MINNESOTA STATE UNIVERSITY
MANKATO

Annual Financial Report

For the Years Ended
June 30, 2008 and 2007

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, 2008 and 2007

Prepared by:

Minnesota State University, Mankato
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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

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INTRODUCTION

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MINNESOTA STATE UNIVERSITY
MANKATO

October 27, 2008

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

Dear Members of the Board and 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, 2008. 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 140th year, Minnesota State Mankato today serves approximately 14,500 students. Our student body includes nearly 500 international students from 66 countries. Our six academic colleges—Allied Health and Nursing; Arts and Humanities; Business; Education; Science, Engineering and Technology; and Social and Behavioral Sciences—feature 123 undergraduate programs of study and 66 graduate programs. The University employs more than 1,600 faculty and staff (504 full-time instructional faculty, 81 percent with terminal degrees). Minnesota State Mankato is accredited by The Higher Learning Commission (North Central Association of Colleges and Schools) and additionally, twenty-five national accrediting agencies have accredited programs at Minnesota State Mankato. Our alumni number over 100,000 worldwide. And, during the 2007-2008 academic year, the University awarded 2,640 degrees.

Minnesota State Mankato offers bachelor's, master's, applied doctorate, associate, and specialist degrees, as well as graduate certificates. Beginning with the academic year 2007-2008, the University enrolled 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, technical communication, and graduate programs in rehabilitation services, industrial/organizational psychology, creative writing and speech communication. Our most popular programs are nursing, elementary education, business management, biology, and law enforcement.

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

Minnesota State 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 International Renewable Energy Technology Institute.

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 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. 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 Community and Technical College) are leading 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 2007-2008, including two students and one administrator participating in the Fulbright Scholar program.

During the 2007-2008 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. Maverick Athletics enjoyed an unprecedented level of success this year, including a third place finish in the national Director's Cup standings, the school's best finish ever and a ranking which places us within the top 1% of all the 290 NCAA Division II schools. In March 2008, Minnesota State Mankato was the site of the prestigious NCAA Division II Indoor Track and Field National Championships where we showcased our outstanding facilities. As the school year ended, our outstanding teams closed the door on competition in the North Central Conference in fine style, capturing six conference championships, and a sweep of the Men's All-Sport, Women's All-Sport, and North Central Conference Cup trophies. Nearly 200 athletes are on the Dean's list and the GPA of athletes is slightly higher than the overall student body. And, graduation rates for athletes are at 67 percent, which is 20 percent higher than our overall student body. We are proud of our Maverick athletes, coaches, and staff. In Fall 2008, we begin play in the Northern Sun Intercollegiate Conference and look forward to establishing new traditions and competitive rivalries.

Campus facilities are a particular point of pride for Minnesota State Mankato. Construction nears completion on a $35.7 million addition to Trafton Science Center (Leonard A. Ford Hall) and the $31.8 million Julia A. Sears Residence Hall opened in August 2008. 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, 2008, total foundation support was $12,358,843 – the second highest year in our history. Additionally, we received over $6 million in grants and contracts.

Minnesota State Mankato strives to be a good neighbor and community partner, serving as a regional economic and cultural hub in south central Minnesota. 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, Minnesota State University 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 division (Strategic Business, Education and Regional Partnerships) to the University's organizational structure. We have seen many 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 2007-2008 academic year, the University welcomed our first doctoral students two new programs—Doctor of Nursing Practice and the Doctor of Education in Counselor Education and Supervision. This past June, the Higher Learning Commission approved our new Doctor of Psychology in School Psychology and we will enroll our first students in the program this fall. In addition, our Masters of Social Work (first in the System) has large enrollments and our Master of Business Administration program was fully accredited by the AACSB (Association to Advance Collegiate Schools of Business).

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 1,070 students in FY2008. This is 7.9% of our total student population.
- Likewise the number of faculty and staff of color has increased from 96 to 135 during this same period. The President's Cabinet is composed of 11 administrators and includes 4 women and 3 persons of color.
- Following our campus shared governance principles, a new College of Extended Learning was approved. This college is an important step for our University in meeting the needs of adult, non-traditional and diverse students who are unable to enroll in classes on our residential campus. With the beginning of the academic year 2008-2009, we welcomed our first students at 7700 France, a new center in the southern Metro area where we are collaborating with Normandale Community College to bring programs to students.
- We signed new partnership agreements with universities in India, Ghana, Norway, Russia, Sweden, China, the Netherlands, and South Korea. The number of students studying abroad increase by 15% --a total of 320 students studied abroad during the 2007-2008 academic year.
- Our University is proud of the recognition it has received from the Office of the Chancellor receiving awards for excellence in facilities management, excellence in financial management, and best curriculum innovation, best student affairs programming and an administrator recognized as the "MnSCU Administrator of the Year".
- 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.

- The Minnesota Corn Growers Association and Minnesota Corn Research & Promotion Council gave a $250,000 grant for a new, Environmental Protection Agency-certified auto emissions laboratory in the Automotive & Manufacturing Engineering Technology Department.
- The Minnesota Center for Renewable Energy – a partnership between Minnesota State Mankato and Minnesota West Community and Technical College -- received $500,000 in funding from the 2008 Federal Omnibus Appropriation bill.
- Minnesota State Mankato hosted the LabMan 2008 conference. Over 200 people attended this national technology conference for educational computer lab managers.
- Minnesota State Mankato was named one of three U.S. academic partners in a new International Renewable Energy Technology Institute to facilitate exchange of ideas and technology between Sweden and the United States.
- The Anthropology Department received $100,000 from the Prairie Island Community Tribal Council to support Native American archeology teaching and field work.

