian governments, their agencies, and their registered corporations, short-term obligations of specific high quality, restricted participation in venture capital, real estate or resource equity investments and restricted participation in registered mutual funds. Investments of cash in local bank accounts are limited by the same statute.

Investments are categorized to give an indication of the level of credit risk. Category 1 includes securities insured or registered or held by the University or its agent in the University's name. Risk category 2 investments include uninsured and unregistered securities held by the pledging institution's trust department or agent in the University's name.

Investments in risk category 3 include uninsured and unregistered securities held by the pledging institution's trust department or agent, but not in the University's name. All of the University's investments are in risk category 1.

Investment Type	Fair Value
Certificates of deposit	$ 583,829
GNMA	1,600,000
Bonds	390,000
FNMA	1,537,266
Treasury bills	1,571,776
Total	$ 5,682,871

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 the fiscal year, State Street and Wells Fargo lent on behalf of the state of Minnesota certain securities held by State Street and Wells Fargo as custodian and received cash (both U.S. and foreign currency) and securities issued or guaranteed by the U.S. 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 year on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street 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. Wells Fargo protects the state of Minnesota by purchasing replacement securities or returning the cash collateral. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year. In addition, there were no losses during the fiscal year resulting from default of the borrowers, State Street or Wells Fargo. On June 30, 2003, the state of Minnesota had no credit risk from borrowers.

Securities Lending Analysis, June 30, 2003

	Wells Fargo	State Street
Fair value of securities on loan	$256,857,901	$3,275,226,066
Collateral held	$261,730,519	$3,387,545,849
Average duration	21 days	70 days
Average weighted maturity	9 days	493 days

During the fiscal year, 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, 2003, the state of Minnesota had no credit risk exposure to borrowers.

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the colleges and universities. The University's portion of the allocation is $1,233,475.

3. LOANS RECEIVABLE

Loans receivable balance includes 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. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University. At June 30, 2003, the total loans receivable for this program was $6,776,187 less an allowance for uncollectible loans of $155,475.

4. ACCOUNTS RECEIVABLE

The accounts receivable balance is made up primarily of receivables from individuals and businesses. At June 30, 2003, the total accounts receivable balance for the University was $2,686,773 less an allowance for uncollectible receivables of $643,346. The following is a summary of accounts receivable at June 30, 2003.

Tuition	$ 1,014,662
Sales and services	443,331
Other	273,867
Fees	264,467
Due from Office of the Chancellor	242,928
Room and board	239,852
Student loan income	171,415
Third party obligations	36,251
Total Accounts Receivable	$ 2,686,773
Less Allowance for Uncollectible Accounts	(643,346)
Net Accounts Receivable	$ 2,043,427

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 ASSETS

Prepaid assets consist of $423,090 that has been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statute, 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 year.

The remaining $207,924 in prepaid assets represents the health insurance premium for faculty whose annual compensation is paid over the nine month academic year.

6. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 910,695	$ —	$ —	$ —	$ 910,695
Construction in progress	5,255,956	3,782,317	—	(8,234,338)	803,935
Total capital assets, not depreciated	6,166,651	3,782,317	—	(8,234,338)	1,714,630
Capital assets, depreciated:			—		
Buildings and improvements	143,108,477	1,651,519	—	8,234,338	152,994,334
Equipment	26,779,134	2,778,669	3,152,968	—	26,404,835
Library collections	7,982,819	1,361,698	897,289	—	8,447,228
Total capital assets, depreciated	177,870,430	5,791,886	4,050,257	8,234,338	187,846,397
Less accumulated depreciation:					
Buildings and improvements	63,929,314	4,299,545	—	—	68,228,859
Equipment	17,852,050	2,287,990	1,806,727	—	18,333,313
Library collections	4,267,905	1,206,747	897,289	—	4,577,363
Total accumulated depreciation	86,049,269	7,794,282	2,704,016	—	91,139,535
Total capital assets, depreciated, net	91,821,161	(2,002,396)	1,346,241	8,234,338	96,706,862
Total capital assets, net	$ 97,987,812	$ 1,779,921	$ 1,346,241	$ —	$ 98,421,492

