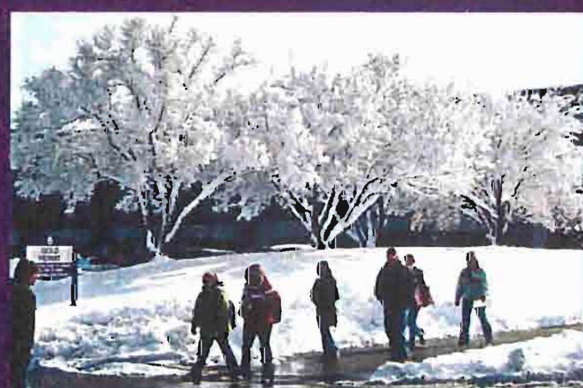
MINNESOTA STATE UNIVERSITY
MANKATO



ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2007 and 2006

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, 2007 and 2006

Prepared by:

Minnesota State University, Mankato
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Mankato, Minnesota 56001

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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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INTRODUCTION

MINNESOTA STATE UNIVERSITY
MANKATO

November 1, 2007

Chancellor James H. McCormick
Minnesota State Colleges and Universities
350 Wells Fargo Place
30 East 7th Street
St. Paul, MN 55101

Dear Chancellor McCormick:

I am pleased to submit to you the audited annual financial statements for Minnesota State University, Mankato for the fiscal year ending June 30, 2007. 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 139th year, Minnesota State Mankato today serves approximately 14,000 students. Our student body includes more than 500 international students from 62 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 1,700 faculty and staff (630 full-time instructional faculty, 77 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 105,000 worldwide. And, during the 2006-2007 academic year, the University awarded 3,242 degrees.

Minnesota State Mankato offers bachelor's, master's, associate, and specialist degrees, as well as graduate certificates. Beginning with the academic year 2007-2008, the University will enroll students in its first doctoral degree granting programs. 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, psychology, law enforcement, and biology.

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

Minnesota State Mankato houses several renowned centers for applied research, including the Center on Aging, Center for Applied Social Services, Center for School-University Partnerships, Minnesota Center for Automotive Research, Minnesota Center for Rapid Prototyping and Production, Kessel Institute for the Study of Peace and Change, Water Resources Center, Force Science Research 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.

Minnesota State is becoming known throughout the state and nation for our research, particularly in renewable sources of energy. We are conducting leading-edge research in production of ethanol from grass, E-20 ethanol conversion kits, and other alternative energy products and sources. A new research supercomputer was installed during spring semester and this summer we celebrated the receipt of a gift from 3M of a powerful nuclear magnetic resonance spectrometer valued at $850,000 when it was new 7 years ago. Our faculty and students are involved in learning and research experiences that will benefit future employers and the state of Minnesota.

Minnesota State (and Minnesota West) will lead other higher education partners and industry to develop training for new workers in emerging bioscience and renewable energy industries under the auspices of a $5 million, 3-year federal WIRED grant administered by DEED from the US Department of Labor which was awarded in spring 2007.

Our faculty members were recognized nationally for many achievements in 2006-2007. Continuing a tradition, two students and one administrator received Fulbright Scholar Awards for the upcoming 2007-2008 academic year.

During the 2006-2007 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 4th in the U.S. Sports Academy Directors' Cup – our best finish ever – and won the 2007 North Central Conference Cup for the third consecutive year, as well as seven conference championships. With the demise of the North Central Conference, as a campus we explored other possible scenarios for providing quality athletic programs. The campus community reinforced our desire to remain a Division II institution and we were successful in seeking admission to join the Northern Sun Intercollegiate Conference beginning in fall 2008.

Campus facilities are a particular point of pride for Minnesota State Mankato. Construction began and continues on a $32.9 million addition to Trafton Science Center and the $34.3

million Julia A. Sears residence hall. Completion of these facilities will provide our students with up-to-date, quality learning and living spaces.

Thanks to generous gifts from alumni and supporters of the University, as of June 30, 2007, total foundation support was $10,945,000. We received over $6,172,000 in grants and contracts and increased our alumni participation rate to 10.4%.

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.

We continued our strong relationship with the community – particularly the Greater Mankato Economic Development Corporation and placed greater emphasis on the role of the University in the region by adding a new division (Strategic Business, Education and Regional Partnerships) to the University's organizational structure and hired a vice president to lead this division. While only a few months into this new endeavor, we are seeing positive results and believe that this role will continue to grow and expand opportunities for students and faculty to provide benefit to the region and state. A recently completed study by the Wilder Foundation, estimates Minnesota State's economic impact on south central Minnesota at an estimated $377.13 million.

During the 2006-2007 academic year, the University completed its self-study for accreditation by the Higher Learning Commission of our first doctoral programs and will enroll students in the first two programs beginning fall 2007 – counselor education and supervision and nursing education.

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:

- We continue to make progress in enrolling underrepresented student populations. Our headcount has increased from 595 students in FY2005 to 940 students in FY2007. This is 7.2% of our total student population. In Fall 2006, we enrolled 259 new underrepresented students, an increase of 19% over the previous fall semester. Accepted applications for Fall semester 2007 were 236% higher than last year.

