MINNESOTA STATE UNIVERSITY
MANKATO

ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2004 and 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 YEARS ENDED JUNE 30, 2004 and 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

Upon request, this publication is available in alternate formats by calling one of the following:
General number: (651) 296-8012
Toll-free: 1-888-MNSCU-4-U
TTY: (651) 282-2660

MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

TABLE OF CONTENTS

INTRODUCTION

FINANCIAL SECTION

This page intentionally left blank.

INTRODUCTION

MINNESOTA STATE UNIVERSITY
MANKATO

November 10, 2004

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, 2004. 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-two colleges and universities in the Minnesota State Colleges and Universities system. It has been my privilege to serve as President since July 1, 2002.

Now in its 136th year, Minnesota State University, Mankato today serves more than 14,000 students, our largest enrollment in a decade. Our student body includes nearly 500 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 1,300 faculty and staff (600 full-time instructional faculty, 80 percent with terminal degrees). Twenty-five national accrediting agencies, including The Higher Learning Commission (North Central Association of Colleges and Schools), have accredited MSU. Our alumni number 94,000 worldwide. During Spring commenement ceremonies in May 2004, a record number of students, 1,617, received degrees.

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, industrial/organizational psychology, and speech communication. Our most popular programs are business, computer and information sciences, education, health professions, and law enforcement.

OFFICE OF THE PRESIDENT
309 WIGLEY ADMINISTRATION CENTER · MANKATO, MN 56001
PHONE 507-389-1111 (V) · 800-627-3529 OR 711 (MRS/TTY) · FAX 507-389-6200

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, Center for Automotive Research, Minnesota Center for Rapid Prototyping and Production, Minnesota Space Image Processing Center, Kessel Institute for the Study of Peace and Change, Water Resources Center, Force Science Center, and the Women's Center. Three MSU students were accepted as 2004 Fulbright Assistants, ranking MSU among the nation's top producers of Fulbright scholars. Students also have garnered national recognition for their solar car team, Formula SAE Collegiate Design team, Emuseum, student newspaper, theatre performances, forensics team, and cheer team.

During the 2003-2004 academic year, MSU fielded 22 teams including Division I WCHA men's and women's hockey 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. Over 500 student athletes participated in athletic competitions. These teams are sources of great pride for students and community members. The University is equally proud of their academic achievements. The overall grade point average for student athletes was 3.09 and 60 Mavericks earned academic all-conference recognition. The graduation rate for Maverick athletes is 69% (compared to 49% for the general student population). Additionally, MSU ranked 20th in the National Association of Collegiate Directors Association Cup final standings.

Campus facilities are a particular point of pride for MSU thanks to private contributions and state bonding funds in recent years resulting in new and upgraded buildings. Our 25,000 square-foot Technology Center housed in Memorial Library is the hub of campus technology. The new campus casual computing area allows students the opportunity to work together in comfortable surroundings and the adjacent global learning lab is an excellent teaching center. Students enjoy the Myers Field House which was recently renovated ($11 million) and includes 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. A $10.3 million renovation to the Centennial Student Union is expected to be completed in April 2005, and student recreation/fitness center renovations totaling $8.4 million will be completed by July 2005.

MSU strives to be a good neighbor and community partner, serving as a regional economic and cultural hub. The Cities/Colleges/and University Advisory Council consisting of the cities of Mankato/North Mankato, MSU, the Chamber of Commerce, Bethany Lutheran and Gustavus Adolphus colleges and South Central Technical College continues to meet 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 growing 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. Students and faculty in the Allied Health and Nursing programs continued their involvement 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. MSU's partnership with the Madelia Clinic/Mayo Health System and the Madelia Community Hospital expanded and continued to receive awards for collaborative partnerships.

Minnesota State University, Mankato received notification that the Jumpstart National Service Program at MSU will continue to be funded. This is a federal grant that provides one-to-one mentoring and tutoring of pre-school children by college students on school readiness skills. MSU remains the only such program in Minnesota.

MSU's 4th Annual Undergraduate Research Conference was held in April 2004, with 139 students participating. The 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.

MSU's Civil Engineering program was accredited by the Accreditation Board for Engineering and Technology (ABET), making it the first Minnesota civil engineering program accredited in 68 years, and only the second program in the state. The program started because of a recognized industry need and was spearheaded and funded through collaborative partnerships.

Approximately 70 University community members were involved during the initial year of the American Democracy Project. Co-sponsored by the *New York Times* and the Association of State Colleges and Universities, this national project is designed to increase student involvement in civic engagement.

The University is proud to have received five awards presented by the Office of the Chancellor. These awards were presented for excellence in facilities management (recognizing for the third straight year MSU's leadership and team effort in facilities management), excellence in information technology (recognized for the wireless campus project), excellence in curriculum programming (recognized for the College of Business technology initiative), innovation in Student Affairs programming (MSU's Learning Communities Program) and serving under-represented students (recognizing the collaborative health program "Taking Steps to Better Health/Tomando Pasos Para Mejor Salud") .

MSU continued work on its strategic priorities which were established following 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. A draft plan has been developed and is undergoing refinement.

An Enrollment Management Plan to determine the overall size of the University and the composition of the student body. The plan was written, approved, and implemented.

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. During this year, the planning focused on residential housing.

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. Initial planning for a major capital campaign began during the 2003-2004 fiscal year.

Priority II: Promote Diversity

MSU will develop a comprehensive plan that promotes diversity across all levels of the University community. The Diversity Task Force completed its report and the plan is being implemented.

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. The University created a new position, Dean of Extended Learning, to address the educational needs of off-campus students. The Dean began work July 2004 and is overseeing the development of on-line programs, continuing education and extended campus programs.