The University's financial statements were audited by Kern DeWenter Viere, Ltd. 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 improved during fiscal year 2008. The University's net assets increased during fiscal year 2008 by $17.4 million and now total $150.1 million. Additionally, the University's general operating fund reserve increased from $7.6 million to $8.9 million during fiscal year 2008. 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

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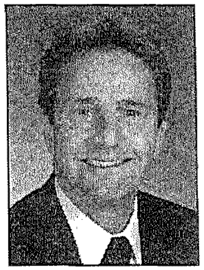

Richard Davenport

University Administration Organization

Minnesota State University, Mankato

August 11, 2008

President
Richard Davenport

- **Assistant to the President**
  Carol Stallkamp
- **Strategic Business, Education and Regional Partnerships**
  Robert Hoffman
  Vice President
- **Institutional Diversity**
  Michael Fagin
  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 Hanson
  Director
- **University Advancement**
  Douglas Mayo
  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

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*Expert advice. When you need it.*SM

INDEPENDENT AUDITOR'S REPORT

October 27, 2008

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

We have audited the accompanying financial statements of Minnesota State University, Mankato, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Minnesota State University, Mankato Foundation Inc., a component unit of the University, which statements reflect total assets of $ 41,134,160 at June 30, 2008, and total revenues of $ 13,325,979 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. The financial statements of the Minnesota State University, Mankato, as of June 30, 2007, were audited by other auditors whose report dated November 1, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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. The financial statements of Minnesota State University, Mankato Foundation Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University, Mankato, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, Minnesota State University, Mankato has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* as of July 1, 2007.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, 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 and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplemental 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 supplemental 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 of the University. The accompanying introductory section identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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, 2008, 2007, and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Minnesota State University, Mankato is one of 32 colleges and universities comprising Minnesota State Colleges and Universities. The Minnesota State Colleges and Universities system is governed by a 15 member Board of Trustees appointed by the governor. Twelve trustees serve six-year terms, eight representing each of Minnesota's congressional districts and four serving at-large. Three student trustees, one from a state university, one from a community college, and one from a technical college, serve two-year terms. The Board of Trustees selects the Chancellor and has broad policy responsibility for system planning, academic programs, fiscal management, personnel, admissions requirements, tuition and fees, and policies and procedures.

The University is a comprehensive public institution of higher learning with approximately 14,500 students including 1,700 graduate and professional students. Approximately 1,800 faculty and staff members are employed by the University. Additionally, the University has approximately 100,000 alumni.

The eight colleges that comprise the University's academic programs are as follows.

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

The University offers students opportunities for bachelor's, master's, applied doctorate, associate, and specialist degrees, as well as graduate certificates. Students can choose from over 150 undergraduate study programs, including 16 pre-professional programs, over 100 graduate study programs, and 3 applied doctorate degree 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 improved during fiscal year 2008. Assets totaled $257.4 million compared to liabilities of $107.3 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, is comprised of capital assets, net of related debt, of $113.0 million; restricted assets of $20.0 million; and unrestricted assets of $17.1 million. The fiscal year 2008 net assets total of $150.1 million represents an increase of $17.4 million over fiscal year 2007 and $29.9 million over fiscal year 2006. The fiscal year 2008 unrestricted net assets total of $17.1 million represents a 25.7 percent increase from the fiscal year 2007 total of $13.6 million and a 67.7 percent increase compared to the fiscal year 2006 total of $10.2 million.

Fiscal year 2008 state appropriations revenue, excluding capital appropriations, totaled $59.4 million and represents an 8.1 percent increase from fiscal year 2007 and a 9.6 percent increase from fiscal year 2006. Net tuition, auxiliary, and sales revenue in fiscal year 2008 reached $74.2 million which is a 6.0 percent increase over fiscal year 2007 and an 11.5 percent increase over fiscal year 2006.

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 19 and 20 to the financial statements.

STATEMENTS OF NET ASSETS

The statements of net assets presents the financial position of Minnesota State University, Mankato at the end of the fiscal year and includes all assets and liabilities of the University, as measured using the accrual basis of accounting. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the statement of revenues, expenses and changes in net assets. A summary of the University's assets, liabilities and net assets as of June 30, 2008, 2007, and 2006, respectively, is as follows:

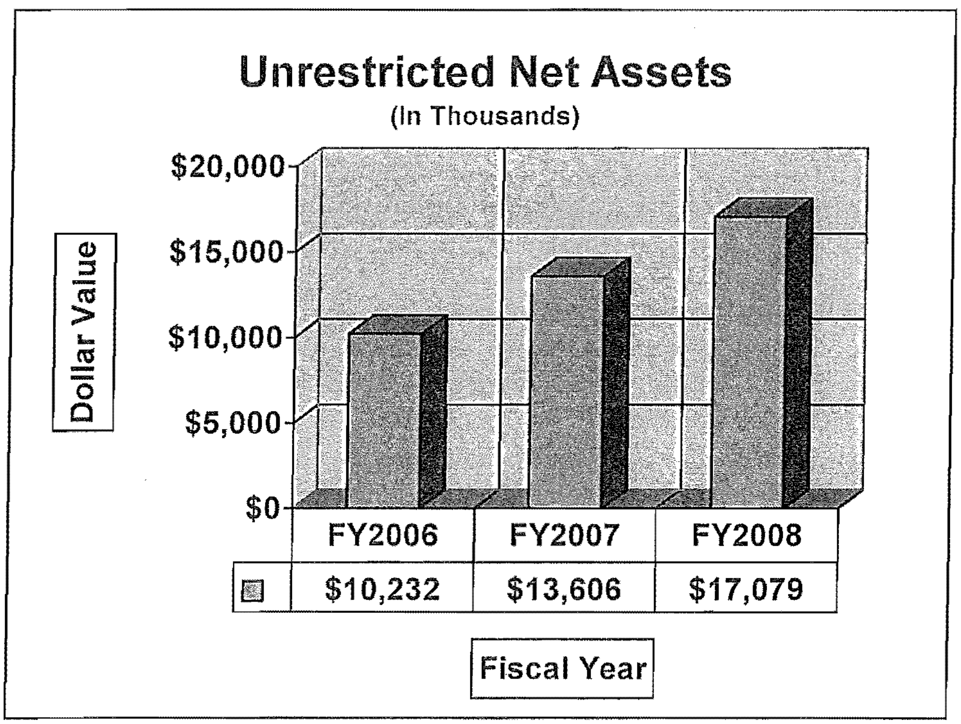
Statements of Net Assets
(In Thousands)

