Minnesota State University
Mankato




ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2005 and 2004

Minnesota State Colleges and Universities

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, 2005 and 2004

Prepared by:

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

Minnesota State Colleges and Universities
Office of the Chancellor, Financial Reporting
Wells Fargo Place
30 7th St. E., Suite 350
St. Paul, Minnesota 55101-7804

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MINNESOTA STATE UNIVERSITY, MANKATO

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

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INTRODUCTION

October 28, 2005

Chancellor James H. McCormick
Members of the Board of Trustees
Minnesota State Colleges and Universities
300 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, 2005. 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 32 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 137th year, Minnesota State Mankato today serves more than 14,000 students. Our student body includes more than 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 158 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 commencement ceremonies in May 2005, 1,593 students received degrees.

Minnesota State Mankato offers bachelor's, master's, associate, and specialist degrees, as well as graduate certificates. Nationally recognized programs include engineering, experiential and rapid-response teacher education, athletic training education, computer science, nursing, business, law enforcement, theatre and dance, and graduate programs in rehabilitation services, industrial/organizational psychology, creative writing 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 (MRS/TTY) · FAX 507-389-6200
An Affirmative Action/Equal Opportunity University.

Minnesota State Mankato 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.

Minnesota State Mankato faculty members were recognized nationally for many achievements in 2004-2005. For example: Two faculty were named Fulbright Scholars in 2004, and two more earned Fulbrights in 2005. One faculty was named International Outstanding Listening Educator of the Year. And for the second consecutive year a faculty member was invited to the prestigious Oxford Round Table in England.

Minnesota State Mankato ranks among the nation's top master's-degree producers of Fulbright scholars. Students have won many national scholarships and awards, and have garnered national recognition for the Emuseum, student newspaper, theatre performances, forensics team, and cheer team. In fiscal year 2005 on-campus recruiting of our students by corporations was up 110 percent from 2004.

During the 2004-2005 academic year, Minnesota State Mankato fielded 23 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, bowling, cross country, golf, soccer, softball, swimming, tennis, track, and volleyball. Over 500 student athletes participated in athletic competitions, and three of our student-athletes were national champions in 2005. These teams are sources of great pride for students and community members. In addition, Minnesota State Mankato MSU finished 10th in the U.S. Sports Academy Directors' Cup – our best finish ever – and won the 2005 North Central Conference Cup as well as the NCC Men's All-Sports title.

Campus facilities are a particular point of pride for Minnesota State Mankato. In 2005 workmen completed a \$10.3-million refurbishing of Centennial Student Union, providing a striking new gateway to the campus and a tremendously popular student gathering place. The remodeling was financed with revenue bonding and will be repaid entirely with student fees. Our remodeled Otto Recreation Center, also completed in 2005, provides spacious new, computerized exercise facilities for students. That project (\$8.4 million) was funded through legislative appropriations. In 2005 we became the first large university in Minnesota to install a Voice over Internet telephone system, providing many added communication features at lower cost. Our 25,000 square-foot Technology Center housed in Memorial Library is the hub of campus technology. Myers Field House was renovated in 2004 (\$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. Planning is underway for the remodeling of Trafton Science Center, and for a campus transformation and beautification that includes a new residence hall.

Thanks to generous gifts from alumni and supporters of the University, our endowments are growing substantially. In 2005 our largest private scholarship fund was fully endowed with a \$750,000 gift. Another \$50,000 gift endowed a chemistry scholarship.

Minnesota State Mankato 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 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 Minnesota State 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. The University also hosts a wide variety of cultural and ethnic events which reflect the University's growing diversity. Ground recently was broken for the first University-sponsored Habitat for Humanity house, being build by students, faculty and staff in partnership with the Mankato Area Habitat Chapter. We're one of only seven Universities in the nation with a Campus Kitchens Project, where students distribute unserved food service food to the hungry in Mankato.

Our outreach programs benefit thousands of Minnesota citizens, government agencies, businesses and industries. Our Minnesota Teacher Alternative Preparation Program trains non-teaching professionals to be teachers in school districts with critical teacher shortages. Our Quality Compensation for Teachers model helps school districts comply with the new "pay-for-performance" legislation.

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.

Student Support Services was approved for four more years of U.S. Department of Education funding with a grant totaling more than $1.22 million.

Minnesota State Mankato's 5th Annual Undergraduate Research Conference was held in April 2005. 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.

Approximately 70 University community members were involved during the second 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 particularly proud of the Minnesota State Colleges and Universities system Outstanding Achievement Awards that we have earned, giving us the singular honor of having won more such awards than any other school. This year we won two awards for financial and facilities management – one of only two universities to receive two awards – as well as two programming Achievement Awards (for our Nonprofit Leadership Certificate Program and for our Mavjobs.com On-Campus Recruiting Program).

Minnesota State Mankato 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:

Promote Diversity

Minnesota State Mankato 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.

Develop and Implement Campus-wide Plans

A Public Relations & Marketing Plan to promote Minnesota State Mankato as a university known for providing relevant, high quality undergraduate and graduate programs throughout the region and state. A plan has been developed and is being implemented.

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. Planning for a major capital campaign continues.

Establish a Distance Learning Plan

Minnesota State Mankato 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 Extended Learning Office overseeing the development of on-line programs, continuing education and extended campus programs. All on-line programs are accredited by the Higher Learning Commission.

Review and Enhance Graduate Education

Minnesota State Mankato 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 2004-2005 academic year on this priority and work continues under the leadership of the Dean of Graduate Studies.

Enhance Academic Excellence in Undergraduate Studies

Minnesota State Mankato 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.

International Education

Work began on a new strategic priority to further our efforts in internationalizing the University. A task force is at work developing a plan to promote student abroad experiences for domestic students, to enrich the multicultural environment, to enhance services and to increase the number of international students studying at Minnesota State Mankato.