7. LONG-TERM OBLIGATIONS

A summary of long-term obligations at June 30, 2003, and the changes during the fiscal year are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Liabilities for:				
General obligation bonds	$ 3,507,403	$ 542,623	$ 229,832	$ 3,820,194
Revenue bonds	18,920,285	—	—	18,920,285
Compensated absences	8,801,974	748,506	—	9,550,480
Workers' compensation	126,732	150,185	179,650	97,267
Capital leases	794,563	117,312	272,084	639,791
Capital contributions	6,754,916	18,108	—	6,773,024
Notes payable	510,739	—	292,560	218,179
Totals	$39,416,612	$ 1,576,734	$ 974,126	$40,019,220

Amounts that are due within one year are reported in the current liability section of the statement of net assets.

Revenue Bonds — The Revenue Fund is authorized by Minnesota Statute, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed $100,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at the state universities.

General Obligation Bonds Liability — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 2.5 to 7 percent.

The 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 included in these financial statements represents the University's share.

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. Such leave is liquidated in cash only at the time of termination from state employment.

Workers' Compensation — The reported liability for workers' compensation is based on claims filed for injuries to state employees occurring prior to June 30, 2003, and is an undiscounted estimate of future payments.

Capital Contributions — The $6,773,024 liability represents 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 of FASB Pronouncement No.13 *Accounting for Leases*. See note 9 for details.

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

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

Long term debt repayment schedule:

Fiscal Years	Notes Payable	General Obligation Bonds		Capital Leases		Revenue Bonds Payable	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 170,881	$ 292,005	$ 231,661	$ 639,791	$ 1,320	$ 552,221	$ 1,002,161
2005	47,298	292,538	186,048	—	—	578,482	974,470
2006	—	293,078	169,542	—	—	607,221	944,914
2007	—	296,855	152,606	—	—	638,810	913,803
2008	—	292,685	135,580	—	—	672,876	880,994
2009-2013	—	1,242,005	442,609	—	—	3,940,411	3,836,246
2014-2018	—	660,021	190,991	—	—	5,145,367	2,643,096
2019-2023	—	451,007	48,966	—	—	6,784,897	995,096
Total	$ 218,179	$ 3,820,194	$ 1,558,003	$ 639,791	$ 1,320	$ 18,920,285	$ 12,190,780

8. ACCOUNTS PAYABLE

Accounts payable represent amounts due at June 30, 2003 for goods and services received prior to the end of the fiscal year. The following is a summary of payables at June 30, 2003:

Purchased services	$ 926,864
Financial aid	701,947
Supplies	646,164
Repairs and maintenance	641,791
Other	211,275
Student payroll expense	197,118
Capital projects	185,687
Salaries	74,254
Inventory	58,320
Total	$3,643,420

9. LEASE AGREEMENTS

Operating Leases — The University is committed under various leases primarily for building space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2003, totaled approximately $847,740. Future minimum lease payments for existing lease agreements are as follows:

Fiscal Year	Amount
2004	$1,366,244

Capital Leases — The University has entered into two capital lease agreements. The leases meet the criteria of a capital lease as defined by the Financial Accounting Standards Board Pronouncement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

Outstanding capital leases include laptop computers and the Warren Street Building. The laptop computer leases expire in fiscal year 2004. Final payment for the Warren Street Building will be in fiscal year 2004.

10. EMPLOYEE PENSION PLANS

The Minnesota State Colleges and Universities participate 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 (MSRS), who 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 MSRS at 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing multiple employer defined benefit plan. All classified employees are covered by this plan. 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 are 1.2 and 1.7 percent. 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 Statute, Chapter 352. The funding requirements are 4 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Amount
2003	$750,528
2002	692,359
2001	666,260

Teachers Retirement Fund (TRF) —

Pension fund information is provided by the Minnesota Teachers Retirement Association (TRA), who 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 TRA 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. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 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 Statute, Chapter 354. The funding requirements are 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Amount
2003	$684,836
2002	691,088
2001	745,517

Minnesota State Colleges and Universities Defined Contribution Retirement Fund —

General Information — The fund includes two plans; an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Both plans are mandatory tax-deferred, single employer defined contribution plans authorized by Minnesota Statute, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. The plans cover unclassified teachers, librarians, administrators and certain other staff who have been employed full-time for a minimum of two academic years. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Wells Fargo bank.

