MINNESOTA STATE UNIVERSITY
MANKATO

ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2006 and 2005

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, 2006 and 2005

Prepared by:

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

MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2006 and 2005

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INTRODUCTION

MINNESOTA STATE UNIVERSITY
MANKATO

October 19, 2006

Chancellor James H. McCormick
Members of the Board of Trustees
Minnesota State Colleges and Universities
350 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, 2006. 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 138th year, Minnesota State Mankato today serves approximately 14,000 students. Our student body includes more than 400 international students from 59 countries. Our six colleges—Allied Health and Nursing; Arts and Humanities; Business; Education; Science, Engineering and Technology; and Social and Behavioral Sciences—feature 120 undergraduate programs of study and 66 graduate programs. The University employs more than 1,500 faculty and staff (630 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 Minnesota State Mankato. Our alumni number over 100,000 worldwide. And, during the 2005 academic year, the University awarded 3,568 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, education, health professions, law enforcement, and biology.

OFFICE OF THE PRESIDENT
309 WIGLEY ADMINISTRATION CENTER · MANKATO, MN 56001
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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, Minnesota 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 Center for Renewable Energy.

The Minnesota Center for Engineering & Manufacturing Excellence (MNCEME) was created by the Board of Trustees in the fall of 2005. With Minnesota State Mankato as the lead institution, our six MnSCU partner institutions and industry partners collaborate to lay the groundwork for student success in relevant curricula, seamless transfer models, and opportunities for student internships, faculty research and customized training. All of this will contribute to support Minnesota industry which must compete in a global market.

Our faculty members were recognized nationally for many achievements in 2005-2006. Continuing a tradition, two faculty were named Fulbright Scholars for the 2005-2006 academic year and for the third consecutive year, a faculty member was invited to the prestigious Oxford Round Table in England.

Our students have garnered national recognition for the student newspaper, theatre performances, forensics team (which was ranked in the top 10 nationally), and cheer team. In fiscal year 2006 on-campus recruiting of our students by corporations was up 40% from 2005. Students who interviewed increased 109%.

During the 2005-2006 academic year, Minnesota State Mankato fielded 23 intercollegiate athletic teams, including Division I WCHA men's and women's hockey and Division II North Central Conference men's baseball, basketball, cross country, football, golf, swimming, tennis, track, and wrestling, as well as Division II North Central Conference women's basketball, bowling, cross country, golf, soccer, softball, swimming, tennis, track, and volleyball. Over 500 student athletes participated in athletic competitions. These teams are sources of great pride for students and community members. In addition, Minnesota State Mankato finished 8th in the U.S. Sports Academy Directors' Cup – our best finish ever – and won the 2006 North Central Conference Cup as well as five conference championships, including one in men's basketball—our first since 1976. In addition, we had 27 academic all-conference selections.

Campus facilities are a particular point of pride for Minnesota State Mankato. In Fall 2005, our remodeled Otto Recreation Center was officially opened providing, spacious, new, computerized exercise facilities for students. Our Centennial Student Union remodeling, which was completed in spring 2005, continued to garner several national awards for architecture and design. Construction will begin during the 2007 fiscal year on an addition to the Trafton Science Center, and a new residence hall.

Thanks to generous gifts from alumni and supporters of the University, as of June 30, 2006, total net assets of the University Foundation had grown by 9.0% over the previous year. New gifts during fiscal year 2006 were nearly $4.46 million. Direct payments to students in the form of scholarships accounted for over $1 million. Another $657,000 was transferred to the University to support athletic programs, theatre and music activities and many other activities. .

Minnesota State Mankato strives to be a good neighbor and community partner, serving as a regional economic and cultural hub. The Cities/Colleges/University Advisory Council consisting of the cities of Mankato/North Mankato, Minnesota State Mankato, the Chamber of Commerce, Greater Mankato Economic Development Corporation, Mankato Public Schools, Bethany Lutheran College, Gustavus Adolphus College 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 Mankato for our 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. The first University-sponsored Habitat for Humanity house, built by students, faculty and staff in partnership with the Mankato Area Habitat Chapter, was completed and a family is now living in their new home. 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. Hundreds of students volunteer on a regular basis and faculty have used classroom projects to provide learning experiences.

During the 2005-2006 academic year, the University completed its self-study for reaccreditation by the Higher Learning Commission. In February 2006, a team of ten evaluators visited our campus and following their report, the Higher Learning Commission approved Minnesota State Mankato for full accreditation for ten years. The entire University community had participated in the self-study and the on-site visit and is pleased that the good work occurring at Minnesota State Mankato was recognized by the accrediting body.