- Likewise the number of faculty and staff of color has increased from 96 to 117 during this same period. The Cabinet composed of 11 administrators includes 4 women and 3 persons of color.
- We signed new partnership agreements with universities in Ghana, Norway, Russia, Scotland, China, Austria, and South Korea. The College of Education developed an international education strategic plan and sent faculty to China, Thailand, Australia, and Russia to explore and establish partnerships.
- Our University is proud of the recognition it has received from the Office of the Chancellor receiving for the 6th straight year excellence in facilities management, our 7th award for excellence in financial reporting, an award in curriculum development, as well as an employee cited for outstanding service in the Finance Division and another named "MnSCU Administrator of the Year".
- The Center for Excellence in Teaching and Learning was featured in the April edition of the American Association of Colleges and Universities newsletter as a national model faculty center fostering innovation in the classroom and also received honors from the Carnegie Foundation.
- Minnesota State Mankato embraced the Employee Development Philosophy Statement for the Minnesota State Colleges and Universities System, and made outstanding progress in this area. Our professional development activities were organized through the Professional Development Committee and through their efforts (and that of the Center for Excellence in Teaching and Learning) we are creating a campus culture that is supportive of and actively involved in professional development at all levels.

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:

- The College of Business was named one of the nation's best business schools by *The Princeton Review*.
- Held a major campus-wide summit on enrollment management that identified short- medium and long-term goals.
- We received a $500,000 STEM grant for scholarships to address the need for ore diversity in the STEM areas.
- A new publication, *Frontiers*, was distributed by the College of Graduate Studies and Research to foster communication and awareness of scholarly activities. It joins our lauded *Today* and *Tomorrow* publications.

The University's financial statements were audited by LarsonAllen, 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. The financial statements show that the University's financial position remained stable during fiscal year 2007. The University's net assets increased during fiscal year 2007 by $12.5 million and now total $132.7 million. Additionally, the University's general operating fund reserve increased from $6.4 million to $7.6 million during fiscal year 2007. This reserve serves to protect the University in case of financial hardship from unanticipated changes in operating expenses, operating revenue, enrollment or state appropriation. For a summary review and explanation of the financial statements, please review the Management's Discussion and Analysis section of this report.

Responsibility for the accuracy, 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, 2007

- **President**
  Richard Davenport
  - **Assistant to the President**
    Carol Stallkamp
  - **Special Assistant to the President for Multicultural Relations**
    Michael Fagin
  - **Strategic Business, Education and Regional Partnerships**
    Robert Hoffman
    Vice President
  - **Finance & Administration**
    Richard J. Straka
    Vice President
  - **Human Resources**
    Lori Lamb
    Director
  - **Student Affairs**
    Patricia Swatfager-Haney
    Vice President
  - **Academic Affairs**
    Scott R. Olson
    Vice President and Provost
  - **Affirmative Action**
    Linda Duckett
    Interim Director
  - **University Advancement**
    David K. Williams
    Vice President
  - **Information Technology**
    Marilyn Delmont
    Vice President and Chief Information Officer

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

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 (the University), a campus of Minnesota State Colleges and Universities, as of and for the years ended June 30, 2007 and 2006, 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University, Mankato, as of June 30, 2007 and 2006, 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 November 1, 2007, 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.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
November 1, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Minnesota State University, Mankato, a member of the Minnesota State Colleges and Universities system, for the fiscal years ended June 30, 2007, 2006, and 2005. 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, with at least one from each of Minnesota's eight congressional districts. 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 105,000 alumni. The six colleges that comprise the University's academic programs are as follows.

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

The University offers students opportunities for bachelor's, master's, associate, and specialist degrees, as well as graduate certificates. Students can choose from nearly 160 undergraduate study programs, including 16 pre-professional programs, and over 80 graduate study programs. The University is accredited by 25 national accrediting agencies including the North Central Association of Colleges and AACSB International (MBA program).

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2007. Assets totaled $239.7 million compared to liabilities of $107.0 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 $103.0 million, restricted assets of $16.1 million, and unrestricted assets of $13.6 million. The fiscal year 2007 net assets total of $132.7 million represents an increase of $12.5 million over fiscal year 2006 and $21.4 million over fiscal year 2005. The fiscal year 2007 unrestricted net assets total of $13.6 million represents a 33.0 percent increase from the fiscal year 2006 total of $10.2 million and a 128.4 percent increase compared to the fiscal year 2005 total of $6.0 million.

In fiscal year 2007 state appropriations revenue, excluding capital appropriations, totaled $55.0 million and represents a 1.3 percent increase from fiscal year 2006 and a 10.3 percent increase from fiscal year 2005. Net tuition, auxiliary, and sales revenue in fiscal year 2007 reached $70.0 million which is a 5.1 percent increase over fiscal year 2006 and a 16.0 percent increase over fiscal year 2005.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the statements of net assets, the statements of revenues, expenses and changes in net assets, and the statements of cash flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements, including GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as amended by GASB Statement Nos. 35, 37, and 38. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into three net asset categories.

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 17 and 18 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, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net assets. A summary of the University's assets, liabilities and net assets as of June 30, 2007, 2006, and 2005, respectively, is as follows:

Statement of Net Assets
(In Thousands)

	2007	2006	2005
Assets			
Current assets	$ 63,656	$ 53,972	$ 46,610
Restricted assets	44,534	37,625	3,203
Noncurrent assets			
Student loan receivables/other	5,357	5,934	5,909
Capital assets, net	126,137	118,901	112,341
Total assets	239,684	216,432	168,063
Liabilities			
Current liabilities	32,990	24,159	22,148
Noncurrent liabilities	73,968	72,052	34,539
Total liabilities	106,958	96,211	56,687
Net Assets			
Invested in capital assets, net of related debt	102,976	98,307	94,065
Restricted	16,144	11,682	11,354
Unrestricted	13,606	10,232	5,957
Total net assets	$132,726	$120,221	$111,376