I.R.A.P. —

Participation — Each employee who is in unclassified service is required to participate in TRA or IRAP upon achieving eligibility. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 percent of a full academic year, excluding summer session. An employee remains a participant of the plan, even if employed for less than 25 percent of a full academic year in subsequent years.

Contributions — There are two member groups participating in the IRAP; a faculty group and an administrators group. For faculty, the employer and employee statutory contribution rates are 6 and 4.5 percent, respectively. For administrators, the employer rate is 6 percent and the employee rate is 4 percent. The contributions are made under the authority of Minnesota Statute, Chapter 354B. Required contributions for Minnesota State University, Mankato were:

Fiscal Year	Employer	Employee
2003	$ 1,843,269	$ 1,377,214
2002	1,627,402	1,207,084
2001	1,473,363	1,097,106

S.R.P. —

Participation — Each unclassified 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.

Contributions — Participants contribute to the SRP portion of the plan 5 percent of the eligible compensation as noted below:

Member Group	Eligible Compensation	Maximum Annual Contribution
Inter Faculty Organization (IFO)	$6,000 to $51,000	$2,250
Minnesota State University Association of Administrative and Service Faculty (MSUAASF)	$6,000 to $48,000	$2,100
Administrators	$6,000 to $46,000	$2,000

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

Fiscal Year	Amount
2003	$1,074,423
2002	963,725
2001	962,013

11. CONTINGENT LIABILITIES – LITIGATION

Lawsuits furnish a basis for potential liability. The following cases, or categories of cases, in which Minnesota State University, Mankato, its officers or employees are defendants have been noted because an adverse decision in each case or category of cases could result in an expenditure of monies of over $100,000.

> *Gee v. Minnesota State University, Mankato.* A fixed term faculty member sued, alleging disability discrimination, whistle blower violation and intentional/negligent infliction of emotional distress. The case is in the discovery phase.

12. POSTRETIREMENT BENEFITS

The faculty contracts have provided early retirement incentives for faculty meeting specific requirements. The specific circumstances usually pertain to faculty members hired before June 30, 1996, and require the faculty member to have served a specified number of years of service. The faculty member has the right to continue, at the employer's expense, health insurance benefits for one year after separation.

The cost of health insurance benefits and early retirement incentives was $137,220 and $669,228, respectively, during fiscal year 2003. Thirty-seven Minnesota State University, Mankato retired faculty currently receive the health insurance benefit.

13. 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 manage these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund and through purchased insurance coverage.

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

While property and casualty coverage is required by Minnesota State Colleges and Universities policy, campuses may select optional coverage such as international accident, international liability, professional liability for employed physicians and student health services professional liability. The Risk Management Fund also provides these coverages.

Property coverages offer institutions a deductible between $2,500 and $250,000. The Risk Management Fund covers the balance of the claim up to $2,500,000. The primary re-insurer covers losses up to $50,000,000 after which the excess loss is shared among multiple re-insurers up to $300,000,000. Once annual property losses paid by the Risk Management Fund reach $7,500,000, the re-insurer will cover those losses in excess of the covered deductible. The fund must pay a $25,000 maintenance deductible for each of these additional claims. The liability coverage limit is the statutory limit of $300,000 each person for bodily injury and property damage and $1,000,000 per occurrence for bodily injury and property damage.

Minnesota State University, Mankato retains the risk of loss. The University did not have any settlements in excess of coverage for the last 3 years.

The Risk Management Fund purchases other insurance on the open market for some campuses. These generally include student intern professional liability, dental clinics professional liability, aviation insurance and a variety of bonds.
Minnesota State Colleges and Universities participates in State Employee Group Insurance Plan, which provides life insurance, hospital, medical and dental benefits coverage through provider organizations.

Workers' compensation is covered through state participation in the Workers' Compensation Reinsurance Association, which pays for catastrophic workers' compensation claims. Other workers' compensation risks are covered through self-insurance for which Minnesota State Colleges and Universities pays the cost of claims through the state Workers' Compensation Fund. A Minnesota State Colleges and Universities' Workers' Compensation Payment Pool helps institutions manage the volatility of such claims. Annual premiums are assessed by the pool based on salary dollars. 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 claims liability during the fiscal years ended June 30, 2002 and 2003.