Minnesota State University, Mankato contributed in significant ways to the strategic directions and goals of the Minnesota State Colleges and Universities Annual Work Plan through increasing access and opportunity for underrepresented students, expanding high quality learning programs and services, and strengthening community development and economic vitality. Examples include:

- In Fall 2005, we had 134 new freshmen students of color – an 8% increase over the previous fall. To expand our recruitment efforts during the year, we sent letters to over 4,800 highly qualified minority students; hosted an Asian American Conference attended by 150 students from the Twin Cities and surrounding Mankato communities; hosted Diversity Week; and held Somali of Minnesota Day with approximately 130 students visiting Minnesota State Mankato. Additionally, the Pan African Conference Youth Day drew 90 students, the Latino Conference was attended by 276 students and Somali youth from Mankato schools visited campus two days a week after school for programs.
- We initiated activity with the Urban Ventures organization in Minneapolis and continue to look at ways our University can assist with educational needs of students served by this organization.
- During the 2005-2006 academic year, we hired three pre-doctoral fellows. This program is designed to bring diverse faculty to campus to teach while they complete doctoral programs. One of these fellows will continue for a second year and two were offered fixed-term faculty contracts. Three new fellows are hired for the current year.
- Our Center for Teaching and Learning (CETL) is now nationally recognized for excellence and was recently selected by the Carnegie Foundation to participate in the Carnegie Academy for the Scholarship of Teaching and Learning Institutional Leadership Program for the next 3 years. Our letter of acceptance from the Carnegie Foundation stated: "Your commitment to supporting the improvement of student learning, promoting significant institutional change, and demonstrating collaborative leadership represents a vital contribution to the scholarship of teaching and learning." We are excited to participate in this significant program. We recognized 69 of our faculty who successfully

completed the Teaching Certificate Program I and another 22 who completed a second year of study.

- We have used our shared governance model to plan two initial doctorates with others to follow. One of the initial doctorates is the consortia DNP and the other an Ed.D. in Counseling and Student Personnel. We created a new Center for Excellence in Scholarship and Research patterned after the CETL. Funding for the Grants Office has also been enhanced to increase the level of funded research.
- The undergraduate writing-intensive course requirement was increased. The diversity curriculum is in the midst of a substantial revision that will increase the quantity and scope of diversity in the curriculum, including a diversity service learning requirement.
- Our University is proud of the recognition it has received from the Office of the Chancellor, again receiving excellence in facilities management and financial reporting and an award for our highly acclaimed service learning program. Two individuals were cited for exemplary work. System CIOs also recognized the excellent work of our Technology Services division.

Minnesota State Mankato continued work on its strategic priorities which include measurable and achievable goals within a 3-to-5 year period. The strategic priorities include:

- Promote Diversity
- Develop and Implement Campus-wide Plans in Public Relations and Marketing; Enrollment Management; Campus Facilities; Fundraising
- Distance Learning
- Graduate Education
- Academic Excellence in Undergraduate Studies.
- International Education
- Campus Health and Wellness

We point with pride at the following sample of notable accomplishments:

- Dental Hygiene graduates have a 100% pass rate on national board exams (compared to a national average pass rate of 70%)
- Our internationally-renowned Emuseum has received over 65 awards and had 120 million website hits in the past year.
- Minnesota State Mankato is the first MnSCU institution approved to offer a Master of Social Work degree.
- The campus was named one of nation's "100 Best Campuses for LGBT Students" by The Advocate College Guide.
- KMSU-FM was the first and only station in the nation to receive the College Radio Service to America Award from the National Association of Broadcasters Education Foundation. KMSU also received a certificate of commendation from the Minnesota Legislature for extensive community service programming
- The Minnesota State Mankato website was voted one of the nation's best by the Center for Digital Education

The University's financial statements were audited by Larsen, Allen, Weishair, & Co., LLP. Included in these financial statements are statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These financial statements show that the University's financial position improved during fiscal year 2006. The University's net assets increased during fiscal year 2006 by $8.8 million now totaling $120.2 million. Lastly, the University's general operating fund reserve increased from $5.1 million to $5.8 million during fiscal year 2006. This reserve serves to protect the University 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
President

Enclosure

Richard Davenport

University Administration Organization

Minnesota State University, Mankato
August 1, 2006

President
Richard Davenport

Assistant to the President
Carol Stallkamp

Special Assistant to the President for Multicultural Relations
Michael Fagin

Special Assistant to the President
H. Dean Trauger

Intercollegiate Athletics

Finance & Administration
Richard J. Straka
Vice President

Student Affairs
Patricia Swatfager-Haney
Vice President

Academic Affairs
Scott R. Olson
Vice President

University Advancement
David K. Williams
Vice President

Information Technology
Bryan Schneider
Vice President and Chief Information Officer (Interim)

Presidential Fellow
Henry Morris

Human Resources
Lori Lamb
Director

Affirmative Action
Kenneth White
Director

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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www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Minnesota State University, Mankato, a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, 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 22, 2006, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 22, 2006

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, 2006, 2005 and 2004. 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 100,500 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, 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 improved during fiscal year 2006. Assets totaled $216.4 million compared to liabilities of $96.2 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 $98.3 million, restricted assets of $11.7 million, and unrestricted assets of $10.2 million. The fiscal year 2006 net assets total of $120.2 million represents an increase of $8.8 million over fiscal year 2005 and $12.5 million over fiscal year 2004. The fiscal year 2006 unrestricted net assets total of $10.2 million represents a 71.8 percent increase from the fiscal year 2005 total of $6 million and a 67.6 percent increase compared to the fiscal year 2004 total of $6.1million.

Fiscal year 2006 state appropriation revenue, excluding capital appropriations, totaled $54.3 million and represents an 8.8 percent increase from fiscal year 2005 and a 7.7 percent increase from fiscal year 2004. Net tuition, auxiliary, and sales revenue in fiscal year 2006 reached $66.6 million which is a 10.3 percent increase over fiscal year 2005 and a 29.6 percent increase over fiscal year 2004.