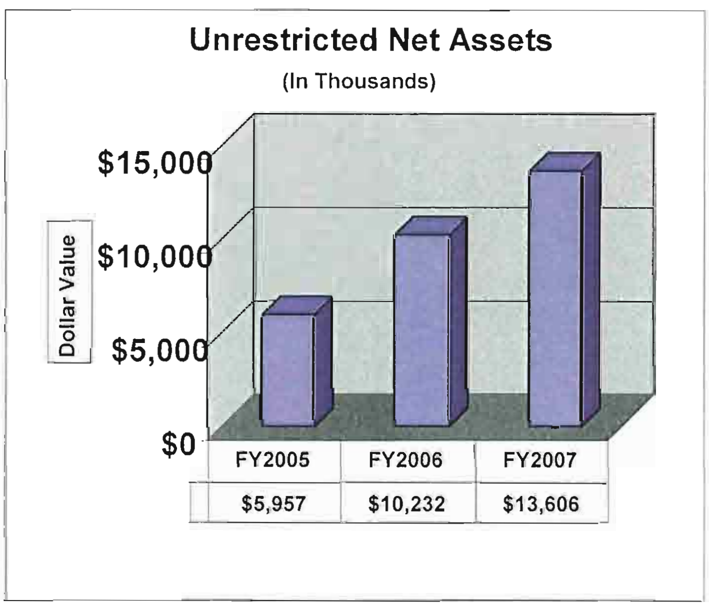
Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling \$52.4 million at June 30, 2007. This is an increase of \$7.7 million over fiscal year 2006 and represents approximately 4.2 months of operating expenses (excluding depreciation). This is compared to 3.8 months and 3.4 months for the fiscal years ended June 30, 2006 and 2005, respectively.

Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled \$10.9 million at June 30, 2007, an increase of \$.5 million over the prior year. This increase was caused primarily by a 2.4 percent salary increase provided to faculty, a 2.0 percent increase provided to classified employees, and the addition of approximately 45 FTE employees. Included within the salary payable accrual is \$5.9 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 21, 2006 – August 17, 2007. Accounts payable totaled \$10.5 million, \$4.5 million, and \$5.3 million for fiscal years ended June 30, 2007, 2006, and 2005 respectively. The \$.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. The \$6.0 million accounts payable increase from fiscal year 2006 to fiscal year 2007 was primarily caused by a significant increase in construction in progress activity related to the Sears Residential Hall and Trafton expansion capital projects.

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 budgetary basis of accounting, totaled \$7.6 million, \$6.4 million, and \$5.1 million for fiscal years ended June 30, 2007, 2006, and 2005, 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.

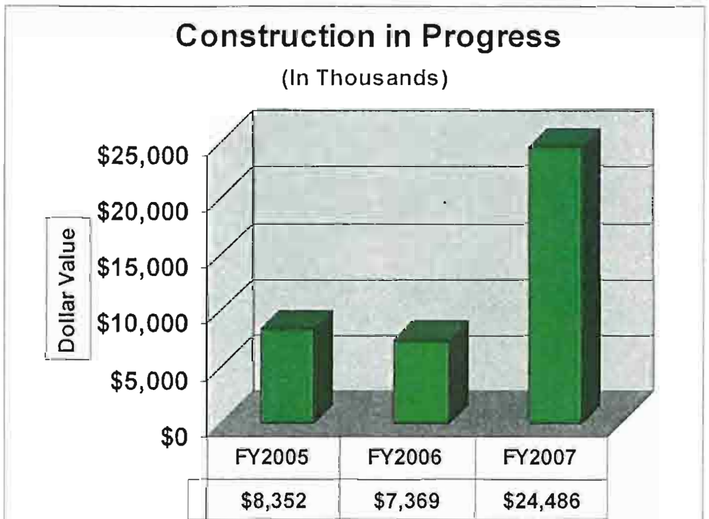
Restricted assets primarily include funding received for specific purposes, bond covenants, debt service, and funds reserved for legislatively mandated purposes.



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 $111.7 million, totaled $136.6 million as of June 30, 2007. This represents increases of $17.7 million and $24.2 million from fiscal years ended June 30, 2006, and 2005, 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 $26.4 million in fiscal year 2007, an increase of $11.5 million from fiscal year 2006. The increase is primarily due to the significant outlays for construction on the Sears Residential Hall and the Trafton expansion project. Proceeds from bond sales and capital appropriations provided to the University in prior years were the primary funding sources for these projects. Construction in progress totaled $24.5 million, $7.4 million, and $8.4 million for fiscal years ended June 30, 2007, 2006, and 2005 respectively. Capital appropriations totaled $7.7 million, $3.5 million, and $4.2 million for fiscal years ended June 30, 2007, 2006, and 2005, respectively.



Note: Figures above include restricted construction in progress.

Revenue and general obligation bonds payable totaled $55.0 million at June 30, 2007. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from two revenue fund projects. Of the bonds payable, $8.6 million relates to the Centennial Student Union south entrance and food service renovation project which was completed in fiscal year 2005, and $37.4 million of the bonds payable relates to a new residential hall suite project in which construction began in fiscal year 2006.