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 2005. The University's net assets increased during fiscal year 2005 by $3.7 million now totaling $111.4 million. Lastly, the University's general operating fund reserve increased from $4.3 million to $5.1 million during fiscal year 2005. This reserve serves to protect the institution if sudden reductions in revenue, enrollment or state appropriation arise. 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 Office of the Chancellor. 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,

Richard Davenport

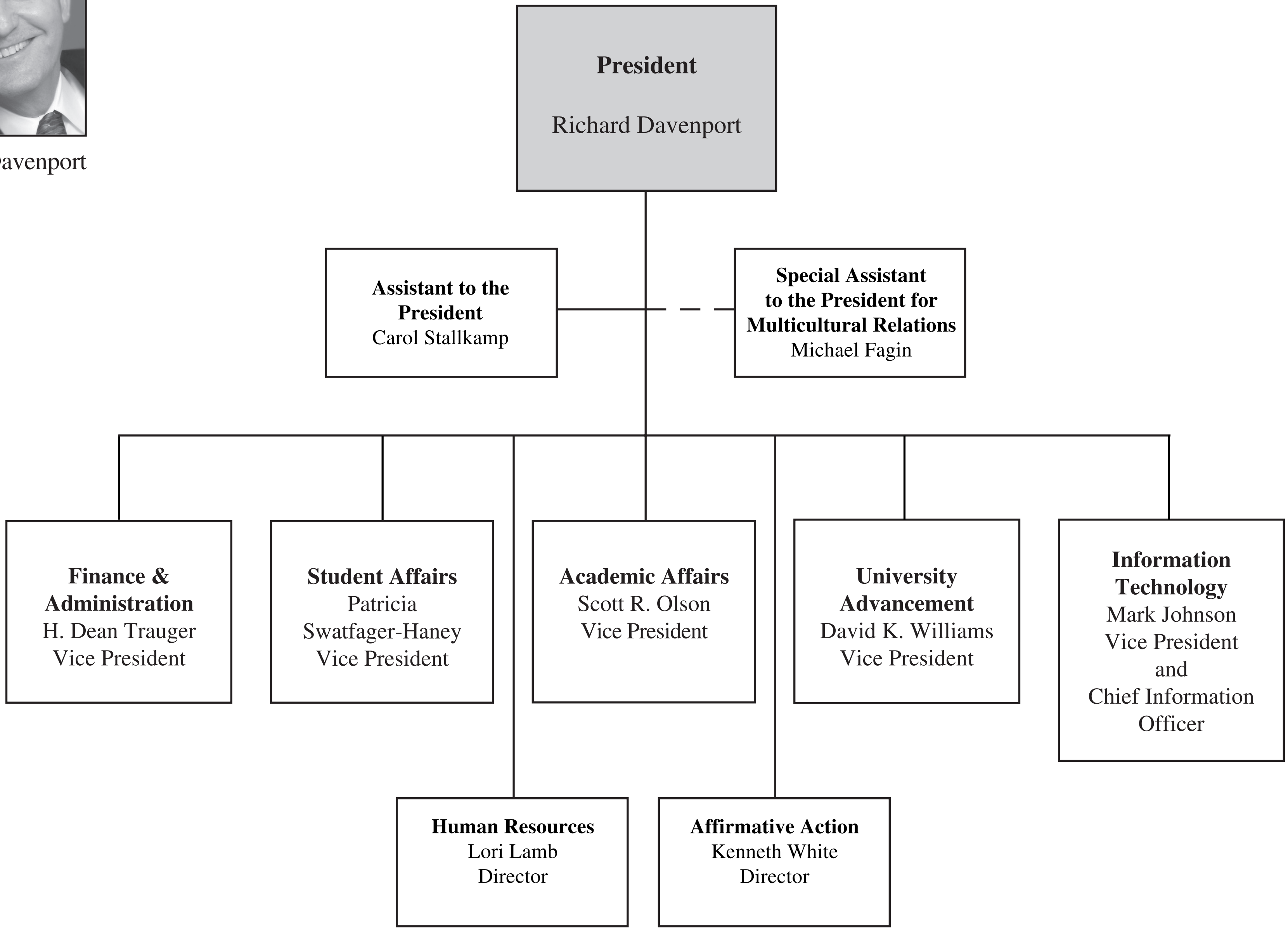
Richard Davenport
President

Enclosure

Richard Davenport

University Administration Organization

Minnesota State University, Mankato
April 15, 2005



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

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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 Colleges and Universities, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of 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 audits 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, 2005 and 2004, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 21, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

220 South Sixth Street, Suite 300, Minneapolis, MN 55402-1436, 612/376-4500, Fax 612/376-4850

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

Board of Trustees
Minnesota State Colleges and Universities

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

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 21, 2005

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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 years ended June 30, 2005, 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 Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member Board of Trustees appointed by the governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees, one from a state university, one from a community college, and one from a technical college, serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public 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. The six colleges that comprise the University's academic programs are as follows.

- Allied Health & Nursing
- Arts and Humanities
- Business
- Education
- Science, Engineering and Technology
- Social and Behavioral Science

The University offers students opportunities for bachelor's, master's, associate's, and specialist degrees, as well as graduate certificates. Students can choose from 82 graduate and 158 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 and Schools.

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2005. Assets totaled $168.1 million compared to liabilities of $56.7 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt, of $94.1 million, restricted assets of $12.6 million, and unrestricted assets of $4.7 million. The fiscal year 2005 net assets total of $111.4 million represents an increase of $3.7 million over fiscal year 2004 and $4.8 million over fiscal year 2003. The fiscal year 2005 unrestricted net assets total of $4.7 million represents a 4.9 percent decrease from the fiscal year 2004 total of $5 million and a 19.7 percent decrease compared to the fiscal year 2003 total of $5.9 million.

Fiscal year 2005 state appropriations revenue, excluding capital appropriations, totaled $49.9 million and represents a 1.2 percent decrease from fiscal year 2004 and an 8.6 percent decrease from fiscal year 2003. With decreasing state appropriation revenue and stable student enrollment, tuition rates have been increased to cover University operating costs. Consequently, net tuition, auxiliary, and sales revenue in fiscal year 2005 reached $60.3 million which is a 17.3 percent increase over fiscal year 2004 and a 29.2 percent increase over fiscal year 2003.

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.

The Minnesota State University, Mankato Foundation, Inc. is a component unit of Minnesota State University, Mankato. As such, the separately audited financial statements for the Foundation are included, but shown separately from those of the University in compliance with the requirements of GASB Statement No. 39. Additional information regarding the Foundation can be found in Notes 18 and 19 to the financial statements.