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 present the financial position of Minnesota State University, Mankato at the end of the fiscal year and include all assets and liabilities of the University as measured using the accrual basis of accounting. The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the University. 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, 2006, 2005, and 2004, respectively, is as follows:

Statements of Net Assets
(In Thousands)

	2006	2005	2004
Assets			
Current assets	$ 53,972	$ 46,610	$ 44,898
Restricted assets	37,625	3,203	13,894
Noncurrent assets			
Student loan receivables/other	5,934	5,909	6,010
Capital assets, net	118,901	112,341	96,001
Total assets	216,432	168,063	160,803
Liabilities			
Current liabilities	24,159	22,148	22,258
Noncurrent liabilities	72,052	34,539	30,840
Total liabilities	96,211	56,687	53,098
Net Assets			
Invested in capital assets, net of related debt	98,307	94,065	88,388
Restricted	11,682	11,354	13,213
Unrestricted	10,232	5,957	6,104
Total net assets	$120,221	$111,376	$107,705

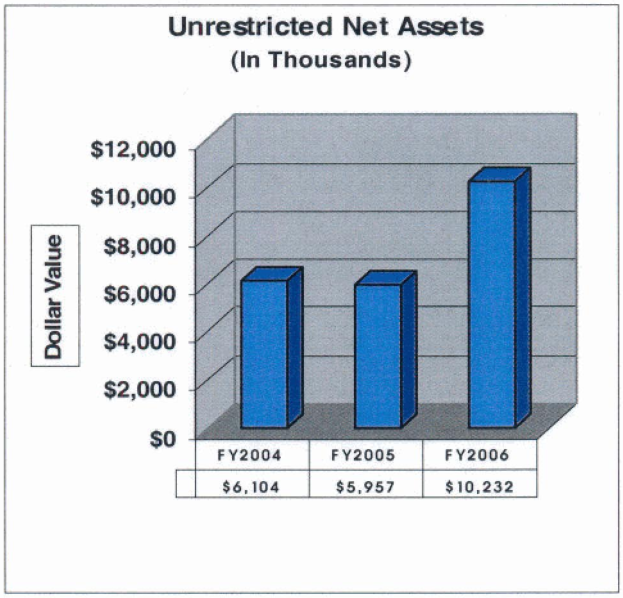
Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $44.6 million at June 30, 2006. This is an increase of $5 million over fiscal year 2005 and represents approximately 3.8 months of operating expenses (excluding depreciation). This is compared to 3.4 months and 3.5 months for the fiscal years ended June 30, 2005 and 2004, respectively. Current restricted assets increased by $34.4 million due to the sale of revenue bonds for construction of a new residence hall.

Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled $10.4 million at June 30, 2006, an increase of $0.4 million over the prior year. This increase was caused primarily by a 3.8 percent salary increase provided to faculty, by a 2 percent increase provided to classified employees, by the addition of approximately 28 full time employees, and because the last pay period in fiscal year 2006 had one more accrual day in June than the last pay period in fiscal year 2005. Included within the salary payable accrual is $8.3 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 22, 2005–August 18, 2006. Accounts payable totaled $4.5 million, $5.3 million, and $6.4 million for fiscal years ended June 30, 2006, 2005, and 2004, respectively. The $1.1 million accounts payable decrease from fiscal year 2004 to fiscal year 2005 was primarily due to a decrease in liabilities related to financial aid. The $0.8 million accounts payable decrease from fiscal year 2005 to fiscal year 2006 was primarily caused by decreased construction in progress activity related to capital projects and by decreased 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 $5.8 million, $5.1 million, and $4.3 million for fiscal years ended June 30, 2006, 2005, and 2004, 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 $105.1 million, totaled $118.9 million as of June 30, 2006. This represents increases of $6.6 million and $20 million from June 30, 2005, and 2004, 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 $14.9 million in fiscal year 2006, a decrease of $6.5 million from fiscal year 2005. The decrease is primarily due to the completion of the Centennial Student Union south entrance; food service renovation during fiscal year 2005; and because outlays for construction on phase three of the student athletic facility renovation were higher in fiscal year 2005 than in fiscal year 2006. 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 $3.5 million, $4.2 million, and $2.9 million for fiscal years ended June 30, 2006, 2005, and 2004, respectively.

Revenue and general obligation bonds payable totaled $53 million at June 30, 2006. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from two revenue fund projects: $8.9 million of the bonds payable relates to the Centennial Student Union south entrance and food service renovation project which was completed in fiscal year 2005, and $37.5 million of the bonds payable relates to a new residential hall suite project in which construction will begin in fiscal year 2007. 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. A summarized statement for the years ended June 30, 2006, 2005, and 2004, respectively, follows:

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

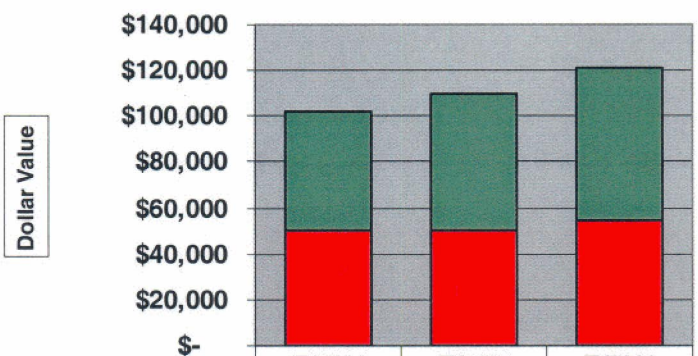
	2006	2005	2004
Operating revenues:			
Tuition, auxiliary and sales, net	$ 66,565	$ 60,322	$ 51,425
Restricted student payments, net	16,559	16,135	15,331
Federal grants	10,031	10,374	10,070
State grants	6,306	6,187	5,462
Other income	793	814	1,498
Total operating revenues	100,254	93,832	83,786
Nonoperating revenues:			
State appropriations	54,251	49,859	50,447
Private grants	1,317	1,522	991
Capital appropriations	3,480	4,228	2,928
Other	1,772	568	487
Total nonoperating revenue	60,820	56,177	54,853
Total revenue	161,074	150,009	138,639
Operating expenses:			
Salaries and benefits	105,142	100,474	94,737
Supplies and services	33,952	35,656	31,430
Depreciation	8,394	7,865	7,594
Financial aid, net	2,469	1,665	2,542
Total operating expense	149,957	145,660	136,303
Nonoperating expense:			
Loss on disposal of capital assets	79	66	146
Grants	—	144	153
Interest expense	2,193	468	900
Total nonoperating expense	2,272	678	1,199
Total expense	152,229	146,338	137,502
Increase in net assets	8,845	3,671	1,137
Net assets, beginning of year	111,376	107,705	106,568
Net assets, end of year	$120,221	$ 111,376	$107,705

Tuition and state appropriations are the primary sources of funding for University operations. While enrollment during fiscal year 2006 held steady at 13,343 full year equivalents, tuition revenue increased significantly in fiscal years 2006 and 2005 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 15 percent from fiscal year 2004 to fiscal year 2005 and 7 percent from fiscal year 2005 to fiscal year 2006. State appropriations increased by $4.4 million during fiscal year 2006 to $54.3 million representing an 8.8 percent increase and a 7.5 percent increase from fiscal years ended June 30, 2005, and 2004 respectively. Capital appropriations have fluctuated the past three fiscal years with the University receiving of $3.5 million, $4.2 million, and $2.9 million for the fiscal years ended June 30, 2006, 2005, and 2004, respectively.

Resources expended for employee compensation increased $4.7 million to $105.1 million for the fiscal year ended June 30, 2006. Faculty salary increases of approximately 3.8 percent, classified employee salary increases of approximately 2 percent, health insurance increases, the addition of approximately 28 employees, and promotional and step increases for some employees all contributed to the increase for the fiscal year ended June 30, 2006.

State Appropriations and Tuition & Sales (net) Revenue

(In Thousands)



	FY2004	FY2005	FY2006
Tuition & Sales (net)	$51,425	$60,322	$66,565
State Appropriations	$50,447	$49,859	$54,251

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes that the University is positioned to continue its strong financial condition and level of excellence. However, the University may face challenges in three main areas including: (1) maintaining adequate state appropriation support, (2) pressure to limit tuition rate increases, and (3) enrollment management.

In regards to the challenge of maintaining adequate state appropriation support, the University's fiscal year 2007 state appropriation is expected to be approximately 0.5 percent lower for normal operations than the state appropriation received in fiscal year 2006. Additionally, a significant state appropriation increase for fiscal year 2008 is not expected.

The University also faces pressure to keep tuition rate increases closer to or less than the rate of inflation after numerous years of tuition rate increases in excess of inflation.

Enrollment management will become a challenge for the University as demographics project a 25 percent decline in high school graduates within the University's current primary service area over the next five years. Currently, management anticipates an enrollment decline of approximately 1.5 percent during fiscal year 2007. In response to this challenge, the University has placed an emphasis on enrollment management by committing resources to implement a strategic enrollment management plan to stabilize and slightly grow enrollments through fiscal year 2010.

In summary, these factors, along with increasing costs for compensation, purchased services, and supplies, may result in a significant financial challenge for the University in fiscal years 2008, 2009 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, 2006 AND 2005
(IN THOUSANDS)

Assets	2006	2005
Current Assets		
Cash and cash equivalents	$ 40,458	$ 35,287
Investments	4,157	4,341
Grants receivable	508	587
Accounts receivable, net	3,959	2,758
Prepaid expense	631	627
Inventory	98	-
Student loans and other assets, net	1,479	1,607
Securities lending collateral	2,682	1,403
Total current assets	53,972	46,610
Current Restricted Assets		
Cash and cash equivalents	37,594	3,170
Total current restricted assets	37,594	3,170
Noncurrent Restricted Assets		
Other assets	31	33
Total noncurrent restricted assets	31	33
Total restricted assets	37,625	3,203
Noncurrent Assets		
Student loans and other assets, net	5,934	5,909
Capital assets, net	118,901	112,341
Total noncurrent assets	124,835	118,250
Total Assets	216,432	168,063
Liabilities		
Current Liabilities		
Salaries payable	10,434	9,955
Accounts payable	4,545	5,270
Unearned revenue	2,909	2,713
Payable from restricted assets	-	219
Interest payable	554	138
Funds held for others	219	222
Current portion of long-term debt	1,181	884
Compensated absences payable/Early termination/Workers' compensation	1,635	1,326
Other liabilities	-	18
Securities lending collateral	2,682	1,403
Total current liabilities	24,159	22,148
Noncurrent Liabilities		
Noncurrent portion of long-term debt	55,034	17,799
Compensated absences payable/Early termination/Workers' compensation	10,259	9,970
Capital contributions payable	6,759	6,770
Total noncurrent liabilities	72,052	34,539
Total Liabilities	96,211	56,687
Net Assets		
Invested in capital assets, net of related debt	98,307	94,065
Restricted expendable, bond covenants	2,121	6,807
Restricted expendable, other	9,561	4,547
Unrestricted	10,232	5,957
Total Net Assets	$ 120,221	$ 111,376