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. Much progress was made during 2003-2004 academic year on this priority and work continues under the leadership of a new Dean of Graduate Studies.

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. This task force was engaged in developing a strategy and plan to assess programs and will continue with its work during the next academic year.

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 2004. The University ended fiscal year 2004 with total net assets of $107.7 million. Net assets increased during fiscal year 2004 by $1.1 million. Lastly, the University's general fund reserve increased to $4.3 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 President Davenport]

Richard Davenport
President

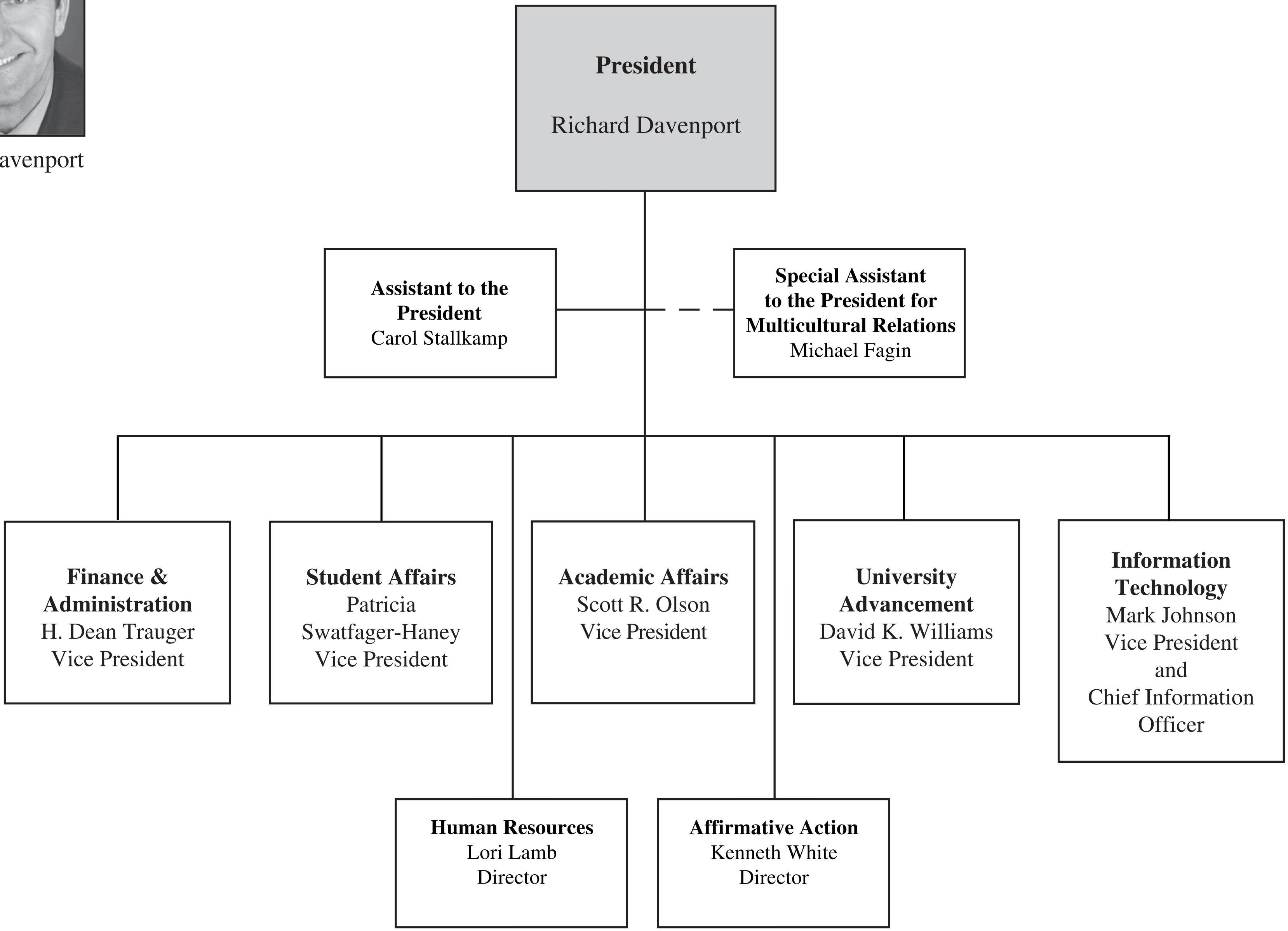
Enclosure

This page intentionally left blank.

University Administration Organization

Minnesota State University, Mankato
August 16, 2004

Richard Davenport



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

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

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

FINANCIAL SECTION

LarsonAllen℠

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

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

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 years ended June 30, 2004 and 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 audits. We did not audit the financial statements of Minnesota State University, Mankato Foundation, Inc., a discretely presented component unit of Minnesota State University, Mankato. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit mentioned above, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University, Mankato, as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16, Minnesota State University, Mankato has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amended the requirements for reporting discretely presented component units.

Larson, Allen, Weishair & Co., LLP

In accordance with *Government Auditing Standards,* we have also issued our report dated October 14, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying *Management Discussion and Analysis*, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by 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.

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
October 14, 2004

This page intentionally left blank.

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 years ended June 30, 2004 and 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Minnesota State University, Mankato is one of 32 colleges and universities comprising the 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 institution of higher learning with approximately 14,000 students including 1,700 graduate and professional students, and it has over 94,000 alumni. Approximately 1,300 faculty and staff members are employed by the University.