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

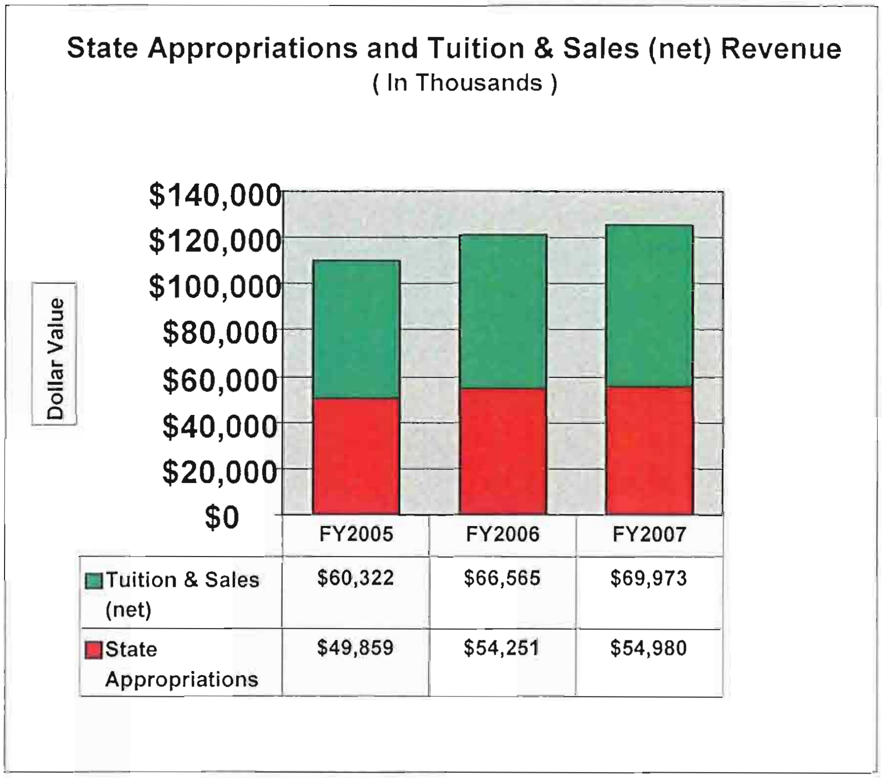
The statements of revenues, expenses and changes in net assets presents the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue. Summarized statements for the fiscal years ended June 30, 2007, 2006, and 2005, respectively, follow:

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

	2007	2006	2005
Operating revenues:			
Tuition, auxiliary and sales, net	$ 69,973	$ 66,565	$ 60,322
Restricted student payments, net	17,021	16,559	16,135
Federal grants	11,057	10,031	10,374
State grants	7,942	6,306	6,187
Other income	1,080	793	814
Total operating revenues	107,073	100,254	93,832
Nonoperating revenues:			
State appropriations	54,980	54,251	49,859
Private grants	1,607	1,317	1,522
Capital appropriations	7,738	3,480	4,228
Other	3,119	1,772	568
Total nonoperating revenue	67,444	60,820	56,177
Total revenue	174,517	161,074	150,009
Operating expenses:			
Salaries and benefits	110,973	105,142	100,474
Supplies and services	36,840	33,952	35,656
Depreciation	8,700	8,394	7,865
Financial aid, net	2,879	2,469	1,665
Total operating expense	159,392	149,957	145,660
Nonoperating expense:			
Loss on disposal of capital assets	59	79	66
Grants	—	—	144
Interest expense	2,561	2,193	468
Total nonoperating expense	2,620	2,272	678
Total expense	162,012	152,229	146,338
Increase in net assets	12,505	8,845	3,671
Net assets, beginning of year	120,221	111,376	107,705
Net assets, end of year	$132,726	$ 120,221	$ 111,376

Tuition and state appropriations are the primary sources of funding for University operations. While enrollment during fiscal year 2007 held fairly steady at 13,222 full-year equivalents, tuition revenue increased significantly in fiscal years 2007and 2006 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 7.0 percent from fiscal year 2005 to fiscal year 2006 and 9.0 percent from fiscal year 2006 to fiscal year 2007. State appropriations increased by $.7 million during fiscal year 2007 to $55.0 million representing a 1.3 percent increase and a 10.3 percent increase from fiscal years ending June 30, 2006, and 2005 respectively. Capital appropriations have fluctuated the past three fiscal years with the University receiving of $7.7 million, $3.5 million, and $4.2 million for the fiscal years ended June 30, 2007, 2006, and 2005, respectively.

Resources expended for employee compensation increased $5.8 million to $111.0 million for the fiscal year ended June 30, 2007. Faculty salary increases of approximately 2.4 percent, classified employee salary increases of approximately 2.0 percent, health insurance increases, the addition of approximately 45 employees, and promotional and step increases for some employees all contributed to the increase for the fiscal year ended June 30, 2007.



	FY2005	FY2006	FY2007
Tuition & Sales (net)	$60,322	$66,565	$69,973
State Appropriations	$49,859	$54,251	$54,980

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, management believes the University is positioned to continue its strong financial condition and level of excellence. However, the University may face challenges in four main areas including (1) maintaining adequate state appropriation support, (2) pressure to limit tuition rate increases, (3) pressure to keep faculty salary levels competitive with national peers, and (4) enrollment management.

In regards to the challenge of maintaining adequate state appropriation support, the University's fiscal year 2008 state appropriation is expected to be approximately 3.1 percent higher for normal operations than the state appropriation received in fiscal year 2007. Additionally, a similar state appropriation increase for fiscal year 2009 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.

The recent decline in national competitiveness of faculty compensation raises expectations that faculty compensation may increase at a rate higher than inflation for the near future in order to reach an appropriate national benchmark.

Enrollment management will become a challenge for the University as demographics project a significant decline in the number of high school graduates within the University's current primary service area over the next five years. 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 grow enrollments through fiscal year 2011. Currently, management anticipates enrollment growth of approximately 3.0 percent during fiscal year 2008. Management anticipates similar growth each year through 2011 due to enrollment management planning.

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 2009, 2010 and beyond.