	2008	2007	2006
Assets			
Current assets	$ 67,395	$ 63,656	$ 53,972
Restricted assets	43,506	44,534	37,625
Noncurrent assets			
Student loan receivables/other	6,367	5,357	5,934
Capital assets, net	140,083	126,137	118,901
Total assets	257,351	239,684	216,432
Liabilities			
Current liabilities	29,200	32,990	24,159
Noncurrent liabilities	78,070	73,968	72,052
Total liabilities	107,270	106,958	96,211
Net Assets			
Invested in capital assets, net of related debt	112,953	102,976	98,307
Restricted	20,049	16,144	11,682
Unrestricted	17,079	13,606	10,232
Total net assets	$ 150,081	$ 132,726	$ 120,221

Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $60.2 million at June 30, 2008. This is an increase of $7.9 million over fiscal year 2007 and represents approximately 4.5 months of operating expenses (excluding depreciation). This is compared to 4.2 months and 3.8 months for the fiscal years ended June 30, 2007 and 2006, respectively.

Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled $12.4 million at June 30, 2008, an increase of $1.5 million over the prior year. This increase was caused primarily by a 2.4 percent salary increase provided to faculty, a 3.3 percent increase provided to classified employees, and the addition of approximately 31 FTE employees. Other factors contributing to the increase in salaries payable stemmed from $.5 million in back pay from a late MSUASSF employee bargaining unit settlement, and having one more payroll accrual day in FY2008 as compared to FY2007. Included within the salary payable accrual is $6.3 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 20, 2007 – August 15, 2008. Accounts payable totaled $7.5 million, $10.5 million, and $4.5 million for fiscal years ended June 30, 2008, 2007, and 2006 respectively. The $5.9 million accounts payable increase from FY2006 to FY2007 was primarily caused by a significant increase in construction in progress activity related to the Sears Residential Hall and the Ford Hall capital projects. The $2.9 million accounts payable decrease from FY2007 to FY2008 was primarily caused by decreased construction in progress activity related to 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 $8.9 million, $7.6 million, and $6.4 million for fiscal years ended June 30, 2008, 2007, and 2006, respectively. The unrestricted net asset balance for the fiscal year ended June 30, 2008 contains approximately $1.3 million that was set aside to cover a timing difference between inflation funding and inflation outlays associated with the settlement of the faculty contract covering the fiscal years ended June 30, 2008, and 2009.

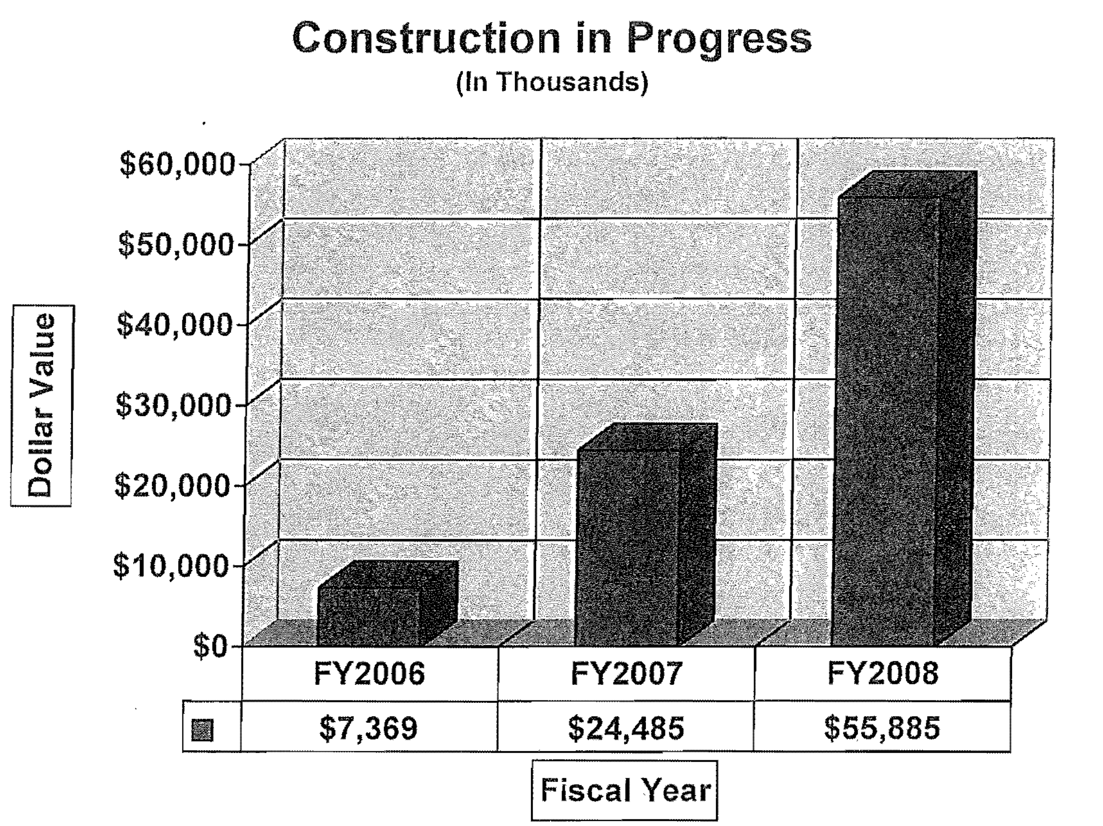


Invested in capital assets, net of related debt represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Restricted assets primarily include funding received for 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 $118.2 million, totaled $168.9 million as of June 30, 2008. This represents increases of $32.4 million and $50.0 million from June 30, 2007, and 2006, 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 $40.9 million in fiscal year 2008, an increase of $14.5 million from fiscal year 2007. The increase is primarily due to the significant outlays for the construction of Sears Residential Hall and Ford Hall. 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 $55.9 million, $24.5 million, and $7.4 million for fiscal years ended June 30, 2008, 2007, and 2006, respectively. Capital appropriations totaled $11.8 million, $7.7 million, and $3.5 million for fiscal years ended June 30, 2008, 2007, and 2006, respectively.



Note: Figures above include restricted construction in progress.