The six colleges that comprise the University's academic programs are:

* Allied Health & Nursing
* Arts and Humanities
* Business
* Education
* Science, Engineering and Technology
* 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 25 national accrediting agencies including the North Central Association of Colleges.

FINANCIAL HIGHLIGHTS

The Minnesota State University, Mankato's financial position remained stable during fiscal year 2004. Assets totaled $160.8 million compared to liabilities of $53.1 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 $88.4 million, restricted assets of $14.3 million, and unrestricted assets of $5 million.

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, including GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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.

STATEMENTS OF NET ASSETS

The statements of net assets presents the financial position of Minnesota State University, Mankato 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 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. A summary of the University's assets, liabilities and net assets as of June 30, 2004, 2003, and 2002, respectively, is as follows:

Statement of Net Assets
(In Thousands)

	2004	2003	2002
Current assets	$ 44,898	$ 38,210	$ 36,702
Restricted assets	13,894	19,093	19,853
Noncurrent assets			
Student receivables/other	6,010	5,352	6,746
Capital assets, net	96,001	98,173	97,878
Total assets	160,803	160,828	161,179
Current liabilities	22,258	16,801	18,754
Noncurrent liabilities	30,840	37,459	37,669
Total liabilities	53,098	54,260	56,423
Net assets	$107,705	$106,568	$104,756

Current unrestricted assets consist primarily of cash, cash equivalents and investments totaling $37.4 million at June 30, 2004. This is an increase of $5.7 million over the prior year and represents approximately 3.4 months of operating expenses (excluding depreciation).

Current liabilities consist primarily of accounts and salaries payable. Salaries payable totaled $8.9 million at June 30, 2004, an increase of $1.3 million over the prior year. This increase was caused primarily because the last pay period in fiscal year 2004 had two more accrual days in June than the last pay period in fiscal year 2003 and because of an increase in the number of faculty electing to receive their salary over twelve months instead of nine. Included within the salary payable accrual is $8.2 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 18, 2003 – August 20, 2004.

Net assets represent the residual interest in the University's assets after liabilities are deducted. Board policy requires the University to maintain a general operating fund reserve. The University's general fund reserve of $4.3 million, calculated on the cash basis of accounting, is contained within the unrestricted net asset balance. The University's net assets as of June 30, 2004, 2003, and 2002, respectively, are summarized as follows:

Net Assets
(In Thousands)

	2004	2003	2002
Invested in capital assets, net of related debt	$ 88,388	$ 92,169	$ 93,175
Restricted	14,343	8,511	8,117
Unrestricted	4,974	5,888	3,464
Total net assets	$ 107,705	$ 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 include funding received for specific purposes, bond covenants, debt service, and funds reserved for legislatively mandated purposes.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic and student life programs 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, 2004, totaled $98.9 million, net of accumulated depreciation of $94.9 million.

Capital outlay totaled $8.2 million in 2004, a decrease of $1.4 million from the prior year. Although construction in progress increased by $4.8 million during 2004, overall capital outlay decreased because of changes in capitalization practices. Only equipment items with an original unit price of $5,000 or greater were capitalized in 2004, whereas items with an original unit price of $2,000 or greater were capitalized in 2003. Additionally, in 2004, the University began purchasing significantly more online library subscriptions. Online library subscriptions are not capitalized like printed subscription materials because they don't have value beyond the subscription period. Capital expenses are primarily comprised of replacement and renovation of existing facilities, as well as significant investments in equipment. Current year capital asset additions were funded primarily through capital appropriations of which $2.9 million was received in fiscal year 2004.

Bonds payable totaled $15.4 million at June 30, 2004. These bonds were issued in prior years to finance building construction, remodeling and repairs. The majority of the bonds payable, $10.7 million, is related to the Student Union building renovation project. Additional information on capital and debt activities can be found in the notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statements of revenues, expenses and changes in net assets presents the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue.

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Tuition revenue increased in fiscal year 2004 as a result of a 15 percent increase in tuition coupled with an increase in enrollment of 2 percent. In 2004 total state appropriations decreased by $4.7 million to $53.4 million, with $2.9 million of this total coming in the form of capital appropriations.

The resources expended for compensation and benefits increased $2.2 million to $94.7 million in fiscal year 2004. This increase corresponds to promotional and step increases for employees. Also contributing to the increase was the hiring of more probationary full-time faculty and fewer part-time adjunct faculty.

A summarized statement for the years ended June 30, 2004, 2003, and 2002, respectively, follows:

Summarized Statement of Revenues, Expenses and Changes in Net Assets
(In Thousands)

	2004	2003	2002
Operating revenue:			
Student tuition and fees	$ 61,429	$ 54,925	$ 48,193
Less: scholarship allowances	(6,868)	(6,456)	(2,960)
Net student tuition and fees	54,561	48,469	45,233
Room and board	11,529	10,615	10,474
Less: scholarship allowances	(1,266)	(1,223)	(608)
Net room and board	10,263	9,392	9,866
Other revenue	23,815	25,490	25,767
Total operating revenue	88,639	83,351	80,866
Nonoperating revenue:			
State appropriations	50,447	54,530	54,028
Donated capital asset additions	—	297	16,527
Capital appropriations	2,928	3,589	5,141
Other	1,478	2,137	1,933
Total nonoperating revenue	54,853	60,553	77,629
Total revenue	143,492	143,904	158,495
Operating expense:			
Salaries and benefits	94,737	92,550	84,495
Supplies and services	31,430	31,523	26,259
Depreciation	7,594	7,794	7,537
Financial aid	7,395	8,102	10,158
Total operating expense	141,156	139,969	128,449
Nonoperating expense:			
Loss on disposal of capital assets	146	47	1,090
Grants	153	165	133
Interest expense	900	1,911	586
Total nonoperating expense	1,199	2,123	1,809
Total expense	142,355	142,092	130,258
Increase in net assets	1,137	1,812	28,237
Net assets, beginning of year	106,568	104,756	76,519
Net assets, end on year	$107,705	$ 106,568	$104,756