REQUESTS FOR INFORMATION

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

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MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(IN THOUSANDS)

Assets	2007	2006
Current Assets		
Cash and cash equivalents	$ 48,199	$ 40,458
Investments	4,154	4,157
Grants receivable	646	508
Accounts receivable, net	3,566	3,959
Prepaid expense	944	631
Inventory	56	98
Student loans and other assets, net	1,891	1,479
Securities lending collateral	4,200	2,682
Total current assets	63,656	53,972
Current Restricted Assets		
Cash and cash equivalents	34,066	37,594
Total current restricted assets	34,066	37,594
Noncurrent Restricted Assets		
Other assets	29	31
Construction in progress	10,439	-
Total noncurrent restricted assets	10,468	31
Total restricted assets	44,534	37,625
Noncurrent Assets		
Student loans and other assets, net	5,357	5,934
Capital assets, net	126,137	118,901
Total noncurrent assets	131,494	124,835
Total Assets	239,684	216,432
Liabilities		
Current Liabilities		
Salaries payable	10,897	10,434
Accounts payable	6,193	4,545
Unearned revenue	3,184	2,909
Payable from restricted assets	4,257	-
Interest payable	549	554
Funds held for others	282	219
Current portion of long-term debt	1,352	1,181
Compensated absences/Early termination/Workers' compensation	2,076	1,635
Securities lending collateral	4,200	2,682
Total current liabilities	32,990	24,159
Noncurrent Liabilities		
Noncurrent portion of long-term debt	56,494	55,034
Compensated absences/Early termination/Workers' compensation	10,830	10,259
Capital contributions payable	6,644	6,759
Total noncurrent liabilities	73,968	72,052
Total Liabilities	106,958	96,211
Net Assets		
Invested in capital assets, net of related debt	102,976	98,307
Restricted expendable, bond covenants	9,403	7,882
Restricted expendable, other	6,741	3,800
Unrestricted	13,606	10,232
Total Net Assets	$ 132,726	$ 120,221

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006
(IN THOUSANDS)

	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	$ 101	$ 156
Investments	24,358	20,982
Pledges and contributions receivable, net	9,335	2,755
Other receivables	67	31
Total current assets	33,861	23,924
Noncurrent Assets		
Property and equipment, net	86	111
Total noncurrent assets	86	111
Total Assets	$ 33,947	$ 24,035
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 122	$ 145
Bonds payable	442	442
Total current liabilities	564	587
Noncurrent Liabilities		
Annuities payable	1,603	1,558
Bonds payable	1,590	2,032
Total noncurrent liabilities	3,193	3,590
Total Liabilities	3,757	4,177
Net Assets		
Unrestricted	9,625	7,665
Temporarily restricted	1,436	1,344
Permanently restricted	19,129	10,849
Total Net Assets	30,190	19,858
Total Liabilities and Net Assets	$ 33,947	$ 24,035

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, 2007 AND 2006
(IN THOUSANDS)

	2007	2006
Operating Revenues		
Tuition, auxiliary, and sales, net	$ 69,973	$ 66,565
Restricted student payments, net	17,021	16,559
Federal grants	11,057	10,031
State grants	7,942	6,306
Other income	1,080	793
Total operating revenues	107,073	100,254
Operating Expenses		
Salaries	110,973	105,142
Purchased services	18,185	15,876
Supplies	9,511	9,791
Repairs and maintenance	1,368	1,717
Depreciation	8,700	8,394
Financial aid, net	2,879	2,469
Other expense	7,776	6,568
Total operating expenses	159,392	149,957
Operating loss	(52,319)	(49,703)
Nonoperating Revenues (Expenses)		
Appropriations	54,980	54,251
Private grants	1,607	1,317
Interest income	2,759	1,744
Interest expense	(2,561)	(2,193)
Total nonoperating revenue (expenses)	56,785	55,119
Income Before Other Revenues, Expenses, Gains, or Losses	4,466	5,416
Capital appropriations	7,738	3,480
Donated assets and supplies	360	28
Loss on disposal of capital assets	(59)	(79)
Change in net assets	12,505	8,845
Total Net Assets, Beginning of Year	120,221	111,376
Total Net Assets, End of Year	$ 132,726	$ 120,221

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, 2007 AND 2006
(IN THOUSANDS)

	2007	2006
Support and Revenue		
Contributions	$ 10,433	$ 3,089
In-kind contributions	1,798	1,375
Investment income	623	378
Realized gains	2,311	1,141
Unrealized gains	114	39
Other income	217	149
Total support and revenue	15,496	6,171
Expenses		
Program Services		
Scholarships	2,936	2,420
Total program services	2,936	2,420
Supporting services		
Interest expense	114	137
Management and general	423	446
Fundraising expenses	1,661	1,503
Depreciation and amortization	25	25
Property and equipment expenses	5	-
Total supporting services	2,228	2,111
Total expenses	5,164	4,531
Change in Net Assets	10,332	1,640
Net Assets, Beginning of Year	19,858	18,218
Net Assets, End of Year	$ 30,190	$ 19,858

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(IN THOUSANDS)

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	$ 88,872	$ 85,733
Cash repayment of program loans	1,567	1,445
State grants	7,942	6,306
Federal grants	11,190	10,109
Cash paid to suppliers for goods or services	(39,415)	(35,655)
Cash payments to employees	(109,454)	(104,035)
Financial aid disbursements	(3,013)	(2,731)
Cash payments of program loans	(1,427)	(1,434)
Net cash flows used in operating activities	(43,738)	(40,262)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	54,980	54,251
Agency activity	63	(3)
Private grants	1,607	1,317
Net cash flows from noncapital financing activities	56,650	55,565
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(18,518)	(14,273)
Capital appropriation	7,318	3,480
Proceeds from sale of capital assets	-	21
Proceeds from issuance of debt	2,712	35,786
Proceeds from bond premium	192	1,699
Interest paid	(2,715)	(1,758)
Repayment of lease principal	(338)	(287)
Repayment of bond principal	(993)	(797)
Net cash flows from capital and related financing activities	(12,342)	23,871
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	100	-
Investment earnings	3,543	421
Net cash flows from investing activities	3,643	421
Net Increase in Cash and Cash Equivalents	4,213	39,595
Cash and Cash Equivalents, Beginning of Year	78,052	38,457
Cash and Cash Equivalents, End of Year	$ 82,265	$ 78,052