The notes are an integral part of the financial statements

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2006 AND 2005
(IN THOUSANDS)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	$ 156	$ 13
Investments	18,931	17,523
Pledges and contributions receivable	2,755	3,135
Other receivables	4	42
Annuities/Remainder interests/Trusts	681	650
Total current assets	22,527	21,363
Noncurrent Assets		
Property and equipment	111	135
Total noncurrent assets	111	135
Total Assets	$ 22,638	$ 21,498
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 145	$ 183
Bonds payable	442	442
Due to University	-	13
Total current liabilities	587	638
Noncurrent Liabilities		
Annuities payable	161	168
Bonds payable	2,032	2,474
Total noncurrent liabilities	2,193	2,642
Total Liabilities	2,780	3,280
Net Assets		
Unrestricted	7,665	6,850
Temporarily restricted	1,344	1,269
Permanently restricted	10,849	10,099
Total Net Assets	19,858	18,218
Total Liabilities and Net Assets	$ 22,638	$ 21,498

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, 2006 AND 2005
(IN THOUSANDS)

	2006	2005
Operating Revenues		
Tuition, auxiliary, and sales, net	$ 66,565	$ 60,322
Restricted student payments, net	16,559	16,135
Federal grants	10,031	10,374
State grants	6,306	6,187
Other income	793	814
Total operating revenues	100,254	93,832
Operating Expenses		
Salaries	105,142	100,474
Purchased services	15,876	16,035
Supplies	9,791	9,610
Repairs and maintenance	1,717	3,167
Depreciation	8,394	7,865
Financial aid, net	2,469	1,665
Other expense	6,568	6,844
Total operating expenses	149,957	145,660
Operating loss	(49,703)	(51,828)
Nonoperating Revenues (Expenses)		
Appropriations	54,251	49,859
Private grants	1,317	1,522
Interest income	1,744	500
Interest expense	(2,193)	(468)
Grants to other organizations	-	(144)
Total nonoperating revenue (expenses)	55,119	51,269
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	5,416	(559)
Capital appropriations	3,480	4,228
Donated assets and supplies	28	68
Loss on disposal of capital assets	(79)	(66)
Change in net assets	8,845	3,671
Total Net Assets, Beginning of Year	111,376	107,705
Total Net Assets, End of Year	$ 120,221	$ 111,376

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, 2006 AND 2005
(IN THOUSANDS)

	2006	2005
Support and Revenue		
Contributions	$ 3,089	$ 3,575
In-kind contributions	1,375	1,169
Investment income	378	227
Realized gains	1,141	951
Unrealized gains	39	9
Other income	149	165
Total support and revenue	6,171	6,096
Expenses		
Program Services		
Scholarships	2,420	1,882
Total program services	2,420	1,882
Supporting services		
Interest expense	137	165
Management and general	446	196
Fundraising expenses	1,503	1,267
Depreciation and amortization	25	25
Total supporting services	2,111	1,653
Total expenses	4,531	3,535
Change in Net Assets	1,640	2,561
Net Assets, Beginning of Year	18,218	15,657
Net Assets, End of Year	$ 19,858	$ 18,218

The notes are an integral part of the financial statements

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(IN THOUSANDS)

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	$ 85,733	$ 79,700
Cash repayment of program loans	1,445	1,412
State grants	6,306	6,187
Federal grants	10,109	10,350
Cash paid to suppliers for goods or services	(35,655)	(39,484)
Cash payments to employees	(104,035)	(98,053)
Financial aid disbursements	(2,731)	(1,634)
Cash payments of program loans	(1,434)	(1,897)
Net cash flows used in operating activities	(40,262)	(43,419)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	54,251	49,859
Agency activity	(3)	(10)
Private grants	1,317	1,522
Grants to other organizations	-	(148)
Net cash flows from noncapital financing activities	55,565	51,223
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(14,273)	(18,348)
Capital appropriation	3,480	4,228
Proceeds from sale of capital assets	21	189
Proceeds from issuance of debt	35,786	1,339
Proceeds from bond premium	1,699	137
Interest paid	(1,758)	(373)
Repayment of lease principal	(287)	(27)
Repayment of note principal	-	(54)
Repayment of bond principal	(797)	(755)
Net cash flows from capital and related financing activities	23,871	(13,664)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	-	2,511
Purchase of investments	-	(168)
Investment earnings	421	338
Net cash flows from investing activities	421	2,681
Net Increase in Cash and Cash Equivalents	39,595	(3,179)
Cash and Cash Equivalents, Beginning of Year	38,457	41,636
Cash and Cash Equivalents, End of Year	$ 78,052	$ 38,457

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(IN THOUSANDS)