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/02	$ 81,047	$334,411	$288,726	$ 126,732
Fiscal Year Ended 6/30/03	$ 126,732	$150,185	$179,650	$ 97,267

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. The University has one segment that meets the reporting requirements of GASB Statement No. 34.

Minnesota State Colleges and Universities issues revenue bonds to finance the University dormitories and student unions. Summary financial information for the Minnesota State University, Mankato portion of the Revenue Fund follows.

Summary financial information:

	Revenue Fund
CONDENSED STATEMENT OF NET ASSETS	
Assets:	
Current assets	$ 5,292,848
Restricted assets	19,093,184
Capital assets	17,781,191
Total assets	42,167,223
Liabilities:	
Current liabilities	1,945,994
Noncurrent liabilities	18,714,246
Total liabilities	20,660,240
Net Assets:	
Invested in capital assets, net of related debt	16,455,904
Restricted	
Bond covenants	3,552,892
Capital projects	1,498,187
Total net assets	$21,506,983
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	
Operating revenues	$14,567,505
Operating expenses	12,310,132
Net operating income	2,257,373
Nonoperating revenues (expenses)	(664,172)
Change in net assets	1,593,201
Net assets -beginning of year as restated	19,913,782
Net assets -end of year	$21,506,983
CONDENSED STATEMENT OF CASH FLOWS	
Net cash provided (used) by	
Operating activities	$ 3,141,206
Investing activities	2,445,339
Capital and related financing activities	(3,603,654)
Net increase (decrease)	1,982,891
Cash - beginning of year	17,887,329
Cash - end of year	$19,870,220

15. RELATED PARTY

The University has an agreement with the Minnesota State University, Mankato Foundation whereby the University has agreed to furnish services for the operation of the Foundation. The value of such services has not been determined, but is included in the University's expenses. In return, the Foundation has agreed to expend its revenues exclusively for the benefit of the University. During fiscal year2003, the foundation expended $1,962,624 for University educational program purposes. Approximately $670,000 of the total went to support student scholarships.

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SUPPLEMENTARY SECTION

Supplementary Information

The first supplementary schedule shows a generally accepted accounting principle (GAAP) to budgetary reconciliation of net assets to fund balance for the General Fund. This reconciliation begins with total assets for all funds from the statement of net assets and reconciles it to the budgetary General Fund balance by eliminating all other fund types and GAAP adjustments. Differences between budgetary and GAAP include the effect of full accrual accounting (revenue and expenses recognized when cash is received or expended).

The budgetary fund balance includes state grant revenue and budgetary restrictions which are eliminated. The remaining fund balance may be designated by the University for Board required reserves and specific programs.

Following the GAAP to budget schedule is a list of fund types and their activities.

The last section includes the statement of net assets and the statement of revenues, expenses and changes in net assets presented by fund type. These statements were prepared using full accrual accounting for all fund types, with the exception of the interfund activities which were not eliminated, and the scholarship allowances which were not applied to these statements.

MINNESOTA STATE UNIVERSITY, MANKATO
Reconciliation of Net Assets to Budgetary Fund Balance - General Fund (Unaudited)
As of June 30, 2003

Total Net Assets	$ 106,567,613
Less Restricted Assets	
Invested in capital assets, net	(92,169,413)
Restricted net assets	(8,510,780)
Total unrestricted net assets	5,887,420
Less Non-General Fund Unrestricted Net Assets	
Enterprise fund	(2,552,880)
Special Revenue fund	(1,311,964)
General fund - unrestricted net assets	2,022,576
GAAP Accruals Not Recognized in Budget	
Compensated absences	8,826,642
Other accruals, net	(270,857)
General fund - unrestricted budgetary fund balance	10,578,361
Less Budgetary Designations	
Faculty contract obligations	(907,062)
Prior year encumbrances	(772,667)
Board required reserve	(3,821,105)
Designated for programs	(3,914,080)
Planned for fiscal year 2004 budget	(1,163,447)
Undesignated Budgetary Fund Balance	$ -

The board requires the University to maintain a General Fund reserve of 5-7 percent of the previous year's General Fund operating revenues. The University's reserve at June 30, 2003 was 4 percent of the prior year General Fund operating revenues.