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 23 percent during the past 6 years, may result in a serious financial challenge for the University in fiscal years 2006, 2007 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:

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

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2004 AND 2003
(IN THOUSANDS)

Assets	2004	2003
Current Assets		
Cash and cash equivalents	$ 33,231	$ 29,104
Investments	4,137	2,574
Grants receivable	679	1,097
Accounts receivable, net	1,942	2,044
Prepaid expense	515	631
Inventory	37	23
Student loans and other assets, net	1,668	1,504
Securities lending collateral	2,689	1,233
Total current assets	44,898	38,210
Current Restricted Assets		
Cash and cash equivalents	8,405	15,672
Investments	2,511	3,109
Total current restricted assets	10,916	18,781
Noncurrent Restricted Assets		
Other assets	35	63
Construction in progress	2,943	249
Total noncurrent restricted assets	2,978	312
Total restricted assets	13,894	19,093
Noncurrent Assets		
Student loans and other assets, net	6,010	5,352
Capital assets, net	96,001	98,173
Total noncurrent assets	102,011	103,525
Total Assets	160,803	160,828
Liabilities		
Current Liabilities		
Salaries payable	8,868	7,566
Accounts payable	6,364	3,643
Deferred revenue	2,337	1,552
Funds held for others	203	199
Current portion of long-term debt	741	1,655
Compensated absences payable/Workers' compensation	1,036	906
Other liabilities	20	47
Securities lending collateral	2,689	1,233
Total current liabilities	22,258	16,801
Noncurrent Liabilities		
Noncurrent portion of long-term debt	14,918	21,944
Compensated absences payable/Workers' compensation	9,184	8,742
Capital contributions payable	6,738	6,773
Total noncurrent liabilities	30,840	37,459
Total Liabilities	53,098	54,260
Net Assets		
Invested in capital assets, net of related debt	88,388	92,169
Restricted expendable, bond covenants	7,221	3,553
Restricted expendable, other	7,122	4,958
Unrestricted	4,974	5,888
Total Net Assets	$ 107,705	$ 106,568

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Assets		
Cash and cash equivalents	$ 68	$ 21
Investments	15,268	12,103
Unconditional promises to give	3,417	3,860
Due from Minnesota State University, Mankato	-	908
Other receivables	41	95
Interest in unitrusts and annuity trusts	396	396
Gift annuities	247	252
Property and equipment	160	579
Total assets	$ 19,597	$ 18,214
Liabilities		
Gift annuities payable	$ 171	$ 179
Accounts payable	139	172
Due to Minnesota State University, Mankato	9	-
Bonds payable	3,621	4,326
Note, mortgage and assessments payable	-	609
Total liabilities	3,940	5,286
Net Assets	15,657	12,928
Total Liabilities and Net Assets	$ 19,597	$ 18,214

The notes are an integral part of the financial statements

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Operating Revenues		
Tuition, auxiliary and sales, net	$ 57,249	$ 52,626
Restricted student payments, net	14,360	13,295
Federal grants	10,070	9,204
State grants	5,462	5,949
Other income	1,498	2,277
Total operating revenues	88,639	83,351
Operating Expenses		
Salaries	94,737	92,550
Purchased services	14,189	15,130
Supplies	8,726	7,133
Repairs and maintenance	4,033	2,800
Depreciation	7,594	7,794
Financial aid, net	7,395	8,102
Other expense	4,482	6,460
Total operating expenses	141,156	139,969
Operating loss	(52,517)	(56,618)
Nonoperating Revenues (Expenses)		
Appropriations	50,447	54,530
Private grants	991	1,574
Interest income	487	563
Interest expense	(900)	(1,911)
Grants to other organizations	(153)	(165)
Total nonoperating revenue	50,872	54,591
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,645)	(2,027)
Capital appropriations	2,928	3,589
Donated assets and supplies	-	297
Loss on disposal of capital assets	(146)	(47)
Change in net assets	1,137	1,812
Total Net Assets - Beginning of Year	106,568	104,756
Total Net Assets - End of Year	$ 107,705	$ 106,568

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2004
(IN THOUSANDS)

	2004				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
Revenues and Other Support					
Contributions	$ 1,882	$ 220	$ 448	$ 2,550	$ 2,731
Gifts in-kind	87	7	-	94	335
Investment income	155	-	-	155	177
Net realized and unrealized gains on investments, property and equipment	1,816	-	-	1,816	1,193
Change in carrying value of trusts and gifts annuities	-	-	3	3	84
Support services revenue	75	84	-	159	266
Miscellaneous revenues	59	9	-	68	54
Total revenues and other support	4,074	320	451	4,845	4,840
Net assets released from restriction	796	(744)	(52)	-	-
	4,870	(424)	399	4,845	4,840
Expenses					
Program services					
Distributions for educational purposes	1,534	-	-	1,534	1,963
Alumni foundation building	-	-	-	-	187
Support services					
Fund raising - promotion and development	221	-	-	221	151
General administrative expenses	65	-	-	65	71
Legal, audit and accounting fees	16	-	-	16	15
Investment trust and management fees	35	-	-	35	20
Property and equipment expenses	10	-	-	10	16
Property and equipment depreciation	33	-	-	33	71
Interest expense	202	-	-	202	296
Total expenses	2,116	-	-	2,116	2,790
Change in net assets	2,754	(424)	399	2,729	2,050
Net Assets, Beginning of Year	3,079	1,705	8,144	12,928	10,878
Net Assets, End of Year	$ 5,833	$ 1,281	$ 8,543	$ 15,657	$ 12,928