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(IN THOUSANDS)

	2007	2006
Operating Loss	$ (52,319)	$ (49,703)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	8,700	8,394
Provision for loan defaults	107	(6)
Loan principal repayments	1,567	1,445
Loans issued	(1,427)	(1,434)
Loans forgiven	31	70
Donated supplies	-	57
Change in assets and liabilities		
Inventory	42	(98)
Accounts receivable	(293)	233
Grants receivable	(138)	79
Accounts payable	(1,603)	(512)
Salaries payable	463	478
Compensated absences and early termination	758	776
Workers' compensation payable	253	(178)
Capital contributions payable	(115)	(11)
Unearned revenues	275	196
Other	(39)	(48)
Net reconciling items to be added to operating income	8,581	9,441
Net cash flows used in operating activities	$ (43,738)	$ (40,262)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 7,867	$ 696
Donated equipment	360	(28)
Fixed assets acquired through a capital lease	-	1,179
Loss on retirement of capital assets	(59)	(79)
Change in fair marker value of investment	97	(184)
Investment earnings on account	683	1,789
Amortization of bond premium	107	72

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation — The reporting policies of Minnesota State University, Mankato, a member of the Minnesota State Colleges and Universities system, conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The statements of net assets; statements of revenues, expenses, and changes in net assets; and statements of cash flows include financial activities of Minnesota State University, Mankato.

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

Discretely presented component units are legally separate organizations that raise and hold economic resources for the direct benefit of a college or university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Minnesota State University, Mankato Foundation, Inc. is considered significant to the University and is included as a discretely presented component unit and separately identified in Note 18. Complete financial statements may be obtained from the Minnesota State University, Mankato Foundation, Inc., Alumni Foundation Center, 1536 Warren Street, Mankato, MN 56001.

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories — Inventories are valued at cost using the first-in, first-out and 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 nonoperating revenues, including state appropriations, private grants and investment income.

Tuition, Auxiliary, and Sales — Tuition, auxiliary, and sales are presented net of scholarships. Sales are also net of cost of goods sold of $1,087,317 and $1,387,327 for fiscal years 2007 and 2006, 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 current year's presentation. These reclassifications had no effect on net assets previously reported. In the net assets section for fiscal year 2006, "Restricted expendable, other" decreased by $5,760,942 and "Restricted expendable, bond covenants" increased by $5,760,942.

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)

	2007	2006
Donations	$ 159	$ 146
Loans	769	782
Capital projects	3,654	1,101
Debt service	944	631
Faculty contract obligations	1,215	1,140
Total	$ 6,741	$ 3,800

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

New Accounting Pronouncements —In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). This statement requires employers to accrue the cost of postretirement medical plans while employees who will receive these benefits are providing services to the employer. GASB Statement No. 45 is effective for Minnesota State Colleges and Universities for the year ending June 30, 2008. The net OPEB obligation reported on the fiscal year 2008 financial statements will be $487,000.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2009. The effect GASB Statement No. 49 will have on the fiscal year 2009 basic financial statements has not yet been determined.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2010. The effect GASB Statement No. 51 will have on the fiscal year 2010 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, 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	2007	2006
Cash in bank	$ 3,195	$ 1,864
Money market	470	407
Cash treasury account	78,600	75,781
Total	$ 82,265	$ 78,052

At June 30, 2007 and 2006, the University's local bank balances were $4,058,885 and $2,549,579, 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 guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

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)

	2007		2006	
Investment Type	Fair Value	Weighted Maturities (Years)	Fair Value	Weighted Maturities (Years)
US agencies	$4,154	10.86	$ 4,157	11.86

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

During fiscal years 2007 and 2006, 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 to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal years 2007 or 2006. 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, 2007
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$534,886	$9,225,511
Collateral held	$545,458	$9,567,384
Average duration	80 days	N/A
Average weighted maturity	80 days	430 days

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	N/A
Average weighted maturity	87 days	463 days

During fiscal years 2007 and 2006, 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, 2007 and 2006, 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 $4,200,479 and $2,681,583 as of June 30, 2007 and 2006, respectively.

3. LOANS RECEIVABLE

Loans receivable balances primarily 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, 2007 and 2006, the total loans receivable were $7,125,149 and $7,295,209, respectively, less an allowance for uncollectible loans of $217,955 and $110,838, respectively.

4. ACCOUNTS RECEIVABLE

Summary of Accounts Receivable at June 30
(In Thousands)

	2007	2006
Tuition	$ 1,426	$ 1,582
Sales and services	1,001	792
Fees	451	455
Interest	620	1,727
Room and board	317	343
Third party obligations	109	86
Capital Projects	420	-
Other	381	134
Total accounts receivable	4,725	5,119
Less allowance for uncollectible accounts	(1,159)	(1,160)
Net accounts receivable	$ 3,566	$ 3,959

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2007 and 2006, the total accounts receivable balances for the University were $4,725,289 and $5,119,210, respectively, less an allowance for uncollectible receivables of $1,158,870 and $1,159,717, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

5. PREPAID EXPENSE

This consists of $944,232 and $630,693 for fiscal years 2007 and 2006, 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 2007 and 2006 follow:

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	7,368	22,719	—	(5,602)	24,485
Total capital assets, not depreciated	8,279	22,719	—	(5,602)	25,396
Capital assets, depreciated:					
Buildings and improvements	180,202	—	—	5,602	185,804
Equipment	26,468	2,543	749	—	28,262
Library collections	9,069	1,122	1,395	—	8,796
Total capital assets, depreciated	215,739	3,665	2,144	5,602	222,862
Less accumulated depreciation:					
Buildings and improvements	81,972	5,157	—	—	87,129
Equipment	17,948	2,287	740	—	19,495
Library collections	5,197	1,256	1,395	—	5,058
Total accumulated depreciation	105,117	8,700	2,135	—	111,682
Total capital assets, depreciated, net	110,622	(5,035)	9	5,602	111,180
Total capital assets, net	$ 118,901	$ 17,684	$ 9	$ —	$ 136,576