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FUND TYPES

Activities included in the fund types are as follows:

GENERAL FUND

- General operations
- Customized training
- State grants
- Capital projects
- Imprest cash

SPECIAL REVENUE

- Student activities
- Health services
- Intercollegiate activities
- Child care
- Federal grants
- Federal financial aid
- State financial aid
- Private gifts and grants
- Miscellaneous special revenues
- Private scholarships
- Endowments

ENTERPRISE

- Computer store
- Food service
- Parking

REVENUE

- Residence halls
- Student union

AGENCY

- Custodial accounts
- Temporary accounts

MINNESOTA STATE UNIVERSITY, MANKATO
Statement of Net Assets (Unaudited)
As of June 30, 2003

	General	Special Revenue
Assets		
Cash and cash equivalents	$ 21,254,631	$ 126,457
Investments	-	1,327,380
Interest Receivable	5,901	2,075
Grants receivable	310,644	786,261
Accounts receivable, (net of allowance of $643,346)	898,952	217,295
Loans receivable, (net of allowance of $155,475)	-	-
Prepaid assets	631,014	-
Restricted assets	-	-
Inventory	-	-
Other assets	24,493	75
Due from other funds	654,657	1,011,176
Securities lending collateral	969,120	4,196
Total current, restricted and noncurrent assets	24,749,412	3,474,915
Capital Assets		
Construction in progress	369,437	-
Equipment	24,438,438	-
Library collections	8,447,228	-
Buildings and improvements	111,782,454	-
Land	910,695	-
Less accumulated depreciation	(66,169,786)	-
Total capital assets	79,778,466	-
Total Assets	104,527,878	3,474,915
Liabilities		
Salaries payable	7,166,170	239,412
Accounts payable	2,816,343	62,221
Deferred revenue	803,228	333,169
Funds held in trust	-	-
Notes Payable	218,179	-
Compensated absences payable	8,826,642	102,258
Workers' compensation liabilities	97,267	-
Capital lease payable	639,791	-
Revenue bond payable	-	-
General obligation bonds payable	3,820,194	-
Capital contributions payable	-	-
Other liabilities	9,843	-
Payable to other funds	607,890	175,689
Securities lending collateral	969,120	4,196
Total Liabilities	25,974,667	916,945
Net Assets		
Invested in capital assets, net of related debt	75,100,302	-
Restricted		
Donations	-	1,246,006
Perkins loans	-	-
Bond covenants	-	-
Capital projects	-	-
Debt service	423,090	-
Faculty contracts	907,062	-
Legislatively mandated programs	100,181	-
Unrestricted	2,022,576	1,311,964
Total Net Assets	$ 78,553,211	$ 2,557,970

Subtotals and totals may not agree due to rounding.

Enterprise	Revenue	Agency	Total
$ 3,044,637	$ 4,197,695	$ 480,718	$ 29,104,138
1,246,449	-	-	2,573,829
35,091	-	-	43,067
-	-	-	1,096,905
353,061	488,641	85,478	2,043,427
6,620,712	-	-	6,620,712
-	-	-	631,014
-	19,093,184	-	19,093,184
23,254	-	-	23,254
-	-	167,049	191,617
152,117	346,353	210,637	2,374,940
-	260,159	-	1,233,475
11,475,321	24,386,032	943,882	65,029,562
-	185,870	-	555,307
1,043,780	922,617	-	26,404,835
-	-	-	8,447,228
-	41,211,880	-	152,994,334
-	-	-	910,695
(430,573)	(24,539,176)	-	(91,139,535)
613,207	17,781,191	-	98,172,864
12,088,528	42,167,223	943,882	163,202,426
26,662	125,485	8,234	7,565,963
215,812	333,187	215,857	3,643,420
43,382	359,039	12,693	1,551,511
-	-	199,181	199,181
-	-	-	218,179
62,077	381,443	178,060	9,550,480
-	-	-	97,267
-	-	-	639,791
-	18,920,285	-	18,920,285
-	-	-	3,820,194
6,773,024	-	-	6,773,024
12,711	-	24,549	47,103
1,005,411	280,642	305,308	2,374,940
-	260,159	-	1,233,475
8,139,079	20,660,240	943,882	56,634,813
613,207	16,455,904	-	92,169,413
-	-	-	1,246,006
783,362	-	-	783,362
-	3,552,892	-	3,552,892
-	1,498,187	-	1,498,187
-	-	-	423,090
-	-	-	907,062
-	-	-	100,181
2,552,880	-	-	5,887,420
$ 3,949,449	$ 21,506,983	$ -	$ 106,567,613