The notes are an integral part of the financial statements

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	$ 70,786	$ 68,090
Cash repayment of program loans	1,269	1,435
State grants	5,462	5,949
Federal grants	10,488	9,204
Cash paid to suppliers for goods or services	(28,751)	(30,249)
Cash payments to employees	(92,698)	(92,513)
Financial aid disbursements	(7,430)	(7,849)
Cash payments of program loans	(1,597)	(1,445)
Net cash used in operating activities	(42,471)	(47,378)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	50,447	54,530
Agency activity	(347)	-
Private grants	991	1,315
Grants to other organizations	(153)	(165)
Net cash flows from noncapital financing activities	50,938	55,680
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(7,992)	(10,175)
Capital appropriation	2,928	3,589
Proceeds from sale of capital assets	5	15
Proceeds from borrowing	1,155	660
Proceeds from bond premuim	236	-
Interest paid	(936)	(1,912)
Repayment of note principal	(164)	(293)
Repayment of lease principal	(640)	(272)
Repayment of bond principal	(8,560)	(230)
Net cash flows used in capital and related financing activities	(13,968)	(8,618)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,899	10,119
Purchase of investments	(2,175)	(8,532)
Investment earnings	637	547
Net cash flows from investing activities	2,361	2,134
Net Increase (Decrease) in Cash and Cash Equivalents	(3,140)	1,818
Cash and Cash Equivalents, Beginning of Year	44,776	42,958
Cash and Cash Equivalents, End of Year	$ 41,636	$ 44,776

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS)

	2004	2003
Operating Loss	$ (52,517)	$ (56,618)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	7,594	7,794
Transfers of equipment to chancellor's office relating to PALS	-	1,391
Provision for loan defaults	(41)	(119)
Loan principal repayments	1,269	1,435
Loans issued	(1,597)	(1,445)
Forgiven loans	115	253
Change in assets and liabilities		
Inventory	(14)	10
Accounts receivable	83	(69)
Grants receivable	418	-
Accounts payable	2,463	341
Salaries payable	1,296	(683)
Compensated absences payable	728	749
Workers' compensation payable	16	(29)
Capital contributions payable	(35)	18
Funds held for others	-	21
Deferred revenues	780	(60)
Other assets and liabilities	(3,029)	(367)
Net reconciling items to be added to operating loss	10,046	9,240
Net cash flows used operating activities	$ (42,471)	$ (47,378)
Non-Cash Transactions Investing, Capital, and Financing Activities:		
Donated arts plaza	$ -	$ 297
Change in fair market value of investments	(149)	-
Capital projects on account	400	186

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 statements of net assets, statements of revenues, expenses and changes in net assets and statements 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 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 Minnesota State University, Mankato Foundation, Inc. is considered significant to the University and is included as a discretely presented component unit and separately identified in note 18. Complete financial statements may be obtained from the Minnesota State University, Mankato Foundation, Inc., Alumni Foundation Center, 1536 Warren Street, Mankato, MN 56001.

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

Minnesota State Colleges and Universities applies 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 the Minnesota State Colleges and Universities as capital appropriation revenue when the related bond sale proceeds are received. Individual colleges and universities are allocated cash, capital appropriation revenue and debt based on management estimates of the timing of specific projects funded. In fiscal year 2004, management re-allocated certain capital appropriation funds from previous years, which increased the 2004 capital appropriation revenue by $710,191.

Cash and Cash Equivalents —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.

Restricted cash is cash held 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 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 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 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 actual cost methods.

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

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

Buildings	35-40 years
Building Improvements	15-20 years
Equipment	3-20 years
Library Collections	7 years

Equipment includes all items with an original cost of over $5,000 for items purchased in fiscal year 2004 and $2,000 for items purchased prior to July 1, 2003. Buildings and building improvements over $100,000 as well as all land and library collection acquisitions are capitalized.

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

Long-Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The University is responsible for a portion of the debt service on the bonds sold for some University projects. 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. Copies are available from the Financial Reporting Director, Minnesota State Colleges and Universities, Suite 300, 1450 Energy Park Drive, St. Paul, MN 55108.

Deferred Revenue — Deferred revenue consists primarily of tuition received but not yet earned for summer session. It also includes room deposits and 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 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, including state appropriations, private grants and investment income.

Tuition, Auxiliary and Sales — Tuition, auxiliary and sales are presented net of scholarships. Sales are also net of cost of goods sold of $1,701,998 and $1,980,827 for fiscal years 2004 and 2003, respectively.

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

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

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

Reclassifications — Certain prior year amounts have been reclassified to conform to current year's presentation. These reclassifications had no effect on net assets previously reported.

Net Assets — The difference between assets and liabilities is net assets. Net assets are furthered 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 the 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 capital contributed for Perkins loans

  capital projects — restricted for completion of capital projects.

  debt service — legally restricted for bond debt repayments.

  faculty contract obligations —faculty development and travel required by contracts.

  legislatively mandated programs —appropriation law restricts the use of funds.