	2006	2005
Operating Loss	$ (49,703)	$ (51,828)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	8,394	7,865
Provision for loan defaults	(6)	3
Loan principal repayments	1,445	1,412
Loans issued	(1,434)	(1,897)
Loans forgiven	70	97
Donated supplies	57	-
Change in assets and liabilities		
Inventory	(98)	37
Accounts receivable	233	(452)
Grants receivable	79	92
Accounts payable	(512)	(1,930)
Salaries payable	478	1,339
Compensated absences and early termination	776	760
Workers' compensation payable	(178)	322
Capital contributions payable	(11)	31
Unearned revenues	196	386
Other	(48)	344
Net reconciling items to be added to operating income	9,441	8,409
Net cash flows used in operating activities	$ (40,262)	$ (43,419)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 696	$ 1,128
Donated equipment	(28)	-
Fixed assets acquired through a capital lease	1,179	2,344
Loss on retirement of capital assets	(79)	(255)
Change in fair marker value of investment	(184)	36
Investment earnings on account	1,789	353
Amortization of bond premium	72	27

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 capital project expenses.

Cash and Cash Equivalents —The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short term, 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 primarily 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, early termination benefits, 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.

Unearned Revenue — Unearned revenue consists primarily of tuition received, but not yet earned, for summer and fall terms. It also includes residential hall room deposits, parking permit 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 non operating revenues, including state appropriations, private grants and investment income.

Tuition, Auxiliary, and Sales — Tuition, auxiliary and sales are presented net of scholarships. Sales are also net of cost of goods sold of $1,387,327 and $2,006,571 for fiscal years 2006 and 2005, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, fee and sales 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, and TRIO. 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 the current year's presentation. It was determined that some net assets, which were reported as "restricted expendable" net assets in previous years, were not restricted by external parties as defined in generally accepted accounting principles. Therefore, those amounts have been reclassified to unrestricted net assets. These reclassifications had no effect on total net assets as previously reported.

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

- *Invested in capital assets, net of related debt*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted expendable net assets*: 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.

Net Assets Restricted for Other
(In Thousands)

	2006	2005
Donations	$ 146	$ 158
Loans	782	783
Capital projects	6,862	1,885
Debt service	631	627
Faculty contract obligations	1,140	1,094
Total	$ 9,561	$ 4,547

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

New Accounting Pronouncement — Effective July 1, 2005, Minnesota State Colleges and Universities adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Under this statement, the effects of capital asset impairments are reported in the financial statements when the impairment occurs. The implementation of GASB Statement No. 42 had no effect on net assets.

Effective July 1, 2005, Minnesota State Colleges and Universities adopted GASB Statement No. 47, *Accounting for Termination Benefits*. Under this statement a liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated. The implementation of GASB Statement No. 47 resulted in the University reporting total expenditures and liabilities of $347,846 for voluntary termination benefits. The current portion of the voluntary termination benefit liability was valued at $242,123.

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Minnesota Statutes, Section 118A.03 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

Cash & Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2006	2005
Cash in bank	$ 1,864	$ 1,304
Money market	407	378
Cash treasury account	75,781	36,775
Total	$ 78,052	$ 38,457

At June 30, 2006 and 2005, the University's local bank balances were $2,549,579 and $2,357,848, 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. Board procedure 7.5.1 requires compliance with Minnesota Statutes, Section 118A.03 and further excludes the use of FDIC insurance when meeting collateral requirements.

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

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 Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University complies with Board procedure 7.5.1 that recommends considering fluctuating interest rates and cash flow needs when purchasing short term and long-term debt investments. As of June 30, the University had the following investments and maturities:

Years Ended June 30
(In Thousands)

	2006		2005	
Investment Type	Fair Value	Weighted Maturities (Years)	Fair Value	Weighted Maturities (Years)
US agencies	$ 4,157	11.86	$ 4,341	12.87

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 2006 and 2005, 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 2006 or 2005. 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, 2006
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$335,128	$5,785,269
Collateral held	$341,892	$5,905,061
Average duration	87 days	50 days
Average weighted maturity	87 days	463 days

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

During fiscal years 2006 and 2005, 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, 2006 and 2005, 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 $2,681,583 and $1,403,027 as of June 30, 2006 and 2005, 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, 2006 and 2005, the total loans receivable for this program were $7,295,209 and $7,376,190, respectively, less an allowance for uncollectible loans of $110,838 and $117,201, respectively.

4. ACCOUNTS RECEIVABLE

Summary of Accounts Receivable at June 30
(In Thousands)

	2006	2005
Tuition	$ 1,582	$ 1,440
Sales and services	521	627
Other	134	370
Fees	455	448
Interest	1,727	292
Federal and state grants	271	271
Room and board	343	303
Third party obligations	86	129
Total accounts receivable	5,119	3,880
Less allowance for uncollectible accounts	(1,160)	(1,122)
Net accounts receivable	$ 3,959	$ 2,758

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2006 and 2005, the total accounts receivable balances for the University were $5,119,210 and $3,879,402, respectively, less an allowance for uncollectible receivables of $1,159,717 and $1,121,669, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

5. PREPAID EXPENSE

This consists of $630,693 and $627,247 for fiscal years 2006 and 2005, respectively, which have been deposited in the state's Debt Service Fund for future general obligation bond payments. Minnesota Statutes, Section 16A.641, requires all state agencies to have on hand on December 1 of each year, an amount sufficient to pay all general obligation bond principal and interest due, and to become due, through July 1 of the second fiscal year.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2006 and 2005 follow:

Year Ended June 30, 2006
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	8,352	9,838	—	(10,822)	7,368
Total capital assets, not depreciated	9,263	9,838	—	(10,822)	8,279
Capital assets, depreciated:					
Buildings and improvements	169,380	—	—	10,822	180,202
Equipment	24,547	3,679	1,758	—	26,468
Library collections	8,925	1,391	1,247	—	9,069
Total capital assets, depreciated	202,852	5,070	3,005	10,822	215,739
Less accumulated depreciation:					
Buildings and improvements	76,938	5,034	—	—	81,972
Equipment	17,730	2,022	1,804	—	17,948
Library collections	5,106	1,338	1,247	—	5,197
Total accumulated depreciation	99,774	8,394	3,051	—	105,117
Total capital assets, depreciated, net	103,078	(3,324)	(46)	10,822	110,662
Total capital assets, net	$ 112,341	$ 6,514	$ (46)	$ —	$118,901

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

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 2006 and 2005 follow:

Year Ended June 30, 2006
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 5,674	$ 946	$ 417	$ 6,203	$ 469
Revenue bonds	10,369	34,840	356	44,853	374
Bond premium payable	323	1,699	71	1,951	—
Compensated absences	10,862	3,738	3,310	11,290	1,316
Early termination	—	348	—	348	242
Workers' compensation	434	52	230	256	77
Capital contributions	6,770	—	11	6,759	—
Capital lease payable	2,317	1,178	287	3,208	338
Totals	$ 36,749	$ 42,801	$ 4,682	$ 74,868	$ 2,816

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

General Obligation Bonds Liability — The state of Minnesota sells general obligation bonds to finance most of the Minnesota State Colleges and Universities' capital projects. The interest rate on these bonds ranges from 1.5 to 6 percent. 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 Liability — The Revenue Fund is authorized by Minnesota Statutes, Section 136F.98 to issue revenue bonds whose aggregate principal shall not exceed $150,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for dormitory, residence hall, student union and food service purposes at the state universities.

Bond Premium — In fiscal years 2006 and 2005, general obligation bonds were issued resulting in premiums of $58,663 and $136,754, respectively. In fiscal year 2006, revenue bonds were issued resulting in a premium of $1,640,942. Amortization of the bond premium 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 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 $255,933 and $434,934 at June 30, 2006 and 2005, 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 $6,758,801 and $6,769,548 at June 30, 2006 and 2005, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program.

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

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, 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
2007	$ 469	$ 298	$ 338	$ 150	$ 374	$ 2,206
2008	464	276	356	132	394	2,187
2009	465	252	375	113	1,215	2,153
2010	465	229	395	93	1,270	2,102
2011	406	207	186	77	1,324	2,047
2012-2016	1,719	762	820	274	7,561	9,279
2017-2021	1,395	383	738	64	9,568	7,127
2022-2026	820	79	—	—	9,227	4,549
2027-2031	—	—	—	—	9,455	2,343
2032-2033	—	—	—	—	4,465	226
Total	$ 6,203	$ 2,486	$ 3,208	$ 903	$ 44,853	$ 34,219

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)

	2006	2005
Purchased services	$1,144	$1,327
Financial aid	20	271
Supplies	1,060	1,016
Repairs and maintenance	834	798
Other	170	120
Capital projects	696	1,128
Salaries	322	292
Inventory	299	318
Total	$4,545	$5,270

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, 2006 and 2005, totaled approximately $654,190 and $642,564, respectively. Future minimum lease payments for existing lease agreements are as follows.

Year ended June 30
(In Thousands)

Fiscal Year	Amount
2007	$ 582
2008	502
2009	141
Total	$ 1,225

Capital Leases — In fiscal year 2006, the University entered into a $1,346,582 capital lease (principal and interest) for a telecommunication system. In fiscal year 2005, the University entered into a 15 year capital lease $3,281,428 (principal and interest) for an emergency generator. Both leases meet 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, 2006 and 2005, totaled $255,607 and $191,353, 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
2007	$ 218
2008	170
2009	144
2010	134
2011	113
2012-2016	127
2017-2021	76
Total	$ 982

10. TUITION, AUXILIARY, AND SALES, NET

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

For the Year Ended June 30 (In Thousands)	2006	2005
Tuition	$ 64,178	$ 59,934
Fees	7,819	7,686
Sales, net	7,582	6,511
Restricted student payments	16,844	16,405
Subtotal	96,423	90,536
Less scholarship allowance	(13,299)	(14,079)
Net tuition, auxiliary and sales	$ 83,124	$ 76,457

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

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

Description	Salaries	Other	Total
Instruction	$ 55,100	$ 3,126	$ 58,226
Research	878	829	1,707
Public service	684	371	1,055
Academic support	13,622	6,042	19,664
Student services	13,256	5,914	19,170
Institutional support	8,612	4,637	13,249
Operation & maintenance of plant	6,316	8,080	14,396
Depreciation	—	8,394	8,394
Scholarships & fellowships	—	2,469	2,469
Auxiliary enterprises	6,674	4,953	11,627
Total operating expenses	$ 105,142	$ 44,815	$ 149,957

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

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 Association, and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund (SERF)

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

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
2006	$ 767
2005	784
2004	762

Teachers Retirement Fund (TRF)

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 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
2006	$ 574
2005	632
2004	650