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	110,622
Total capital assets, net	$ 112,341	$ 6,514	$ (46)	$ —	$ 118,901

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 2007 and 2006 follow:

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
General obligation bonds	$ 6,203	$ 2,727	$ 469	$ 8,461	$ 602
Revenue bonds	44,853	—	374	44,479	394
Bond premium payable	1,951	192	107	2,036	—
Capital lease payable	3,208	—	338	2,870	356
Compensated absences	11,290	4,781	4,287	11,784	1,554
Early termination	348	507	242	613	369
Workers' compensation	256	490	237	509	153
Capital contributions	6,759	—	115	6,644	—
Totals	$ 74,868	$ 8,697	$ 6,169	$ 77,396	$ 3,428

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	—
Capital lease payable	2,317	1,178	287	3,208	338
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	—
Totals	$ 36,749	$ 42,801	$ 4,682	$ 74,868	$ 2,816

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. Revenue bonds currently outstanding have interest rates of 4.156 to 6.5 percent.

Bond Premium — In fiscal years 2007 and 2006, general obligation bonds were issued resulting in premiums of $192,815 and $58,663, 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.

Capital Leases — Leases that meet the criteria of FASB Statement No.13, *Accounting for Leases*. See Note 9 for details.

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 $508,927 and $255,933 at June 30, 2007 and 2006, 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 $6,643,704 and $6,758,801 at June 30, 2007 and 2006, 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.

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
2008	$ 602	$ 413	$ 356	132	$ 394	$ 2,187
2009	602	383	375	113	1,215	2,153
2010	603	352	395	94	1,270	2,102
2011	543	323	186	77	1,324	2,047
2012	544	296	149	70	1,379	1,990
2013-2017	2,280	1,119	860	234	7,917	8,909
2018-2022	2,077	575	549	34	10,040	6,617
2023-2027	1,210	130	—	—	8,735	4,092
2028-2032	—	—	—	—	9,920	1,859
2033-2034	—	—	—	—	2,285	57
Total	$ 8,461	$ 3,591	$ 2,870	$ 754	$ 44,479	$ 32,013

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)

	2007	2006
Purchased services	$ 860	$ 1,144
Financial aid	1	20
Supplies	613	1,060
Repairs and maintenance	147	834
Capital projects	3,610	696
Salaries	368	322
Inventory	34	299
Library Materials	14	—
Equipment	323	—
Other	223	170
Total	$ 6,193	$ 4,545

In addition to the accounts payable noted in the above table, the University also had $4,256,659 of restricted accounts payable as of June 30, 2007. Restricted accounts payable relates to the outlays for the construction of the new Sears Residence Hall which is being funded by revenue fund bond proceeds.

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, 2007 and 2006, totaled approximately $663,947 and $654,190, respectively. Future minimum lease payments for existing lease agreements are as follows.

Year ended June 30
(In Thousands)

Fiscal Year	Amount
2008	$ 634
2009	172
2010	15
2011	15
2012	2
Total	$ 838

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, 2007 and 2006, totaled $243,632 and $255,607, 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
2008	$ 218
2009	164
2010	154
2011	134
2012	37
2013-2017	127
2018-2022	51
Total	$ 885

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)		
	2007	2006
Tuition	$ 69,313	$ 64,178
Fees	7,919	7,819
Sales, net	8,401	7,582
Restricted student payments	17,492	16,844
Subtotal	103,125	96,423
Less scholarship allowance	(16,131)	(13,299)
Net tuition, auxiliary and sales	$ 86,994	$ 83,124

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2007 (In Thousands)			
Description	Salaries	Other	Total
Instruction	$ 54,879	$ 2,801	$ 57,680
Research	1,453	1,519	2,972
Public service	1,028	489	1,517
Academic support	15,778	6,731	22,509
Student services	14,546	6,144	20,690
Institutional support	9,779	4,843	14,622
Operation & maintenance of plant	6,433	6,792	13,225
Depreciation	—	8,700	8,700
Scholarships & fellowships	—	2,879	2,879
Auxiliary enterprises	7,077	7,521	14,598
Total operating expenses	$ 110,973	$ 48,419	$ 159,392

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

Description	Salaries	Other	Total
Instruction	$ 54,665	$ 3,113	$ 57,778
Research	889	903	1,792
Public service	701	367	1,068
Academic support	13,961	6,206	20,167
Student services	13,364	6,018	19,382
Institutional support	8,566	4,313	12,879
Operation & maintenance of plant	6,250	4,962	11,212
Depreciation	—	8,394	8,394
Scholarships & fellowships	—	2,469	2,469
Auxiliary enterprises	6,746	8,070	14,816
Total operating expenses	$ 105,142	$ 44,815	$ 149,957

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.

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 percent and 1.7 percent of the members' average salary, which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. 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
2007	$ 873
2006	767
2005	784

Teachers Retirement Fund (TRF)

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

The TRF is a cost sharing, multiple employer defined benefit plan. Teachers and other related professionals may participate in TRF. Normal retirement age is 65. Coordinated membership includes participants who are covered by the Social Security Act. The annuity formula is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for coordinated members are 1.2 percent and 1.7 percent. 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 were 5 percent for both employer and employee. Effective July 1, 2006 the funding requirements for employees increased to 5.5 percent. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	$ 667	$ 728
2006	574	574
2005	632	632

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 Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437

Individual Retirement Account Plan (IRAP)

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

Contributions — There are two member groups participating in the IRAP: a faculty group and an administrators group. For both faculty and administrators, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively.