Revenue and general obligation bonds payable totaled $59.4 million at June 30, 2008. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from three revenue fund projects. $1.0 million of the bonds payable relates to various residence hall renovation projects completed in FY2003. $8.2 million of the bonds payable relates to the Centennial Student Union south entrance and food service renovation project which was completed in fiscal year 2005. $36.3 million of the bonds payable relates to the Sears Residential Hall 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 present the University's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of state appropriations as nonoperating revenue. A summarized statement for the years ended June 30, 2008, 2007, and 2006, respectively, follows:

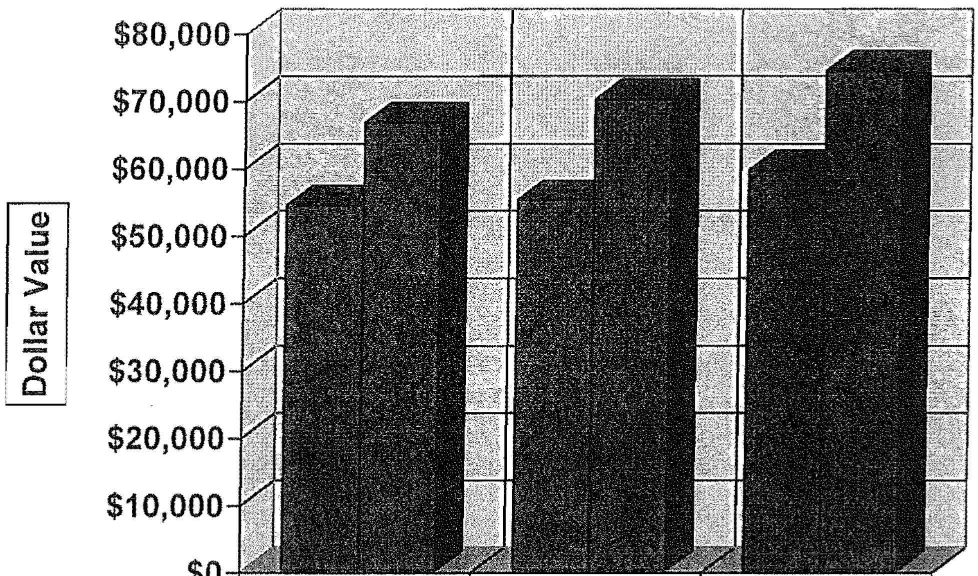
Summarized Statements of Revenues, Expenses, and Changes in Net Assets
(In Thousands)

	2008	2007	2006
Operating revenues:			
Tuition, auxiliary and sales, net	$ 74,194	$ 69,973	$ 66,565
Restricted student payments, net	18,912	17,021	16,559
Federal grants	12,355	11,057	10,031
State grants	7,702	7,942	6,306
Other income	1,072	1,080	793
Total operating revenues	114,235	107,073	100,254
Nonoperating revenues:			
State appropriations	59,435	54,980	54,251
Private grants	1,487	1,607	1,317
Capital appropriations	11,812	7,738	3,480
Other	2,475	3,119	1,772
Total nonoperating revenue	75,209	67,444	60,820
Total revenue	189,444	174,517	161,074
Operating expenses:			
Salaries and benefits	118,062	110,973	105,142
Supplies and services	39,906	36,840	33,952
Depreciation	8,716	8,700	8,394
Financial aid, net	3,034	2,879	2,469
Total operating expense	169,718	159,392	149,957
Nonoperating expense:			
Loss on disposal of capital assets	31	59	79
Grants to other organizations	29	—	—
Interest expense	2,311	2,561	2,193
Total nonoperating expense	2,371	2,620	2,272
Total expense	172,089	162,012	152,229
Increase in net assets	17,355	12,505	8,845
Net assets, beginning of year, as restated	132,726	120,221	111,376
Net assets, end of year	$ 150,081	$ 132,726	$ 120,221

Tuition and state appropriations are the primary sources of funding for University operations. Enrollment grew by 402 full-year equivalents (FYE) from fiscal year 2007 to fiscal year 2008 which represents a 3% increase. Enrollment levels totaled 13,624 FYE, 13,222 FYE, and 13,343 FYE for fiscal years ended June 30, 2008, 2007, and 2006, respectively. In addition to the enrollment increase seen during fiscal year 2008, tuition revenue also increased in fiscal years 2008and 2007 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 9.0 percent from fiscal year 2006 to fiscal year 2007 and 4.0 percent from fiscal year 2007 to fiscal year 2008. State appropriations increased by $4.5 million during fiscal year 2008 to $59.4 million representing an 8.1 percent increase and a 9.6 percent increase from fiscal years ending June 30, 2007, and 2006 respectively. Capital appropriations have fluctuated the past three fiscal years with the University receiving of $11.8 million, $7.7 million, and $3.5 million for the fiscal years ended June 30, 2008, 2007, and 2006, respectively.

Resources expended for employee compensation increased $7.1 million to $118.1 million for the fiscal year ended June 30, 2008. Faculty salary increases of approximately 2.4 percent, classified employee salary increases of approximately 3.3 percent, health insurance increases, the addition of approximately 31 employees, and promotional and step increases for some employees all contributed to the increase for the fiscal year ended June 30, 2008.

State Appropriations and Tuition & Sales (net) Revenue
(In Thousands)



	FY2006	FY2007	FY2008
State Appropriations	$54,251	$54,980	$59,435
Tuition & Sales (net)	$66,565	$69,973	$74,194

Fiscal Year

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 five main areas including (1) maintaining adequate state appropriation support in a challenging state budget environment and a world-wide economic downturn, (2) pressure to limit tuition rate increases, (3) pressure to keep faculty salary levels competitive with national peers, (4) enrollment management, and (5) losses in world financial markets may limit or preclude the ability of the University's foundation to distribute endowment earnings in upcoming years.

In regards to the challenge of maintaining adequate state appropriation support, the University's fiscal year 2009 state appropriation is expected to be approximately 2.8 percent higher for normal operations than the state appropriation received in fiscal year 2008. Additionally, the State of Minnesota is currently projecting a $2 billion deficit for the 2010-2011 biennium. This deficit may limit increases in state appropriation revenue or may lead to decreased state appropriation revenue for the University.