Net Assets Restricted for Other
(In Thousands)

	2004	2003
Donations	$ 1,282	$ 1,246
Loans	779	783
Capital projects	3,478	1,498
Debt service	515	423
Faculty contract obligations	1,019	907
Legislatively mandated programs	49	101
Total	$ 7,122	$ 4,958

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

New Accounting Pronouncements — In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures.* This statement, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* is effective for Minnesota State Colleges and Universities for the year ending June 30, 2005. Minnesota State Colleges and Universities will be required to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This statement also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Minnesota State Colleges and Universities will also be required to disclose its deposit and investment policies. Minnesota State Colleges and Universities has not yet determined the full impact of GASB Statement No. 40 on its fiscal year 2005 basic financial statements.

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

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

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 three 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 fully collateralized in fiscal year 2004 and under-collateralized four days in fiscal year 2003. The maximum amount under-collateralized was $5,569,933 in fiscal year 2003. At June 30, 2004 and 2003, 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.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2004	2003
Cash - in bank	$ 306	$ 1,037
Money market	1,638	2,608
Cash - treasury account	39,692	41,131
Total	$ 41,636	$ 44,776

At June 30, 2004 and 2003, the University's local bank balances were $3,084,270 and $4,475,782, 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. 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 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. In accordance with Minnesota Statutes, Minnesota State Board of Investment has the authority to enter into, and has entered into, derivative transactions including investment in derivatives of asset-backed and mortgage-backed securities, put and call options, and futures contracts traded on a market or exchange regulated by a governmental agency or by a financial institution regulated by a governmental agency. Investments in asset-backed and mortgage-backed derivatives are made to improve yield. They receive investment cash flows from interest and principal payments on underlying mortgages, and therefore the prices of mortgage derivatives are sensitive to mortgage prepayments caused by changing market conditions. Put options and index futures were used during the year to reduce risk. Any agreements for put and call options or futures contracts may only be entered into with a fully offsetting amount of cash or securities. 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 investments insured or registered or for which the securities are held by Minnesota State University, Mankato or its agent in the University's name. Category 2 includes investments that are uninsured and unregistered and which are held by the pledging institutions trust department or agent in the University's name. Category 3 includes investments that are uninsured and unregistered and which are held by the pledging institution, but not in the University's name. All of the University's investments are in risk category 1.

Fair Value at June 30
(In Thousands)

Investment Type	2004	2003
Certificates of deposit	$ 209	$ 584
GNMA/FNMA	3,715	3,137
Bonds	1,450	390
Treasury bills	1,274	1,572
Total	$ 6,648	$ 5,683

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

During fiscal years 2004 and 2003, 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 United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal years 2004 or fiscal year 2003. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street or Wells Fargo.

The state of Minnesota had no credit risk from borrowers on June 30, 2004 and 2003.

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

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

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

Securities Lending Analysis, June 30, 2003
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$256,858	$3,275,226
Collateral held	$261,731	$3,387,546
Average duration	21 days	70 days
Average weighted maturity	9 days	493 days

During fiscal years 2004 and 2003, 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, 2004 and 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 was $2,688,721 and $1,233,475 as of June 30, 2004 and 2003, respectively.

3. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University. At June 30, 2004 and 2003, the total loans receivable for this program was $6,988,899 and $6,776,187, respectively, less an allowance for uncollectible loans of $114,205 and $155,475, respectively.

4. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of receivables from individuals and businesses. At June 30, 2004 and 2003, the total accounts receivable balances for the University were $2,940,210 and $2,686,773, respectively, less an allowance for uncollectible receivables of $997,965 and $643,346, respectively.

Summary of Accounts Receivable at June 30
(In Thousands)

	2004	2003
Tuition	$ 1,128	$ 1,015
Sales and services	409	443
Other	324	275
Fees	341	264
Due from Office of the Chancellor	—	243
Due from other funds	242	—
Federal and state grants	155	—
Room and board	253	240
Student loan income	—	171
Third party obligations	88	36
Total accounts receivable	2,940	2,687
Less allowance for uncollectible accounts	(998)	(643)
Net accounts receivable	$ 1,942	$ 2,044

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

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

5. PREPAID EXPENSE

Prepaid expense consists primarily of $515,043 and $423,090 for fiscal years 2004 and 2003, respectively, which have 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 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.

In fiscal year 2003, 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

Summaries of changes in capital assets for fiscal years 2004 and 2003 follow:

Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	804	5,400	—	(601)	5,603
Total capital assets, not depreciated	1,715	5,400	—	(601)	6,514
Capital assets, depreciated:					
Buildings and improvements	152,994	—	—	601	153,595
Equipment	26,405	1,685	3,070	—	25,020
Library collections	8,447	1,085	861	—	8,671
Total capital assets, depreciated	187,846	2,770	3,931	601	187,286
Less accumulated depreciation:					
Buildings and improvements	68,229	4,222	—	—	72,451
Equipment	18,333	2,133	3,016	—	17,450
Library collections	4,577	1,239	861	—	4,955
Total accumulated depreciation	91,139	7,594	3,877	—	94,856
Total capital assets, depreciated, net	96,707	(4,824)	54	601	92,430
Total capital assets, net	$ 98,422	$ 576	$ 54	$ —	$ 98,944

Year Ended June 30, 2003
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	5,256	3,782	—	(8,234)	804
Total capital assets, not depreciated	6,167	3,782	—	(8,234)	1,715
Capital assets, depreciated:					
Buildings and improvements	143,108	1,652	—	8,234	152,994
Equipment	26,779	2,779	3,153	—	26,405
Library collections	7,983	1,362	898	—	8,447
Total capital assets, depreciated	177,870	5,793	4,051	8,234	187,846
Less accumulated depreciation:					
Buildings and improvements	63,929	4,300	—	—	68,229
Equipment	17,852	2,288	1,807	—	18,333
Library collections	4,268	1,207	898	—	4,577
Total accumulated depreciation	86,049	7,795	2,705	—	91,139
Total capital assets, depreciated, net	91,821	(2,002)	1,346	8,234	96,707
Total capital assets, net	$ 97,988	$ 1,780	$ 1,346	$ —	$ 98,422