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, 2005, 2004, and 2003, respectively, is as follows:

Statements of Net Assets
(In Thousands)

	2005	2004	2003
Assets			
Current assets	$ 46,610	$ 44,898	$ 38,210
Restricted assets	3,203	13,894	19,093
Noncurrent assets			
Student receivables/other	5,909	6,010	5,352
Capital assets, net	112,341	96,001	98,173
Total assets	168,063	160,803	160,828
Liabilities			
Current liabilities	22,148	22,258	16,801
Noncurrent liabilities	34,539	30,840	37,459
Total liabilities	56,687	53,098	54,260
Net Assets			
Invested in capital assets, net of related debt	94,065	88,388	92,169
Restricted	12,581	14,343	8,511
Unrestricted	4,730	4,974	5,888
Total net assets	$ 111,376	$ 107,705	$ 106,568

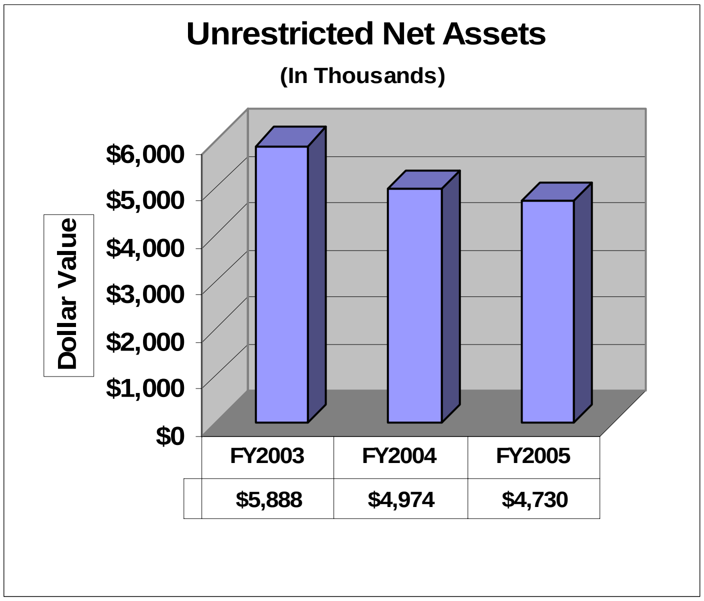
Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $39.6 million at June 30, 2005. This is an increase of $2.3 million over fiscal year 2004 and represents approximately 3.4 months of operating expenses (excluding depreciation). This is compared to 3.5 months and 2.9 months for the fiscal years ended June 30, 2004 and 2003, respectively.

Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled $10 million at June 30, 2005, an increase of $1.1 million over the prior year. This increase was caused primarily by a 2.9 percent salary increase provided to faculty, by the addition of approximately 40 full time employees, and because the last pay period in fiscal year 2005 had one more accrual day in June than the last pay period in fiscal year 2004. Included within the salary payable accrual is $6.9 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 23, 2004 through August 19, 2005. Accounts payable totaled $5.3 million, $6.4 million, and $3.6 million for fiscal years ended June 30, 2005, 2004, and 2003 respectively. The $2.8 million accounts payable increase from fiscal year 2003 to fiscal year 2004 was caused by increased activity related to construction in progress and by liabilities related to financial aid awards. The $1.1 million decrease from fiscal year 2004 to fiscal year 2005 was primarily due to a decrease in liabilities related to financial aid.

Net assets represent the residual interest in the University's assets after liabilities are deducted. Unrestricted net assets primarily consist of the University's general operating fund reserve. Board policy requires the University to maintain a general operating fund reserve. Accordingly, the University's general operating fund reserve balances, calculated on the cash basis of accounting, totaled $5.1 million, $4.3 million, and $3.8 million for fiscal years ended June 30, 2005, 2004, and 2003, respectively.

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, net of accumulated depreciation of $99.8 million, totaled $112.3 million as of June 30, 2005. This represents increases of $13.4 million and $13.9 million from June 30, 2004, and 2003, respectively.

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. Capital outlays totaled $21.4 million in fiscal year 2005, an increase of $13.3 million from fiscal year 2004. The completion of the Centennial Student Union south entrance and food service renovation and ongoing construction on phase III of the student athletic facility renovation contributed to this increase. Proceeds from bond sales and capital appropriations provided to the University in prior years were the primary funding sources for these projects. Capital appropriations totaled $4.2 million, $2.9 million, and $3.6 million for fiscal years ended June 30, 2005, 2004, and 2003, respectively.

Revenue and general obligation bonds payable totaled $16 million at June 30, 2005. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable, $10.4 million, is related to the Centennial Student Union south entrance and food service renovation project. Additional information on capital and debt activities can be found in Notes 6 and 7 to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