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
2006	$ 2,073	$ 1,556
2005	2,107	1,568
2004	2,041	1,433

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
2006	$ 1,105
2005	1,165
2004	1,073

13. EARLY TERMINATION BENEFITS

Inter Faculty Organization (IFO) contract

Early termination benefits are defined as benefits received for discontinuing service earlier than planned. The IFO contract allows faculty members, who meet certain eligibility and combination of age and years of service requirements, to receive an early retirement incentive. A cash payment based on base salary at time of separation, as well as an amount equal to the employer's contribution for one year's health insurance premiums, are deposited in his/her health care savings plan at time of separation. The cash incentive can be paid either in one or two payments. The number of retired faculty who received this benefit and the amount of future liability for those faculty as of the end of fiscal year 2006 follow. In accordance with GASB Statement 47, *Accounting for Termination Benefits*, prior fiscal years were not required to be restated.

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2006	14	$348

14. CONTINGENT LIABILITIES — LITIGATION

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

Minnesota State University, Mankato – Accident Claims
Claims filed on behalf of two students injured and three students killed in a vehicle crash involving University students and faculty have been settled; the claims will be paid entirely through the state's Risk Management Program. A trucking company filed a claim against the state for damage sustained by one of its trucks in the accident and other claims are possible. The University will continue to vigorously defend any claims in this matter.

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. The Minnesota Risk Management Fund provides the following coverage levels.

Coverage	Amount
Institution deductible (Academic & Residential Life)	$100,000
Institution deductible (Centennial Student Union)	$25,000
Fund responsibility	Deductible to $2,000,000
Primary re insurer coverage	$2,000,000 to $12,000,000
Multiple re insurers' coverage	$12,000,001 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, 2006 and 2005.

(In Thousands)	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/06	$ 434	$ 52	$ 230	$ 256
Fiscal Year Ended 6/30/05	$ 113	$ 414	$ 93	$ 434

16. COMMITMENTS

During fiscal year 2006, construction continued on phase three of the $8.4 million student athletic facility renovation, and the project was completed in September 2006. In fiscal year 2006, progress continued on the design of the Trafton Science Center addition and renovation project, and as of June 30, 2006, the University had incurred approximately $1.9 million of the projected $2.9 million in total design costs. A $1.7 million campus-wide telecommunications upgrade was initiated and completed during fiscal year 2006.

New commitments made by the University during fiscal year 2006 include the construction phase of the Trafton Science Center addition/renovation project, and the construction phase of a new residential hall suite project that will house 600 students. The $32.9 million construction phase on the Trafton Science Center addition/renovation project will begin in fiscal year 2007 with an expected completion date of summer 2008. Construction on the $34.3 million residential hall suite project will begin in fiscal year 2007 with an expected completion date of June 2008.

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)

	2006	2005
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 12,207	$ 8,996
Current restricted assets	37,594	2,188
Non current capital assets, net	30,545	28,411
Non current restricted assets	31	—
Total assets	80,377	39,595
Liabilities:		
Current liabilities	4,435	2,432
Non current liabilities	46,383	10,345
Total liabilities	50,818	12,777
Net Assets:		
Invested in capital assets, net of related debt	20,576	18,126
Restricted	6,862	8,692
Unrestricted	2,121	—
Total net assets	$ 29,559	$ 26,818
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 16,918	$ 16,570
Operating expenses	14,028	13,733
Net operating income	2,890	2,837
Non operating revenues (expenses)	(153)	(698)
Gain (loss) on disposal of capital assets	4	—
Change in net assets	2,741	2,139
Net assets - beginning of year	26,818	24,679
Net assets - end of year	$ 29,559	$ 26,818
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 3,436	$ 4,981
Investing activities	1,589	2,018
Capital and related financing activities	30,804	(11,044)
Net increase (decrease)	35,829	(4,045)
Cash – beginning of year	9,875	13,920
Cash – end of year	$ 45,704	$ 9,875

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 values of such services are estimated at $1,178,939 and $966,315 for fiscal years 2006 and 2005, respectively, and are included in the University's expenses.

During fiscal years 2006 and 2005, the foundation expended $2,419,934 and $1,882,276, respectively, for University educational program purposes. Approximately $1,028,348 and $836,990 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2006 and 2005, respectively. In addition to providing the University with supplemental funds for current operations, the Foundation's total assets increased by $1,139,878 and $1,901,333 for fiscal years 2006 and 2005, respectively.

An estimated $789,766 and $527,607 of revenues and expenditures in fiscal years 2006 and 2005, respectively, are included in both the Foundation's and the University's revenues and expenditures. This situation results from planned transfers of Foundation funds to the University, whereby actual subsequent purchases are made from University accounts.

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 subject to donor imposed restrictions as to how the assets be used.
- *Permanently Restricted*: 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	2006	2005
Common stock	$ 5,600	$ 2,736
Money market funds	565	1,434
US government securities	—	—
Mutual funds	8,842	8,642
Fixed income securities/bonds	3,825	4,565
Other investments	99	146
Total investments	$ 18,931	$ 17,523

Long-Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $2,474,000. Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2007	$ 442
2008	442
2009	442
2010	432
2011	245
Thereafter	471
Total	$ 2,474

SUPPLEMENTAL SECTION

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

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

We have audited the financial statements of Minnesota State University, Mankato as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. 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 G*overnment 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.

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 22, 2006

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