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 .6 percent during fiscal year 2009. Management anticipates similar or slightly larger enrollment growth each year through 2011 due to enrollment management planning.

Significant losses in world financial markets may limit or preclude the ability of the University's foundation to distribute endowment earnings in upcoming years. This could drastically affect University scholarship programs.

In summary, these factors, along with increasing costs for compensation, purchased services, and supplies, may result in significant financial challenges for the University in fiscal years 2010, 2011 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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Comptroller
Minnesota State University, Mankato
236 Wigley Administration Center
Mankato, MN 56001
steven.smith@mnsu.edu

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 54,623	$ 48,199
Investments	5,617	4,154
Grants receivable	590	646
Accounts receivable, net	3,015	3,566
Prepaid expense	1,276	944
Inventory	97	56
Student loans and other assets, net	1,516	1,891
Securities lending collateral	661	4,200
Total current assets	67,395	63,656
Current Restricted Assets		
Cash and cash equivalents	14,617	34,066
Total current restricted assets	14,617	34,066
Noncurrent Restricted Assets		
Other assets	27	29
Construction in progress	28,862	10,439
Total noncurrent restricted assets	28,889	10,468
Total restricted assets	43,506	44,534
Noncurrent Assets		
Student loans and other assets, net	6,367	5,357
Capital assets, net	140,083	126,137
Total noncurrent assets	146,450	131,494
Total Assets	257,351	239,684
Liabilities		
Current Liabilities		
Salaries payable	12,435	10,897
Accounts payable	5,202	6,193
Unearned revenue	3,161	3,184
Payable from restricted assets	2,307	4,257
Interest payable	544	549
Funds held for others	331	282
Current portion of long-term debt	2,408	1,352
Other compensation benefits	2,151	2,076
Securities lending collateral	661	4,200
Total current liabilities	29,200	32,990
Noncurrent Liabilities		
Noncurrent portion of long-term debt	59,548	56,494
Other compensation benefits	11,957	10,830
Capital contributions payable	6,565	6,644
Total noncurrent liabilities	78,070	73,968
Total Liabilities	107,270	106,958
Net Assets		
Invested in capital assets, net of related debt	112,953	102,976
Restricted expendable, bond covenants	12,488	9,403
Restricted expendable, other	7,561	6,741
Unrestricted	17,079	13,606
Total Net Assets	$ 150,081	$ 132,726

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 154	$ 101
Investments	35,739	24,358
Pledges and contributions receivable, net	2,965	7,787
Other receivables	56	67
Total current assets	38,914	32,313
Noncurrent Assets		
Long-Term Pledges Receivable	1,384	1,548
Property and equipment, net	836	86
Total noncurrent assets	2,220	1,634
Total Assets	$ 41,134	$ 33,947
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 181	$ 122
Bonds payable	442	442
Total current liabilities	623	564
Noncurrent Liabilities		
Annuities payable	1,521	1,603
Bonds payable	1,148	1,590
Total noncurrent liabilities	2,669	3,193
Total Liabilities	3,292	3,757
Net Assets		
Unrestricted	8,865	9,625
Temporarily restricted	1,514	1,436
Permanently restricted	27,463	19,129
Total Net Assets	37,842	30,190
Total Liabilities and Net Assets	$ 41,134	$ 33,947

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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Revenues		
Tuition, auxiliary, and sales, net	$ 74,194	$ 69,973
Restricted student payments, net	18,912	17,021
Federal grants	12,355	11,057
State grants	7,702	7,942
Other income	1,072	1,080
Total operating revenues	114,235	107,073
Operating Expenses		
Salaries	118,062	110,973
Purchased services	19,598	18,185
Supplies	9,650	9,511
Repairs and maintenance	1,467	1,368
Depreciation	8,716	8,700
Financial aid, net	3,034	2,879
Other expense	9,191	7,776
Total operating expenses	169,718	159,392
Operating loss	(55,483)	(52,319)
Nonoperating Revenues (Expenses)		
Appropriations	59,435	54,980
Private grants	1,487	1,607
Interest income	2,373	2,759
Interest expense	(2,311)	(2,561)
Grants to other organizations	(29)	-
Total nonoperating revenue (expenses)	60,955	56,785
Income Before Other Revenues, Expenses, Gains, or Losses	5,472	4,466
Capital appropriations	11,812	7,738
Donated assets and supplies	102	360
Loss on disposal of capital assets	(31)	(59)
Change in net assets	17,355	12,505
Total Net Assets, Beginning of Year	132,726	120,221
Total Net Assets, End of Year	$ 150,081	$ 132,726

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, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Support and Revenue		
Contributions	$ 11,831	$ 10,433
In-kind contributions	2,009	1,798
Investment income	1,112	623
Realized gains (losses)	(1,659)	2,311
Unrealized gains (losses)	(181)	114
Other income	214	217
Total support and revenue	13,326	15,496
Expenses		
Program Services		
Scholarships	3,218	2,936
Total program services	3,218	2,936
Supporting services		
Interest expense	91	114
Management and general	521	423
Fundraising expenses	1,785	1,661
Depreciation and amortization	25	25
Property and equipment expenses	34	5
Total supporting services	2,456	2,228
Total expenses	5,674	5,164
Change in Net Assets	7,652	10,332
Net Assets, Beginning of Year	30,190	19,858
Net Assets, End of Year	$ 37,842	$ 30,190

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 95,102	$ 88,872
Cash repayment of program loans	929	1,567
State grants	7,702	7,942
Federal grants	12,411	11,190
Cash paid to suppliers for goods or services	(40,475)	(39,415)
Cash payments to employees	(115,269)	(109,454)
Financial aid disbursements	(3,114)	(3,013)
Cash payments of program loans	(1,410)	(1,427)
Net cash flows used in operating activities	(44,124)	(43,738)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	59,435	54,980
Agency activity	48	63
Private grants	1,487	1,607
Grants to other organizations	(29)	-
Net cash flows from noncapital financing activities	60,941	56,650
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(44,874)	(18,518)
Capital appropriation	12,233	7,318
Proceeds from issuance of debt	5,341	2,712
Proceeds from bond premium	238	192
Interest paid	(2,404)	(2,715)
Repayment of lease principal	(356)	(338)
Repayment of bond principal	(1,230)	(993)
Net cash flows from capital and related financing activities	(31,052)	(12,342)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,747	100
Purchase of investments	(5,160)	-
Investment earnings	2,623	3,543
Net cash flows from investing activities	1,210	3,643
Net Increase (Decrease) in Cash and Cash Equivalents	(13,025)	4,213
Cash and Cash Equivalents, Beginning of Year	82,265	78,052
Cash and Cash Equivalents, End of Year	$ 69,240	$ 82,265