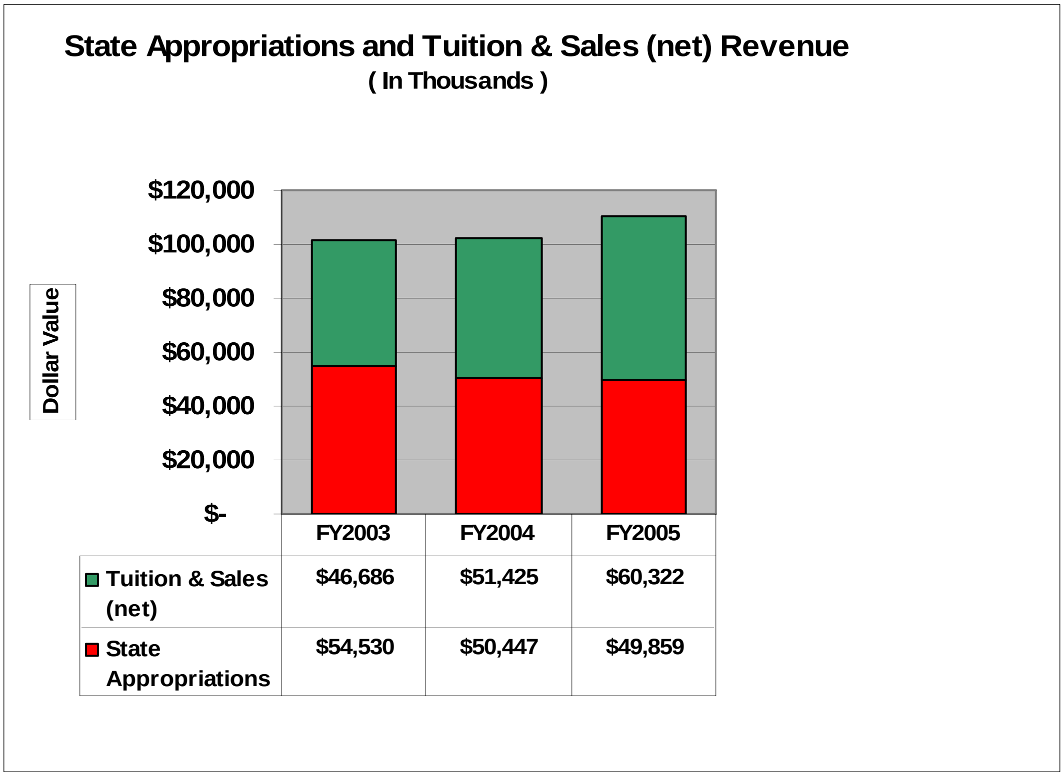
The statements of revenues, expenses, and changes in net assets present the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue. Summarized statements for the years ended June 30, 2005, 2004, and 2003, respectively, follow:

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

	2005	2004	2003
Operating revenues:			
Tuition, auxiliary and sales, net	$ 60,322	$ 51,425	$ 46,686
Restricted student payments, net	16,135	15,331	14,123
Federal grants	10,374	10,070	9,204
State grants	6,187	5,462	5,949
Other income	814	1,498	2,277
Total operating revenues	93,832	83,786	78,239
Nonoperating revenues:			
State appropriations	49,859	50,447	54,530
Private grants	1,522	991	1,574
Capital appropriations	4,228	2,928	3,589
Other	568	487	860
Total nonoperating revenue	56,177	54,853	60,553
Total revenue	150,009	138,639	138,792
Operating expenses:			
Salaries and benefits	100,474	94,737	92,550
Supplies and services	35,656	31,430	31,523
Depreciation	7,865	7,594	7,794
Financial aid, net	1,665	2,542	2,990
Total operating expense	145,660	136,303	134,857
Nonoperating expense:			
Loss on disposal of capital assets	66	146	47
Grants	144	153	165
Interest expense	468	900	1,911
Total nonoperating expense	678	1,199	2,123
Total expense	146,338	137,502	136,980
Increase in net assets	3,671	1,137	1,812
Net assets, beginning of year	107,705	106,568	104,756
Net assets, end of year	$ 111,376	$ 107,705	$ 106,568

Tuition and state appropriations are the primary sources of funding for University operations. While enrollment during fiscal year 2005 held steady at 13,373 full-year equivalents, tuition revenue has increased significantly in fiscal years 2005 and 2004 as a result of 15 percent tuition rate increases in each of the last two fiscal years. State appropriations decreased by $0.6 million during fiscal year 2005 to $49.9 million representing a 1.2 percent decrease and an 8.6 percent decrease from fiscal years ending June 30, 2004, and 2003 respectively. Capital appropriations have fluctuated the past three fiscal years with the University receiving of $4.2 million, $2.9 million, and $3.6 million for the fiscal years ended June 30, 2005, 2004, and 2003, respectively.

Resources expended for employee compensation increased $5.7 million to $100.5 million for the fiscal year ended June 30, 2005. Faculty salary increases of approximately 2.9 percent, health insurance increases, the addition of approximately 40 employees, and promotional and step increases for some employees all contributed to the increase for the fiscal year ended June 30, 2005.



ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University received $30.7 million from the Revenue Fund's sale of revenue bonds in October 2005. This money will be used to enhance student life programs at the University through Phase I of a student housing construction project that will add 608 beds in a residential life housing facility featuring single and double suite style rooms.

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. The fiscal year 2006 state appropriation is expected to be approximately 7.5 percent higher for normal operations than the state appropriation received in fiscal year 2005. However, a significant state appropriation increase for fiscal year 2007 is not expected. This factor, along with increasing costs for compensation, purchased services, and supplies, may result in a significant financial challenge for the University in fiscal years 2007, 2008 and beyond.

REQUESTS FOR INFORMATION

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

Steve W. Smith
Comptroller
Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, MN 56001
steven.smith@mnsu.edu

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

Assets	2005	2004
Current Assets		
Cash and cash equivalents	$ 35,287	$ 33,231
Investments	4,341	4,137
Grants receivable	587	679
Accounts receivable, net	2,758	1,942
Prepaid expense	627	515
Student loans and other assets, net	1,607	1,705
Securities lending collateral	1,403	2,689
Total current assets	46,610	44,898
Current Restricted Assets		
Cash and cash equivalents	3,170	8,405
Investments	-	2,511
Total current restricted assets	3,170	10,916
Noncurrent Restricted Assets		
Other assets	33	35
Construction in progress	-	2,943
Total noncurrent restricted assets	33	2,978
Total restricted assets	3,203	13,894
Noncurrent Assets		
Student loans and other assets, net	5,909	6,010
Capital assets, net	112,341	96,001
Total noncurrent assets	118,250	102,011
Total Assets	168,063	160,803
Liabilities		
Current Liabilities		
Salaries payable	9,955	8,868
Accounts payable	5,270	6,364
Deferred revenue	2,713	2,337
Payable from restricted assets	219	-
Interest Payable	138	-
Funds held for others	222	203
Current portion of long-term debt	884	741
Compensated absences payable/Workers' compensation	1,326	1,036
Other liabilities	18	20
Securities lending collateral	1,403	2,689
Total current liabilities	22,148	22,258
Noncurrent Liabilities		
Noncurrent portion of long-term debt	17,799	14,918
Compensated absences payable/Workers' compensation	9,970	9,184
Capital contributions payable	6,770	6,738
Total noncurrent liabilities	34,539	30,840
Total Liabilities	56,687	53,098
Net Assets		
Invested in capital assets, net of related debt	94,065	88,388
Restricted expendable, bond covenants	6,807	7,221
Restricted expendable, other	5,774	7,122
Unrestricted	4,730	4,974
Total Net Assets	$ 111,376	$ 107,705