MINNESOTA STATE UNIVERSITY, MANKATO
Statement of Revenues, Expenses and Changes in Net Assets (Unaudited)
For the year ended June 30, 2003

	General	Special Revenue
Operating Revenues		
Tuition	$ 45,106,022	$ -
Fees	3,094,494	3,497,966
Sales and service, net	1,461,339	2,477,572
Room and board	-	-
Federal grants	-	9,204,025
State grants	677,768	5,271,292
Other income	414,975	190,836
Total operating revenues	50,754,598	20,641,691
Operating Expenses		
Salaries	82,297,673	5,085,892
Purchased services	6,745,797	1,560,772
Supplies	5,249,784	987,203
Repairs and maintenance	1,851,929	70,406
Depreciation	6,354,872	-
Financial aid	1,708,305	13,958,197
Other expense	4,220,193	162,083
Total operating expenses	108,428,553	21,824,553
Operating income (loss)	(57,673,955)	(1,182,862)
Nonoperating Revenues (Expenses)		
Appropriations	54,530,336	-
Private grants	390,762	1,144,755
Interest income	14,880	16,226
Interest expense	(841,969)	(45,400)
Grants to other organizations	(165,293)	-
Total nonoperating revenue (expenses)	53,928,716	1,115,581
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,745,239)	(67,281)
Capital appropriation	3,588,444	-
Donated capital assets	297,295	-
Transfers in	1,213,234	1,243,809
Transfers out	(2,448,071)	(756,882)
Gain (loss) on disposal of capital assets	(45,632)	-
Change in net assets	(1,139,969)	419,646
Total Net Assets - Beginning of Year	79,693,180	2,138,324
Total Net Assets - End of Year	$ 78,553,211	$ 2,557,970

Subtotals and totals may not agree due to rounding.

Enterprise	Revenue	Total
$ -	$ -	$ 45,106,022
423,041	2,804,088	9,819,589
3,022,341	1,098,659	8,059,911
-	10,615,133	10,615,133
-	-	9,204,025
-	-	5,949,060
1,621,296	49,625	2,276,732
5,066,678	14,567,505	91,030,472
925,165	4,240,662	92,549,392
1,892,678	4,930,622	15,129,869
152,424	743,147	7,132,558
170,591	707,310	2,800,236
121,523	1,317,887	7,794,282
115,414	-	15,781,916
1,707,120	370,504	6,459,900
5,084,915	12,310,132	147,648,153
(18,237)	2,257,373	(56,617,681)
-	-	54,530,336
38,228	-	1,573,745
178,725	353,239	563,070
(6,336)	(1,017,548)	(1,911,253)
-	-	(165,293)
210,617	(664,309)	54,590,605
192,380	1,593,064	(2,027,076)
-	-	3,588,444
-	-	297,295
1,822,139	-	4,279,182
(1,074,229)	-	(4,279,182)
(1,305)	137	(46,800)
938,985	1,593,201	1,811,863
3,010,464	19,913,782	104,755,750
$ 3,949,449	$ 21,506,983	$ 106,567,613

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

To the Board of Trustees
Minnesota State Colleges and Universities
1450 Energy Park Drive, Suite 300
St. Paul, Minnesota 55108

We have audited the financial statements of Minnesota State University – Mankato as of and for the year ended June 30, 2003, and have issued our report thereon dated October 15, 2003. 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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the University in a separate letter dated October 15, 2003.

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

October 15, 2003

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