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(IN THOUSANDS)

	2008	2007
Operating Loss	$ (55,483)	$ (52,319)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	8,716	8,700
Provision for loan defaults	23	107
Loan principal repayments	929	1,567
Loans issued	(1,410)	(1,427)
Loans forgiven	84	31
Change in assets and liabilities		
Inventory	(41)	42
Accounts receivable	(488)	(293)
Grants receivable	56	(138)
Accounts payable	1,041	(1,603)
Salaries payable	1,538	463
Other compensation benefits	1,203	1,011
Capital contributions payable	(79)	(115)
Unearned revenues	(24)	275
Other	(189)	(39)
Net reconciling items to be added to operating income	11,359	8,581
Net cash flows used in operating activities	$ (44,124)	$ (43,738)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 4,763	$ 7,867
Donated equipment	102	360
Loss on retirement of capital assets	(31)	(59)
Change in fair marker value of investment	51	97
Investment earnings on account	376	683
Amortization of bond premium	125	107

MINNESOTA STATE UNIVERSITY, MANKATO
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 and 2007

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 20. 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
Internally Developed Software	7 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, other postemployment 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 $1,434,971 and $1,087,317 for fiscal years 2008 and 2007, 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.

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)

	2008	2007
Donations	$ 153	$ 159
Loans	759	769
Capital projects	4,107	3,654
Debt service	1,276	944
Faculty contract obligations	1,266	1,215
Total	$ 7,561	$ 6,741

- *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 — Minnesota State Colleges and Universities has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) as of July 1, 2007. As required by the provisions of GASB 45, the University has reported a net OPEB obligation of $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.

In November 2007, the GASB issued Statement No. 52 *Land & Other Real Estate Held as Investments by Endowments*. This statement requires that land & real estate held in endowments be recorded at fair market value. GASB Statement No. 52 is effective for Minnesota Colleges and Universities for fiscal year 2009. The effect this statement will have on fiscal year 2009 basic financial statements has not 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	2008	2007
Cash in bank	$ 2,302	$ 3,195
Money market	25	470
Cash treasury account	66,913	78,600
Total	$69,240	$ 82,265

At June 30, 2008 and 2007, the University's local bank balances were $2,813,170 and $4,058,885, 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)			
	2008		2007	
Investment Type	Fair Value	Weighted Maturities (Years)	Fair Value	Weighted Maturities (Years)
US agencies	$ 5,617	12.71	$ 4,154	10.86

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 2008 and 2007, 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 US 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 2008 or 2007. 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, 2008
(In Thousands)

	Wells Fargo	State Street
Fair value of securities on loan	$101,584	$6,551,076
Collateral held	$102,968	$6,775,914
Average duration	113 Days	N/A
Average weighted maturity	114 Days	393 days

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

During fiscal years 2008 and 2007, 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, 2008 and 2007, 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 $660,700 and $4,200,479 as of June 30, 2008 and 2007, 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, 2008 and 2007, the total loans receivable were $7,522,720 and $7,125,149, respectively, less an allowance for uncollectible loans of $240,499 and $217,955, respectively.

4. ACCOUNTS RECEIVABLE

Summary of Accounts Receivable at June 30
(In Thousands)

	2008	2007
Tuition	$ 1,612	$ 1,522
Sales and services	1,066	1,001
Fees	471	464
Interest	1	620
Room and board	329	317
Capital Projects	—	420
Other	583	381
Total accounts receivable	4,062	4,725
Less allowance for uncollectible accounts	(1,047)	(1,159)
Net accounts receivable	$ 3,015	$ 3,566

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2008 and 2007, the total accounts receivable balances for the University were $4,062,422 and $4,725,289, respectively, less an allowance for uncollectible receivables of $1,047,040 and $1,158,870, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

5. PREPAID EXPENSE

This consists of $1,275,520 and $944,232 for fiscal years 2008 and 2007, 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 2008 and 2007 follow:

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	24,485	37,670	—	(6,270)	55,885
Total capital assets, not depreciated	25,396	37,670	—	(6,270)	56,796
Capital assets, depreciated:					
Buildings and improvements	185,804	—	—	6,270	192,074
Equipment and internal software	28,262	2,087	685	—	29,664
Library collections	8,796	1,114	1,346	—	8,564
Total capital assets, depreciated	222,862	3,201	2,031	6,270	230,302
Less accumulated depreciation:					
Buildings and improvements	87,129	5,258	49	—	92,338
Equipment and internal software	19,495	2,234	850	—	20,879
Library collections	5,058	1,224	1,346	—	4,936
Total accumulated depreciation	111,682	8,716	2,245	—	118,153
Total capital assets, depreciated, net	111,180	(5,515)	(214)	6,270	112,149
Total capital assets, net	$ 136,576	$ 32,155	$ (214)	$ —	$ 168,945

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

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 2008 and 2007 follow:

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 2,036	$ 238	$ 125	$ 2,149	$ —
Capital leases	2,870	—	356	2,514	375
General obligation bonds	8,461	5,341	594	13,208	818
Revenue bonds	44,479	—	394	44,085	1,215
Total long-term debt	$ 57,846	$ 5,579	$ 1,469	$ 61,956	$ 2,408

Year Ended June 30, 2008
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 11,784	$ 1,951	$ 1,080	$ 12,655	$ 1,570
Early termination benefits	613	138	369	382	371
Other postemployment benefits	—	825	338	487	—
Workers' compensation	509	444	369	584	210
Total other compensated benefits	$ 12,906	$ 3,358	$ 2,156	$ 14,108	$ 2,151

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 1,951	$ 192	$ 107	$ 2,036	$ —
Capital leases	3,208	—	338	2,870	356
General obligation bonds	6,203	2,727	469	8,461	602
Revenue bonds	44,853	—	374	44,479	394
Total long-term debt	$ 56,215	$ 2,919	$ 1,288	$ 57,846	$ 1,352

Year Ended June 30, 2007
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 11,290	$ 4,781	$ 4,287	$ 11,784	$ 1,554
Early termination benefits	348	507	242	613	369
Workers' compensation	256	490	237	509	153
Total other compensated benefits	$ 11,894	$ 5,778	$ 4,766	$ 12,906	$ 2,076

Bond Premium — In fiscal years 2008 and 2007, general obligation bonds were issued resulting in premiums of $237,883 and $192,815, 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.