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Assets		
Cash and cash equivalents	$ 13	$ 68
Investments	17,523	15,268
Unconditional promises to give	3,135	3,417
Other receivables	42	41
Interest in unitrusts and annuity trusts	407	396
Gift annuities	243	247
Property and equipment	135	160
Total assets	$ 21,498	$ 19,597
Liabilities		
Gift annuities payable	$ 168	$ 171
Accounts payable	183	139
Due to Minnesota State University, Mankato	13	9
Bonds payable	2,916	3,621
Total liabilities	3,280	3,940
Net Assets	18,218	15,657
Total Liabilities and Net Assets	$ 21,498	$ 19,597

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, 2005 AND 2004
(IN THOUSANDS)

	2005	2004
Operating Revenues		
Tuition, auxiliary and sales, net	$ 60,322	$ 51,425
Restricted student payments, net	16,135	15,331
Federal grants	10,374	10,070
State grants	6,187	5,462
Other income	814	1,498
Total operating revenues	93,832	83,786
Operating Expenses		
Salaries	100,474	94,737
Purchased services	16,035	14,189
Supplies	9,610	8,726
Repairs and maintenance	3,167	4,033
Depreciation	7,865	7,594
Financial aid, net	1,665	2,542
Other expense	6,844	4,482
Total operating expenses	145,660	136,303
Operating loss	(51,828)	(52,517)
Nonoperating Revenues (Expenses)		
Appropriations	49,859	50,447
Private grants	1,522	991
Interest income	500	487
Interest expense	(468)	(900)
Grants to other organizations	(144)	(153)
Total nonoperating revenue (expenses)	51,269	50,872
Loss Before Other Revenues, Expenses, Gains, or Losses	(559)	(1,645)
Capital appropriations	4,228	2,928
Donated assets and supplies	68	-
Loss on disposal of capital assets	(66)	(146)
Change in net assets	3,671	1,137
Total Net Assets - Beginning of Year	107,705	106,568
Total Net Assets - End of Year	$ 111,376	$ 107,705

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, 2005 and 2004
(IN THOUSANDS)

	2005				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total
Revenues and Other Support					
Contributions	$ 1,823	$ 218	$ 1,534	$ 3,575	$ 2,550
Gifts in-kind	203	-	-	203	94
Investment income	227	-	-	227	155
Net realized and unrealized gains on investments, property and equipment	951	-	-	951	1,816
Change in carrying value of trusts and gifts annuities	-	15	(6)	9	3
Support services revenue	55	72	-	127	159
Miscellaneous revenues	26	12	-	38	68
Total revenues and other support	3,285	317	1,528	5,130	4,845
Net assets released from restriction	301	(329)	28	-	-
	3,586	(12)	1,556	5,130	4,845
Expenses					
Program services					
Distributions for educational purposes	1,882	-	-	1,882	1,534
Support services					
Fund raising - promotion and development	301	-	-	301	221
General administrative expenses	119	-	-	119	65
Legal, audit and accounting fees	20	-	-	20	16
Investment trust and management fees	56	-	-	56	35
Property and equipment expenses	1	-	-	1	10
Property and equipment depreciation	25	-	-	25	33
Interest expense	165	-	-	165	202
Total expenses	2,569	-	-	2,569	2,116
Change in net assets	1,017	(12)	1,556	2,561	2,729
Net Assets, Beginning of Year	5,833	1,281	8,543	15,657	12,928
Net Assets, End of Year	$ 6,850	$ 1,269	$ 10,099	$ 18,218	$ 15,657

The notes are an integral part of the financial statements

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

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	$ 79,700	$ 67,635
Federal grants	10,350	10,488
State grants	6,187	5,462
Cash repayment of program loans	1,412	1,269
Cash paid to suppliers for goods or services	(39,484)	(30,453)
Cash payments to employees	(98,053)	(92,698)
Financial aid disbursements	(1,634)	(2,577)
Cash payments of program loans	(1,897)	(1,597)
Net cash used by operating activities	(43,419)	(42,471)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	49,859	50,447
Private grants	1,522	991
Agency activity	(10)	(347)
Grants to other organizations	(148)	(153)
Net cash flows from noncapital financing activities	51,223	50,938
Cash Flows from Capital and Related Financing Activities		
Capital appropriation	4,228	2,928
Proceeds from sale of capital assets	189	5
Proceeds from borrowing	1,339	1,155
Proceeds from bond premium	137	236
Investment in capital assets	(18,348)	(7,992)
Interest paid	(373)	(936)
Repayment of lease principal	(27)	(640)
Repayment of note principal	(54)	(164)
Repayment of bond principal	(755)	(8,560)
Net cash flows used in capital and related financing activities	(13,664)	(13,968)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	2,511	3,899
Investment earnings	338	637
Purchase of investments	(168)	(2,175)
Net cash flows from investing activities	2,681	2,361
Net Increase in Cash and Cash Equivalents	(3,179)	(3,140)
Cash and Cash Equivalents, Beginning of Year	41,636	44,776
Cash and Cash Equivalents, End of Year	$ 38,457	$ 41,636

The notes are an integral part of the financial statements

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

	2005	2004
Operating Loss	$ (51,828)	$ (52,517)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	7,865	7,594
Provision for loan defaults	3	(41)
Loan principal repayments	1,412	1,269
Loans issued	(1,897)	(1,597)
Forgiven loans	97	115
Change in assets and liabilities		
Inventory	37	(14)
Accounts receivable	(452)	83
Grants receivable	92	418
Accounts payable	(1,930)	2,463
Salaries payable	1,339	1,296
Compensated absences payable	760	728
Workers' compensation payable	322	16
Capital contributions payable	31	(35)
Deferred revenues	386	780
Other	344	(3,029)
Net reconciling items to be added to operating loss	8,409	10,046
Net cash flow used in operating activities	$ (43,419)	$ (42,471)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 1,128	$ 400
Change in fair market value of investment	36	(149)
Fixed assets acquired through a capital lease	2,344	-
Loss on retirement of capital assets	255	-

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 19. 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 reallocated 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 demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short-term, 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. Information about the cash in the state treasury and invested by the State Board of Investment, including deposit and investment risk disclosures, can be obtained from the State of Minnesota Comprehensive Annual Financial Report, Minnesota Department of Finance, 400 Centennial Building, 658 Cedar Street, Saint Paul, MN 55155.