7. LONG-TERM OBLIGATIONS

Summaries of amounts due within one year are reported in the current liability section of the statements of net assets. The changes in long-term obligations for fiscal years 2004 and 2003 follow:

Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 3,821	$ 1,155	$ 292	$ 4,684	$ 348
Revenue bonds	18,920	—	8,212	10,708	339
Bond premium payable	—	236	23	213	—
Compensated absences	9,551	1,863	1,307	10,107	1,007
Workers' compensation	97	93	77	113	29
Capital leases	640	—	640	—	—
Capital contributions	6,773	—	35	6,738	—
Notes payable	218	—	164	54	54
Totals	$ 40,020	$ 3,347	$ 10,750	$ 32,617	$ 1,777

Year Ended June 30, 2003
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 3,507	$ 544	$ 230	$ 3,821	$ 292
Revenue bonds	18,920	—	—	18,920	552
Compensated absences	8,802	749	—	9,551	880
Workers' compensation	127	150	180	97	26
Capital leases	795	117	272	640	640
Capital contributions	6,755	18	—	6,773	—
Notes payable	511	—	293	218	171
Totals	$ 39,417	$ 1,578	$ 975	$ 40,020	$ 2,561

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.

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.

Minnesota State University, Mankato cancelled a major renovation project for the Gage Residential Life Building in fiscal year 2004, returning the allocation to the Revenue Fund for use by other universities.

Bond Premium — In fiscal year 2004 bonds were issued, resulting in a premium of $235,710. Amortization will be calculated using the straight-line method and amortized over the remaining life of the bonds.

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

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self-insured workers' compensation claims activities. The reported liability for workers' compensation of $113,079 and $97,267 at June 30, 2004 and 2003, respectively, is based on claims filed for injuries to state employees occurring prior to the fiscal year end, and is an undiscounted estimate of future payments.

Capital Contributions — The liabilities of $6,738,253 and $6,773,024 at June 30, 2004 and 2003, respectively, represent the amounts 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 Statement No.13, *Accounting for Leases*. See note 9 for details.

Notes Payable — 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, capital contributions, or bond premium payable.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Notes Payable	General Obligation Bonds		Revenue Bonds Payable	
	Principal	Principal	Interest	Principal	Interest
2005	$ 54	$ 348	$ 246	$ 339	$ 562
2006	—	352	206	356	545
2007	—	355	191	374	527
2008	—	352	173	394	508
2009	—	352	156	415	488
2010-2014	—	1,421	544	2,425	2,091
2015-2019	—	873	267	3,163	1,356
2020-2024	—	631	65	3,242	373
Total	$ 54	$ 4,684	$ 1,848	$ 10,708	$ 6,450

8. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2004	2003
Purchased services	$ 895	$ 927
Financial aid	1,139	702
Supplies	1,169	646
Repairs and maintenance	2,253	642
Other	411	211
Student payroll expense	—	197
Capital projects	400	186
Salaries	24	74
Inventory	73	58
Total	$6,364	$3,643

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 years ended June 30, 2004 and 2003, totaled approximately $1,202,996 and $847,740, respectively. Future minimum lease payments for existing lease agreements follow.

Year ended June 30 (In Thousands)		
Fiscal Year		Amount
2005	$	681
2006		503
2007		475
2008		464
2009		204
Total	$	2,327

Capital Leases — The University made the final payment for the Warren Street Building in fiscal year 2004. The lease meets the criteria of a capital lease as defined by the Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The terms of each agreement provide options to purchase at any time during the lease period. Current and noncurrent portions are reported separately.

Income Leases — The University has entered into several income lease agreements, primarily for building space. Lease income for the years ended June 30, 2004 and June 30, 2003, totaled $424,281 and $357,363, respectively, and are included in other income in the statements of revenues, expenses, and changes in net assets. Future expected income receipts for existing lease agreements are as follows:

Year Ended June 30 (In Thousands)		
Fiscal Year		Amount
2005	$	201
2006		58
Total	$	259

10. TUITION, AUXILIARY AND SALES

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

For the Year Ended June 30 (In Thousands)				
		2004		2003
Tuition	$	50,800	$	45,106
Fees		7,466		7,016
Sales, net		5,851		6,961
Restricted student payments		15,626		14,518
Subtotal		79,743		73,601
Less scholarship allowance		(8,134)		(7,680)
Net tuition, auxiliary and sales	$	71,609	$	65,921

11. EMPLOYEE PENSION PLANS

Minnesota State University, Mankato 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 Associations and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund

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

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

The statutory authority for SERF is Minnesota 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:

(In Thousands)	
Fiscal Year	Amount
2004	$ 762
2003	751
2002	692

Teachers Retirement Fund

Pension fund information is provided by the Minnesota Teachers Retirement Association, 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 Teachers Retirement Association at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103.

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 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:

(In Thousands)	
Fiscal Year	Amount
2004	$ 650
2003	685
2002	691

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 Statute, Chapters 354B and 354C. The plans are designed to provide retirement benefits to Minnesota State Colleges and Universities unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units.

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, N.A. Separately issued financial statements can be obtained from Wells Fargo, Institutional Investment Group, Retirement Plan Services, Suite 300, 2700 Snelling Avenue North, Roseville, MN 55113.