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 3.5 percent to 6.5 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 $200,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction and remodeling of buildings for residence hall, student union, food service, and wellness facility purposes at the state universities. Revenue bonds currently outstanding have interest rates of 3.5 percent to 6.5 percent.

The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through fiscal year 2033. Annual principal and interest payments on the bonds are expected to require less than 17.14 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $73,911,243. Principal and interest paid for the current year and total customer net revenues were $2,580,520 and $19,670,000 respectively.

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.

Early Termination Benefits — Early termination benefits are those received for discontinuing services earlier than planned. See Note 14 for details.

Other Postemployment Benefits — Other postemployment benefits are health insurance benefits for certain retired employees under a single-employer fully-insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. See Note 13 for further details.

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 $583,926 and $508,927 at June 30, 2008 and 2007, 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 $6,564,801 and $6,643,704 at June 30, 2008 and 2007, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is $78,903 and $115,097 for the fiscal years 2008 and 2007, respectively.

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 bond premium/discount, compensated absences, early termination benefits, other postemployment benefits, workers' compensation, or capital contributions.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	General Obligation Bonds		Capital Leases		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 818	602	$ 375	113	$ 1,215	2,153
2010	870	516	395	94	1,270	2,102
2011	811	478	186	77	1,324	2,047
2012	811	442	149	70	1,379	1,989
2013	761	407	156	63	1,439	1,929
2014-2018	3,540	1,554	902	192	8,299	8,508
2019-2023	3,330	799	351	13	10,534	6,082
2024-2028	2,183	182	—	—	8,220	3,666
2029-2033	84	—	—	—	10,405	1,350
Total	$ 13,208	4,980	$ 2,514	622	$ 44,085	29,826

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)

	2008	2007
Purchased services	$ 1,212	$ 860
Supplies	529	613
Repairs and maintenance	339	147
Capital projects	2,456	3,610
Salaries	419	368
Inventory	7	34
Library Materials	15	14
Equipment	64	323
Other	161	224
Total	$ 5,202	$ 6,193

In addition to the accounts payable noted in the above table, the University also had $2,307,107 and $4,256,659 of restricted accounts payable as of June 30, 2008 and June 30, 2007, respectively. 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, 2008 and 2007, totaled approximately $696,835 and $663,947, respectively.

Future minimum lease payments for existing lease agreements are as follows.

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2009	$ 723
2010	33
2011	15
2012	2
Total	$ 773

Capital Leases — In fiscal year 2006, the University entered into a 5 year $1,346,582 capital lease (principal and interest) for a telecommunication system. In fiscal year 2005, the University entered into a 15 year, $3,281,428 (principal and interest) capital lease 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, 2008 and 2007, totaled $235,668 and $243,632, 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
2009	$ 200
2010	174
2011	143
2012	42
2013	29
2014-2018	127
2019-2023	26
Total	$ 741

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)		
	2008	2007
Tuition	$ 73,904	$ 69,313
Fees	8,298	7,919
Sales, net	9,013	8,401
Restricted student payments	19,352	17,492
Subtotal	110,567	103,125
Less scholarship allowance	(17,461)	(16,131)
Net tuition, auxiliary and sales	$ 93,106	$ 86,994

11. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2008
(In Thousands)

Description	Salaries	Other	Total
Instruction	$ 59,100	$ 3,082	$ 62,182
Research	1,620	1,703	3,323
Public service	1,708	730	2,438
Academic support	15,729	6,574	22,303
Student services	15,262	6,522	21,784
Institutional support	10,363	6,221	16,584
Operation & maintenance of plant	6,794	5,932	12,726
Depreciation	—	8,716	8,716
Scholarships & fellowships	—	3,034	3,034
Auxiliary enterprises	7,486	9,142	16,628
Total operating expenses	$ 118,062	$ 51,656	$ 169,718

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

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. For the period prior to July 1, 2007, the funding requirement for both employer and employee was 4 percent. For the period July 1, 2007 to June 30, 2008, the funding requirement is 4.25 percent for both employer and employee. The funding requirement for both employer and employee increase 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2008	$ 964
2007	873
2006	767

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. Effective July 1, 2006, employer and employee contributions were 5 percent and 5.5 percent respectively. Effective July 1, 2008, the funding requirement is 5.5 percent for both employer and employee coordinated members. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)		
Fiscal Year	Employer	Employee
2008	$ 620	$ 620
2007	667	728
2006	574	574

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 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
2008	$ 2,551	$ 1,892
2007	2,557	1,881
2006	2,073	1,556

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 & 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 354C.