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

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

Inventories — Inventories are valued at cost using the first-in, first-out and 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 $2,000 for items purchased prior to July 1, 2003, and over $5,000 for items purchased since July 1, 2003. Buildings and building improvements over $100,000, as well as all land and library collection acquisitions, are capitalized.

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

Long-Term Liabilities — The state of Minnesota appropriates for and sells general obligation bonds to support construction and renovation of the Minnesota State Colleges and Universities' facilities as approved through the state's capital budget process. The University is responsible for a portion of the debt service on the bonds sold for some University projects. 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, Wells Fargo Place, 30 7th St. E., Suite 350, St. Paul, MN 55101-7804.

Deferred Revenue — Deferred revenue consists primarily of tuition received, but not yet earned, for summer session. It also includes 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 $2,006,571 and $1,701,998 for fiscal years 2005 and 2004, respectively.

Restricted Student Payments — Restricted student payments consist 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. The method used to calculate the amount of scholarship allowance applied to tuition, fees and room and board was revised for fiscal year 2005. This revision was applied to fiscal year 2004, and resulted in reclassifications of tuition, auxiliary and sales, restricted student payments, and financial aid expense. These reclassifications had no effect on net assets previously reported.

Net Assets — The difference between assets and liabilities is net assets. Net assets are 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)

	2005	2004
Donations	$ 1,385	$ 1,282
Loans	783	779
Capital projects	1,885	3,478
Debt service	627	515
Faculty contract obligations	1,094	1,019
Legislatively mandated programs	—	49
Total	$ 5,774	$ 7,122

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

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital* Assets *and for Insurance Recoveries.* This statement is effective for 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.

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the appropriation, tuition and most fees are in the state treasury. In addition, the University has one checking and three savings accounts in local banks. The activities handled through local banks include financial aid, student payroll, and auxiliary and student activities. Minnesota Statutes, Section 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2005	2004
Cash - in bank	$ 1,304	$ 306
Money market	378	1,638
Cash - treasury account	36,775	39,692
Total	$ 38,457	$ 41,636

At June 30, 2005 and 2004, the University's local bank balances were $2,357,848 and $3,084,270, respectively. These balances were adjusted by items in transit to arrive at the University's cash in bank balance.

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

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

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

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

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

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 11A.24. This statute limits investments to the top four quality rating categories of a nationally recognized rating agency.

At June 30, the University's debt securities were rated equivalent to Standard and Poor's AAA.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with Minnesota Statutes, Section 11A.24.

At June 30, 2005, the University had $494,650 in FHLMC invested with Piper Jaffray; $670,644 in FHLB invested with Wells Fargo Investments; $1,214,594 in FHLMC, $689,423 in FHLB, and $743,735 in FNMA invested with A. G. Edwards and Sons, where the investments with each financial institution represent more than 5 percent of Minnesota State University, Mankato's total local investments.

At June 30, 2004, the University had $500,000 in FHLB, and $475,935 in FHLMC invested with Piper Jaffray; $878,530 in FHLMC, $919,080 in FNMA, and $763,709 in FNMA invested with A. G. Edwards and Sons; $379,616 in FNMA Global, and $857,778 in FNMA invested with the Minnesota State Board of Investment; each of which represents more than 5 percent of the University's total local investments.

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

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

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

		Investment Maturities (years)			
Investment Type	Fair Value	< 1	1 to 5	6 to 10	> 10
FHLMC	$ 1,907	$ —	$ —	$ 100	$ 1,807
FHLB	1,360	—	100	270	990
FNMA	1,074	—	—	100	974
Total	$ 4,341	$ —	$ 100	$ 470	$ 3,771

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

		Investment Maturities (years)			
Investment Type	Fair Value	< 1	1 to 5	6 to 10	> 10
FHLMC	$ 1,546	$ —	$ —	$ —	$ 1,546
FHLB	1,263	—	99	500	664
FNMA	1,976	857	—	—	1,119
FNMA Global	380	380	—	—	—
Treasury bills	1,274	1,274	—	—	—
Total	$ 6,439	$ 2,511	$ 99	$ 500	$ 3,329
Certificates of deposit	209				
Total	$ 6,648				

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

During fiscal years 2005 and 2004, State Street and Wells Fargo lent, on behalf of the State of Minnesota, certain securities held by State Street or Wells Fargo as custodian and received cash (both 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 by Wells Fargo to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities plus accrued interest, and by State Street to deliver collateral for each loan in amounts equal to not less than 102 percent of the fair value of the loaned securities.

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

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

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

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

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

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

During fiscal years 2005 and 2004, the state of Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the separately managed funds of the Minnesota State Board of Investment. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005 and 2004, the state of Minnesota had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

Minnesota State Colleges and Universities' portion of the securities lending collateral was allocated to the colleges and universities. The University's portion of the allocation was $1,403,027 and $2,688,721 as of June 30, 2005 and 2004, respectively.

3. LOANS RECEIVABLE

Loans receivable balances consist of loans under the Federal Perkins Loan Program. The federal government provides most of the funding for the loans with amounts collected used for new loan advances. Minnesota State Colleges and Universities' loan collections unit is responsible for loan collections for the University.
At June 30, 2005 and 2004, the total loans receivable for this program were $7,376,190 and $6,988,899, respectively, less an allowance for uncollectible loans of $117,201 and $114,205, respectively.