Individual Retirement Account Plan —

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

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrators group. For faculty, the employer and employee statutory contribution rates are 6 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:

(In Thousands)		
Fiscal Year	Employer	Employee
2004	$ 2,041	$ 1,433
2003	1,843	1,377
2002	1,627	1,207

Supplemental Retirement Plan —

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 as follows:

Member Group	Eligible Compensation	Maximum Annual Contribution
Inter Faculty Organization	$6,000 to $51,000	$2,250
Minnesota State University Association of Administrative and Service Faculty	$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:

Required Contributions (In Thousands)	
Fiscal Year	Amount
2004	$ 1,073
2003	1,074
2002	964

12. CONTINGENT LIABILITIES — LITIGATION

Lawsuits furnish a basis for potential liability. The following cases, or categories of cases, 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.

Former Employee v. Minnesota State University, Mankato
A former employee filed a discrimination charge alleging reprisal. The University will vigorously defend this charge and intends to bring a motion for summary judgment if a lawsuit is filed.

Gee v. Minnesota State University, Mankato
A former employee sued for discrimination and a violation of the Whistleblower Act. The University prevailed in district court on summary judgment and Gee appealed. The University will continue to vigorously defend this case.

13. POSTRETIREMENT BENEFITS

The faculty contracts provide early retirement incentives for faculty meeting specific requirements. Certain faculty members who, as of July 1, 1995, had at least ten years in Minnesota Technical Colleges and/or in a K-12 district which was an employer for a technical college, have the right to choose to continue, at the employers expense, health insurance benefits up to age 65. The cost of health insurance benefits was $85,446 and $137,220 for fiscal years 2004 and 2003, respectively and early retirement incentive was $692,031 and $669,228 respectively. There are 26 faculty members currently receiving the health insurance benefit.

14. RISK MANAGEMENT

Minnesota State Colleges and Universities is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota State Colleges and Universities 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 Minnesota Risk Management Fund. The University purchased optional physical damage coverage for all vehicles.

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

Property coverage offered by the Minnesota Rick Management Fund are as follow:

Institution deductible	$100,000
Fund responsibility	Deductible to 2,500,000
Primary re-insurer coverage	2,500,001 to 50,000,000
Multiple re-insurers' coverage	50,000,001 to 300,000,000
Bodily injury and property damage per person	300,000
Bodily injury and property damage per occurrence	1,000,000
Annual maximum paid by fund, excess by reinsurer	7,500,000
Maintenance deductible for additional claims	25,000

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

The Minnesota Risk Management Fund purchased student intern professional liability and dental clinics 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. 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, 2004 and 2003.

(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/04	$ 97	$ 93	$ 77	$ 113
Fiscal Year Ended 6/30/03	$ 127	$ 150	$ 180	$ 97

15. COMMITMENTS

In fiscal year 2004, construction was started on two major building renovation projects. These projects include the Centennial Student Union entrance and food service renovation project and phase three of the student athletic facility renovation project. The Centennial Student Union renovation project is scheduled for completion in April 2005 and has an estimated cost of $10.3 million. The student athletic facility renovation project is scheduled for completion in July 2005 and has an estimated cost of $8.4 million

16. SEGMENT INFORMATION

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

Minnesota State Colleges and Universities issues revenue bonds to finance the University dormitories and student unions.

Minnesota State University, Mankato Portion of the Revenue Fund
(In Thousands)

	2004	2003
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 8,604	$ 5,293
Restricted assets	12,374	19,093
Capital assets	17,810	17,781
Noncurrent assets	587	—
Total assets	39,375	42,167
Liabilities:		
Current liabilities	3,977	1,946
Noncurrent liabilities	10,719	18,714
Total liabilities	14,696	20,660
Net Assets:		
Invested in capital assets, net of related debt	14,921	16,456
Restricted:		
Bond covenants	7,221	3,553
Capital projects	2,537	1,498
Total net assets	$ 24,679	$ 21,507
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 16,323	$ 14,567
Operating expenses	12,700	12,310
Net operating income	3,623	2,257
Nonoperating revenues (expenses)	(451)	(664)
Change in net assets	3,172	1,593
Net assets -beginning of year as restated	21,507	19,914
Net assets -end of year	$ 24,679	$ 21,507
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 6,069	$ 3,142
Investing activities	851	2,445
Capital and related financing activities	(12,870)	(3,604)
Net increase (decrease)	(5,950)	1,983
Cash - beginning of year	19,870	17,887
Cash - end of year	$ 13,920	$ 19,870

17. RELATED PARTY TRANSACTIONS

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 is estimated at $922,358 for fiscal year 2004 and 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 years 2004 and 2003, the foundation expended $1,533,756 and $1,962,624, respectively, for University educational program purposes. Approximately $426,000 and $670,000 of the total went to support student scholarships in fiscal years 2004 and 2003 respectively.

An estimated $452,123 of revenues and expenditures in fiscal year 2004 is included in both the Foundation's and the University's revenues and expenses. This situation results from planned transfers of Foundation funds to the University, whereby actual subsequent purchases are made by University accounts.

18. COMPONENT UNITS

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

The Minnesota State University, Mankato Foundation, Inc. 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 Foundation's financial statements would cause the University financial statements to be misleading or incomplete. The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board 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.

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

Schedule of Investments at June 30
(In Thousands)

Investments	2004	2003
Common Stock	$ 2,204	$ 204
US Government Securities	57	77
Mutual Funds	10,459	9,104
Fixed Income Securities/Bonds	2,368	2,534
Other Investments	180	184
Total Investments	$ 15,268	$ 12,103

Long-Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center Campaign of $3,621,000.

Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2005	705
2006	442
2007	442
2008	442
2009	442
Thereafter	1,148
Total	$ 3,621