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

Required Contributions (In Thousands)	
Fiscal Year	Amount
2008	$ 1,241
2007	1,337
2006	1,105

13. OTHER POSTEMPLOYMENT BENEFITS

The University provides health insurance benefits for certain retired employees under a single-employer fully-insured plan, as required by Minnesota Statute, 471.61, Subdivision 2B. Active employees who retire when eligible to receive a retirement benefit from a Minnesota public pension plan and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2006 there were approximately 51 retirees receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation — The annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost (In Thousands)	
Annual required contribution (ARC)	$ 825
Interest on net OPEB obligation	—
Adjustment to ARC	—
Annual OPEB cost	825
Contributions during the year	(338)
Increase in net OPEB obligation	487
Net OPEB cost, beginning of year	—
Net OPEB cost, end of year	$ 487

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 were as follows:

Fiscal Year Ended, June 30, 2008 (In Thousands)	
Annual OPEB cost	$ 825
Less employer contribution	338
Net OPEB obligation	$ 487
Percentage contributed	40.97%

Funding Status — There are currently no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2006	—	$8,008	$8,008	0.00%	$88,122	9.09 %

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the July 1, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.75 percent discount rate, which is based on the estimated long-term investment yield on the general assets, using an underlying long-term inflation assumption of 3 percent The annual healthcare cost trend rate is 9.13 percent initially, reduced incrementally to an ultimate rate of 5 percent after twenty years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

14. 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 2008 and 2007 follow.

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2008	16	$382
2007	18	$613
2006	14	$348

15. RISK MANAGEMENT

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

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

Property and casualty coverage is required by Minnesota State Colleges and Universities policy. The University also selected professional liability insurance for employed physicians and student health services professional liability insurance. The Minnesota Risk Management Fund provides the following coverage levels.

Coverage	Amount
Institution deductible (Academic & Residential Life)	$100,000
Institution deductible (Centennial Student Union)	$25,000
Fund responsibility	Deductible to $1,500,000
Primary re insurer coverage	$1,500,001 to $12,000,000
Catastrophic Insurance	$12,000,001 to $1,000,000,000
Bodily injury and property damage per person	$400,000
Bodily injury and property damage per occurrence	$1,200,000
Annual maximum paid by fund, excess by reinsurer	$4,000,000
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, 2008 and 2007.

(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/08	$509	$444	$369	$584
Fiscal Year Ended 6/30/07	$256	$490	$237	$509

16. COMMITMENTS

During fiscal year 2008, construction continued on the $35.7 million Trafton Science Center addition, now named Ford Hall, and the $31.8 million Sears Residential Hall. As of June 30, 2008, $23.4 million had been expended on Ford Hall and $28.9 million had been expended on Sears Residential Hall. Ford Hall is expected to be completed in October 2008, and Sears Residential Hall is expected to be completed in September 2008.

New Commitments made by the University during fiscal year 2008 include multiple building improvement projects. New commitments for building improvement projects, worth approximately $42.9 million, are for projects such as residence hall renovations, electrical upgrades, roof repairs, HVAC system upgrades, office and lab renovations, exterior masonry repairs, and outdoor recreation renovations.

Most of the smaller building improvement projects are expected to be completed during fiscal year 2009. The three largest building improvement commitments made during fiscal year 2008 were for the Crawford Residence Hall renovation project, the Trafton Science Center renovation project, and the outdoor recreation renovation project.

The Crawford Residence Hall renovation project, funded by revenue fund operating funds, is expected to be completed by July 2009 at a cost of $4.1 million. The Trafton Science Center renovation project, funded by general obligation bond proceeds, is expected to be completed by August 2010 at a cost of $25.5 million. The outdoor recreation renovation project, funded by revenue fund bond proceeds, is expected to be completed by August 2010 at a cost of $9 million.

17. CONTINGENT LIABILITIES — LITIGATION

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

18. SEGMENT INFORMATION

A segment is an identifiable activity reported as a standalone 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)

	2008	2007
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 15,249	$ 14,978
Current restricted assets	12,392	32,312
Non current restricted assets	28,889	10,466
Non current capital assets, net	29,903	30,144
Total assets	86,433	87,900
Liabilities:		
Current liabilities	5,975	10,098
Non current liabilities	44,699	45,936
Total liabilities	50,674	56,034
Net Assets:		
Invested in capital assets, net of related debt	19,165	18,810
Restricted	16,594	13,056
Total net assets	$ 35,759	$ 31,866
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 19,671	$ 17,537
Operating expenses	15,962	15,330
Net operating income	3,709	2,207
Nonoperating revenues (expenses)	184	152
Gain (loss) on disposal of capital assets	—	(52)
Change in net assets	3,893	2,307
Net assets, beginning of year	31,866	29,559
Net assets, end of year	$ 35,759	$ 31,866
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 5,531	$ 5,353
Investing activities	1,575	2,008
Capital and related financing activities	(24,283)	(9,972)
Net increase (decrease)	(17,177)	(2,611)
Cash, beginning of year	43,093	45,704
Cash, end of year	$ 25,916	$ 43,093

19. 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 $1,547,962 and $1,266,041 for fiscal years 2008 and 2007, respectively, and are included in the university's expenses.

During fiscal years 2008 and 2007, the foundation expended $3,217,942 and $2,936,281, respectively, for University educational program purposes. Approximately $1,238,370 and $1,124,451 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2008 and 2007, respectively.

In addition to providing the University with supplemental funds for current operations, the Foundation's net assets increased by $7,651,177 and $10,332,110 for fiscal years 2008 and 2007, respectively.

An estimated $868,348 and $931,023 of revenues and expenditures in fiscal years 2008 and 2007, 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.

20. 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	2008	2007
Equity Mutual Funds	$ 25,062	$ 13,019
Fixed Income Mutual Funds	4,210	5,980
Balanced Investment Mutual Fund	3,392	2,015
Money Market Funds	980	968
Equity Securities	82	160
Fixed Income Securities	12	211
Real Estate Shares and Units	1,802	1,854
Life Insurance Contracts	109	110
Other investments	90	41
Total investments	$ 35,739	$ 24,358

Long-Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $1,590,000. Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2009	$ 442
2010	432
2011	245
2012	245
2013	226
Total	$ 1,590

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SUPPLEMENTAL SECTION

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

October 27, 2008

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

We have audited the financial statements of Minnesota State University, Mankato, a campus of Minnesota State Colleges and Universities, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. We did not audit the financial statements of Minnesota State University, Mankato Foundation Inc., a component unit of the University. These statements were audited by other auditors for the year ended June 30, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Minnesota State University, Mankato Foundation Inc. were not audited in accordance with *Government Auditing Standards.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting 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.

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 University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University'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 University's internal control.

Our consideration of 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 weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, the Board of Trustees and state regulatory agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

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