4. ACCOUNTS RECEIVABLE

Summary of Accounts Receivable at June 30
(In Thousands)

	2005	2004
Tuition	$ 1,440	$ 1,128
Sales and services	627	409
Other	370	324
Fees	448	341
Interest income	292	242
Federal and state grants	271	155
Room and board	303	253
Third party obligations	129	88
Total accounts receivable	3,880	2,940
Less allowance for uncollectible accounts	(1,122)	(998)
Net accounts receivable	$ 2,758	$ 1,942

The accounts receivable balances are primarily made up of receivables from individuals and businesses. At June 30, 2005 and 2004, the total accounts receivable balances for the University were $3,879,402 and $2,940,210, respectively, less an allowance for uncollectible receivables of $1,121,669 and $997,965, respectively. 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

This consists of $627,247 and $515,043 for fiscal years 2005 and 2004, respectively, and deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on-hand on December 1 of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year.

6. CAPITAL ASSETS

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

Year Ended June 30, 2005
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital Assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	5,603	16,190	—	(13,441)	8,352
Total capital assets, not depreciated	6,514	16,190	—	(13,441)	9,263
Capital assets, depreciated:					
Buildings and improvements	153,595	2,344	—	13,441	169,380
Equipment	25,020	1,552	2,025	—	24,547
Library collections	8,671	1,336	1,082	—	8,925
Total capital assets, depreciated	187,286	5,232	3,107	13,441	202,852
Less accumulated depreciation:					
Buildings and improvements	72,451	4,487	—	—	76,938
Equipment	17,450	2,145	1,865	—	17,730
Library collections	4,955	1,233	1,082	—	5,106
Total accumulated depreciation	94,856	7,865	2,947	—	99,774
Total capital assets, depreciated, net	92,430	(2,633)	160	13,441	103,078
Total capital assets, net	$ 98,944	$ 13,557	$ 160	$ —	$ 112,341

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

7. LONG-TERM OBLIGATIONS

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

Year Ended June 30, 2005
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 4,684	$ 1,338	$ 348	$ 5,674	$ 416
Revenue bonds	10,708	—	339	10,369	356
Bond premium payable	213	137	27	323	—
Compensated absences	10,107	2,906	2,151	10,862	1,195
Workers' compensation	113	414	93	434	131
Capital contributions	6,738	32	—	6,770	—
Capital lease payable	—	2,344	27	2,317	112
Notes payable	54	—	54	—	—
Totals	$ 32,617	$ 7,171	$ 3,039	$ 36,749	$ 2,210

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

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 in these financial statements represents the University's share.

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

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 years 2005 and 2004, bonds were issued resulting in premiums of $136,754 and $235,710, respectively. Amortization is 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 $434,934 and $113,079 at June 30, 2005 and 2004, 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 $6,769,548 and $6,738,253 at June 30, 2005 and 2004, 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.

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	General Obligation Bonds		Capital Leases		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 416	$ 269	$ 112	$ 107	$ 356	$ 545
2007	421	252	117	101	374	527
2008	417	231	123	97	394	508
2009	417	211	129	90	415	488
2010	418	190	135	83	435	467
2011-2015	1,595	687	782	311	2,558	1,963
2016-2020	1,176	352	919	103	3,339	1,178
2021-2025	814	82	—	—	2,498	214
Total	$ 5,674	$ 2,274	$ 2,317	$ 892	$ 10,369	$ 5,890

8. ACCOUNTS PAYABLE

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

Summary of Accounts Payable at June 30
(In Thousands)

	2005	2004
Purchased services	$1,327	$ 895
Financial aid	271	1,139
Supplies	1,016	1,169
Repairs and maintenance	798	2,253
Other	120	411
Capital projects	1,128	400
Salaries	292	24
Inventory	318	73
Total	$5,270	$6,364

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, 2005 and 2004, totaled approximately $642,564 and $645,899, respectively. Future minimum lease payments for existing lease agreements are as follows.

Year ended June 30 (In Thousands)	
Fiscal Year	Amount
2006	$ 620
2007	513
2008	493
2009	141
Total	$ 1,767

Capital Leases — The University made the final payment for the Alumni Foundation Center in fiscal year 2004. In fiscal year 2005, the University entered into a 15-year $3,281,428 capital lease (principal and interest) for an emergency generator. 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. See Note 7 for principal and interest payment schedules.

Income Leases — The University has entered into several income lease agreements, primarily for building space. Lease income for the years ended June 30, 2005 and June 30, 2004, totaled $191,353 and $114,748, 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
2006	$ 169
2007	75
2008	31
2009	25
2010	25
2011-2015	127
2016-2020	102
Total	$ 554

10. TUITION, AUXILIARY AND SALES

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

For the Year Ended June 30 (In Thousands)	2005	2004
Tuition	$ 59,934	$ 50,800
Fees	7,686	7,466
Sales, net	6,511	5,851
Restricted student payments	16,405	15,626
Subtotal	90,536	79,743
Less scholarship allowance	(14,079)	(12,987)
Net tuition, auxiliary and sales	$ 76,457	$ 66,756

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

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

Description	Salaries	Other	Total
Instruction	$ 50,853	$ 2,965	$ 53,818
Research	566	469	1,035
Public service	689	323	1,012
Academic support	12,861	5,204	18,065
Student services	13,736	5,437	19,173
Institutional support	8,143	4,465	12,608
Operation & maintenance of plant	6,157	9,169	15,326
Depreciation	—	7,865	7,865
Scholarships & fellowships	—	1,665	1,665
Auxiliary enterprises	7,469	7,624	15,093
Total operating expenses	$ 100,474	$ 45,186	$ 145,660

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

Description	Salaries	Other	Total
Instruction	$ 48,162	$ 2,599	$ 50,761
Research	602	246	848
Public service	599	243	842
Academic support	12,641	5,302	17,943
Student services	11,947	4,959	16,906
Institutional support	8,117	2,757	10,874
Operation & maintenance of plant	5,231	7,351	12,582
Depreciation	—	7,594	7,594
Scholarships & fellowships	—	2,542	2,542
Auxiliary enterprises	7,438	7,973	15,411
Total operating expenses	$ 94,737	$ 41,566	$ 136,303

12. 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 (SERF)

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

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65.

The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates are 1.2 and 1.7 percent of the members' average salary, which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. The funding requirements are 4 percent for both employer and employee.

Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2005	$ 784
2004	762
2003	751

Teachers Retirement Fund (TRF)

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Minnesota State Colleges and Universities, an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

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

Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2005	$ 632
2004	650
2003	685

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

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

Individual Retirement Account Plan (IRAP) —

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

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

Required contributions for Minnesota State University, Mankato were:

	(In Thousands)	
Fiscal Year	Employer	Employee
2005	$ 2,107	$ 1,568
2004	2,041	1,433
2003	1,843	1,377

Supplemental Retirement Plan (SRP) —

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

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

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

The University matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statute, Chapter 354B.

Required contributions for Minnesota State University, Mankato were as follows:

Required Contributions (In Thousands)	
Fiscal Year	Amount
2005	$ 1,165
2004	1,073
2003	1,074

13. POSTRETIREMENT BENEFITS

Early retirement programs provided for the cost of health insurance benefits to be paid for retired University employees of $68,394 and $85,446 for fiscal years 2005 and 2004, respectively and early retirement incentives of $495,358 and $692,031 respectively. There are 19 faculty members currently receiving the health insurance benefit.

14. 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.

Gee v. Minnesota State University, Mankato
Former employee asserts discrimination and violation of the Whistleblower Act. The University prevailed in district court on a summary judgment. The Court of Appeals reversed the dismissal of the discrimination claim and upheld dismissal of the whistleblower claim. The University intends to vigorously defend this case.

Minnesota State University, Mankato — Accident Claims
Claims have been filed on behalf of five individuals injured or killed in a vehicle crash involving University students and faculty. No lawsuit has been filed. The University intends to vigorously defend this claim.

15. 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 Risk Management Fund are as follows:

Institution deductible	$100,000
Fund responsibility	Deductible to $2,000,000
Primary re-insurer coverage	$2,000,001 to $12,000,000
Multiple re-insurers' coverage	$2,000,001 to $1,000,000,000
Bodily injury and property damage per person	$300,000
Bodily injury and property damage per occurrence	$1,000,000
Annual maximum paid by fund, excess by reinsurer	$5,000,000
Maintenance deductible for additional claims	$25,000

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 and claims history. From this pool, all workers' compensation claims are paid to the state Workers' Compensation Fund.

The following table presents changes in the balances of workers' compensation claims liability during the fiscal years ended June 30, 2005 and 2004.

(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/05	$ 113	$ 414	$ 93	$ 434
Fiscal Year Ended 6/30/04	$ 97	$ 93	$ 77	$ 113

16. COMMITMENTS

During fiscal year 2005, construction continued on the $10.5 million Centennial Student Union entrance and food service renovation project and on phase III of the $8.4 million student athletic facility renovation project. The Centennial Student Union entrance and food service renovation project was substantially completed in April 2005, and as of June 30, 2005 commitments of approximately $277,000 remained for this project. Phase III of the student athletic facility renovation project was substantially completed in September 2005, and as of June 30, 2005 commitments of approximately $2.4 million remained for this project.

New commitments made by the University during fiscal year 2005 include approximately $2.9 million for a Trafton Science center expansion and renovation design project, $1.7 million for a telecommunications upgrade project, and $1.9 million for building infrastructure upgrades to HVAC, electrical, water, and sewer systems. Expected completion dates for the telecommunications upgrade project and the building infrastructure upgrades are December 2005 and June 2007, respectively.

17. 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)

	2005	2004
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 8,996	$ 8,604
Restricted assets	2,188	12,374
Capital assets	28,411	17,810
Noncurrent assets	—	587
Total assets	39,595	39,375
Liabilities:		
Current liabilities	2,432	3,977
Noncurrent liabilities	10,345	10,719
Total liabilities	12,777	14,696
Net Assets:		
Invested in capital assets, net of related debt	18,126	14,921
Restricted	8,692	9,758
Total net assets	$ 26,818	$ 24,679
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 16,570	$ 16,323
Operating expenses	13,733	12,700
Net operating income	2,837	3,623
Nonoperating revenues (expenses)	(698)	(451)
Change in net assets	2,139	3,172
Net assets -beginning of year	24,679	21,507
Net assets -end of year	$ 26,818	$ 24,679
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 4,981	$ 6,069
Investing activities	2,018	851
Capital and related financing activities	(11,044)	(12,870)
Net increase (decrease)	(4,045)	(5,950)
Cash - beginning of year	13,920	19,870
Cash - end of year	$ 9,875	$ 13,920

18. 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 $966,315 and $922,358 for fiscal years 2005 and 2004 respectively, and is included in the University's expenses. During fiscal years 2005 and 2004, the foundation expended $1,882,276 and $1,533,756, respectively, for University educational program purposes. Approximately $609,108 and $425,888 of the total went to support student scholarships in fiscal years 2005 and 2004, respectively. In addition to providing the University with supplemental funds for current operations, the Foundation's total assets increased by $1,901,333 and $1,383,093 for fiscal years 2005 and 2004, respectively.

19. 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	2005	2004
Common Stock	$ 2,736	$ 2,204
Money Market Funds	1,434	—
US Government Securities	—	57
Mutual Funds	8,642	10,459
Fixed Income Securities/Bonds	4,565	2,368
Other Investments	146	180
Total Investments	$ 17,523	$ 15,268

Long-Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center Campaign of $2,916,000. Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2006	$ 442
2007	442
2008	442
2009	442
2010	432
Thereafter	716
Total	$ 2,916

20. SUBSEQUENT EVENT

On October 20, 2005, Revenue Bonds were issued. The University received $30,720,000 of tax-exempt bonds to construct a residence hall.

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SUPPLEMENTARY SECTION

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

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

We have audited the financial statements of Minnesota State University, Mankato as of and for the year ended June 30, 2005, and have issued our report thereon dated September 21, 2005. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Minnesota State University, Mankato Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 September 21, 2005.

220 South Sixth Street, Suite 300, Minneapolis, MN 55402-1436, 612/376-4500, Fax 612/376-4850

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Compliance and Other Matters

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

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 21, 2005

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Minnesota
STATE COLLEGES
& UNIVERSITIES

500 WELLS FARGO PLACE
30 EAST SEVENTH STREET
ST. PAUL, MN 55101-4946

300 ETC BUILDING
1450 ENERGY PARK DRIVE
ST. PAUL, MN 55108-5227

ph 651.297.5579
fx 651.297.2997
www.mnscu.edu

toll free 888.667.2848
tty 651.282.2660

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