The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Required contributions for Minnesota State University, Mankato were:

(In Thousands)		
Fiscal Year	Employer	Employee
2007	$ 2,557	$ 1,881
2006	2,073	1,556
2005	2,107	1,568

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
2007	$ 1,337
2006	1,105
2005	1,165

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 years 2007 and 2006 follow.

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2007	18	$613
2006	14	$348

14. RISK MANAGEMENT

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

Automobile liability coverage is required by the state and is provided by the Minnesota Risk Management Fund. The University purchased optional physical damage coverage for all vehicles.

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also selected professional liability insurance for employed physicians and student health services professional liability insurance. 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 $1,500,000
Primary re insurer coverage	$1,500,001 to $12,000,000
Multiple re insurers' coverage	$12,000,001 to $500,000,000
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, 2007 and 2006.

(In Thousands)	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/07	$ 256	$ 490	$ 237	$ 509
Fiscal Year Ended 6/30/06	$ 434	$ 52	$ 230	$ 256

15. COMMITMENTS

During fiscal year 2007, construction began on the $32.9 million Trafton Science Center addition and the $34.3 million Sears Residential Hall. As of June 30, 2007, $10.0 million had been expended for the Trafton Science Center addition and $10.4 million had been expended on the Sears Residential Hall. The Trafton Science Center addition is expected to be completed in October 2008, and the Sears Residential Hall is expected to be completed in June 2008.

New Commitments made by the University during fiscal year 2007 include multiple building improvement projects, infrastructure improvements, and a building addition project. New commitments for building improvement projects, worth approximately $2.2 million, are for projects such as elevator replacements, office and lab renovations, and athletic field improvements. Most of these building improvement projects are expected to be completed during fiscal year 2008. The primary infrastructure improvement commitment made during fiscal year 2007 was for paving a gravel parking lot. Paving of the parking lot was completed in the summer 2007 at a cost of $.2 million. The primary building addition commitment made during fiscal year 2007 was for the printing and plumbing shop expansion project in Wiecking Center. The printing and plumbing expansion project was also completed in summer 2007 at a cost of $.4 million.

16. SEGMENT INFORMATION

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

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

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

	2007	2006
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 14,978	$ 12,207
Current restricted assets	32,312	37,594
Non current capital assets, net	30,144	30,545
Non current restricted assets	10,466	31
Total assets	87,900	80,377
Liabilities:		
Current liabilities	10,098	4,435
Non current liabilities	45,936	46,383
Total liabilities	56,034	50,818
Net Assets:		
Invested in capital assets, net of related debt	18,810	20,576
Restricted	13,056	8,983
Total net assets	$ 31,866	$ 29,559
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 17,537	$ 16,918
Operating expenses	15,330	14,028
Net operating income	2,207	2,890
Non operating revenues (expenses)	152	(153)
Gain (loss) on disposal of capital assets	(52)	4
Change in net assets	2,307	2,741
Net assets - beginning of year	29,559	26,818
Net assets - end of year	$ 31,866	$ 29,559
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 5,353	$ 3,436
Investing activities	2,008	1,589
Capital and related financing activities	(9,972)	30,804
Net increase (decrease)	(2,611)	35,829
Cash – beginning of year	45,704	9,875
Cash – end of year	$ 43,093	$ 45,704

17. RELATED PARTY TRANSACTIONS

The University has an agreement with the Minnesota State University, Mankato Foundation whereby the University has agreed to furnish services for the operation of the Foundation. The values of such services are estimated at $1,266,041 and $1,178,939 for fiscal years 2007 and 2006, respectively, and are included in the University's expenses.

During fiscal years 2007 and 2006, the foundation expended $2,936,281 and $2,419,934, respectively, for University educational program purposes. Approximately $1,124,451 and $1,028,348 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2007 and 2006, respectively. In addition to providing the University with supplemental funds for current operations, the Foundation's total assets increased by $9,911,478 and $1,139,878 for fiscal years 2007 and 2006, respectively.

An estimated $931,023 and $789,766 of revenues and expenditures in fiscal years 2007 and 2006, 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.

18. COMPONENT UNITS

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

The Minnesota State University, Mankato Foundation, Inc. is a separate legal entity formed for the purpose of obtaining and disbursing funds for the sole benefit of the University. The University does not appoint any members of the board and the resources held by the Foundation can only be used by, or for, the benefit of the University. The Foundation's relationship with the institution is such that exclusion of the Foundation's financial statements would cause the University financial statements to be misleading or incomplete.

The Foundation is considered a component unit of the University and their statements are discretely presented in the University's financial statements.

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board Statement No. 117. Net assets, which are classified on the existence or absence of donor imposed restrictions, are classified and reported according to the following classes:

- *Unrestricted*: Net assets that are not subject to donor imposed stipulations.
- *Temporarily Restricted*: Net assets 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	2007	2006
Equity Mutual Funds	$ 12,744	$ 9,962
Fixed Income Mutual Funds	5,980	497
Balanced Investment Mutual Fund	2,290	262
Money Market Funds	968	698
Equity Securities	160	5,600
Fixed Income Securities	211	3,800
Real Estate Shares and Units	1,854	53
Life Insurance Contracts	110	99
Other investments	41	11
Total investments	$ 24,358	$20,982

Long-Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $2,032,000. Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2008	$ 442
2009	442
2010	432
2011	245
2012	245
Thereafter	226
Total	$ 2,032

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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 (the University) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not detect any items which we would consider to be material weaknesses in internal control over financial reporting.

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.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
November 1, 2007

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