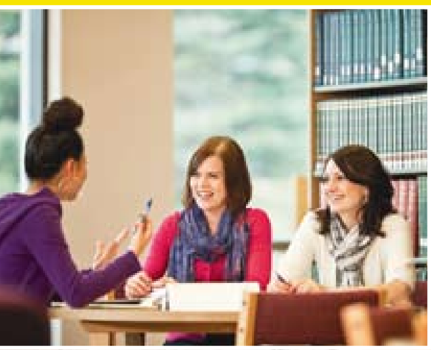
MINNESOTA STATE UNIVERSITY
MANKATO

Annual Financial Report

For the Years Ended June 30, 2009 and 2008









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, 2009 and 2008

Prepared by:

Minnesota State University, Mankato
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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2009 and 2008

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INTRODUCTION

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October 26, 2009

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, 2009. 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. Our faculty, staff and administrators strive to meet the highest standards of excellence in the overall management of the University, including fiscal, academic and student services. The following narrative demonstrates our success in achieving our expectations.

Now in its 141st year, Minnesota State Mankato today serves approximately 14,900 students. Our student body includes nearly 600 international students from 76 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 1,650 faculty and staff (627 full-time instructional faculty, 76 percent with terminal degrees). Minnesota State Mankato is accredited by The Higher Learning Commission (North Central Association of Colleges and Schools) and additionally, twenty-three 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 3,236 degrees.

Minnesota State Mankato offers bachelors, masters, applied doctorate, associate, and specialist degrees, as well as graduate certificates. During 2008-2009, the University enrolled students in 3 applied doctoral programs. Nationally recognized programs include engineering, experiential and rapid-response teacher education, athletic training education,

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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 elementary education, physical education, business management, biology, and law enforcement.

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 Glen Taylor Nursing Institute for Family and Society was founded in 2009 to generate new ideas and policies about family health care, improve patient care with new "models of caring" and other research, create health-care delivery systems that better meet the needs of diverse families, develop community and academic partnerships that promote innovative family and societal nursing practices, and lead the study of solutions to regional and national family health problems. It is the only such center in Minnesota, and has inspired the creation of a new International Family Nursing Association.

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 Mankato 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, wind-generated residential electricity 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 Mankato was named academic partner in an international renewable energy institute that facilitates idea and technology exchange between Sweden and the United States. Our College of Science, Engineering and Technology was named the Minnesota headquarters and received $1.5 million in funding from the Legislature to advance this partnership.

Forbes magazine ranked Minnesota State Mankato in the top quartile of colleges and universities and we were the highest ranked MnSCU institution.

Our faculty members were recognized nationally for many achievements in 2008-2009, including a faculty who participated in the Fulbright Scholar program in Palestine, a physics and astronomy professor who was part of an international team credited with the discovery of a new mineral, and our assistant director of American Indian Affairs received the Minnesota American Indian Honored Educator of the Year Award.

During the 2008-2009 academic year, Minnesota State Mankato fielded 23 intercollegiate athletic teams, including Division I WCHA men's and women's hockey and Division II Northern Sun Intercollegiate Conference men's baseball, basketball, cross country, football, golf, swimming, tennis, track, and wrestling, as well as Division II Northern Sun Intercollegiate 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 second place finish in the national Learfield Sports 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. This measure demonstrates the depth and strength of our entire athletic program and marks the fifth consecutive year our University has accomplished a Top 10 overall finish in the national standings. Highlighted by a national championship in women's basketball, the Mavericks earned seven conference championships, two individual national titles, and enjoyed a first place finish in the U.S Bank All-Sports competition as we successfully transitioned the program into competition in the Northern Sun Intercollegiate Conference. In addition to practices and competitions, our student athletes provided more than 2,000 hours of community service and nearly 200 were recognized on the Dean's List for their accomplishments in the classroom.

Theatre and Dance students earned more finalist and semifinalist awards than any of the other 87 participating colleges and university at the Region V Kennedy Center American College Theater Festival competition. Our students won three finalist and six semifinalist awards during the week-long event in January 2009.

Campus facilities are a particular point of pride for Minnesota State Mankato. Construction was completed 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 provides our students with up-to-date, quality learning and living spaces.

Additionally, we opened a new educational site in the south metro area, 7700 France. At this site we offer courses for students to finish an undergraduate degree, earn a graduate degree or obtain licensure or certification in selected fields. It provides a convenient location to serve primarily the nontraditional student. We also opened the collaborative Owatonna College and University Center a partnership with Riverland Community College and South Central College.

A new paperless, electronic curriculum design web-based tool designed by a team of University faculty and staff won one of 11 worldwide "technology innovators" awards for from *Campus Technology* magazine. *Campus Technology* selected our project from 349 nominations around the globe. The University's new system won the magazine's "curriculum design" award. Other top winners were Purdue University, Carnegie Mellon, the Rochester Institute of Technology and George Mason University. This is a real tribute to our faculty and staff who developed the system.

Thanks to generous gifts from alumni and supporters of the University, as of June 30, 2009, total foundation support was $3,900,980. Additionally, we received over $4.2 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, the 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 Greater Mankato Growth, the business and economic development organization in Mankato. We continue to see positive results from our Division of Strategic Business, Education and Regional Partnerships through expanding connections with education, business and industry. We are working closely with regional employers in developing partnerships that are beneficial to our students, faculty, and our regional employers.

During the 2008-2009 academic year, the University enrolled students in our third doctoral program – Doctor of Psychology in School Psychology. In spring graduation ceremonies, we also awarded the first doctoral degrees – the Doctor of Nursing Practice – from Minnesota State University, Mankato and also in the System. This past June we received approval to add a 4th doctoral program, Doctor of Educational Leadership, and enrolled our first students in the program Fall 2009. In addition, during spring commencement ceremonies, we graduated 26 students in the first cohort of the Master of Social Work program which started in 2007.

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 1,118 students in FY2009. This is 8.1% of our total student population.
- Likewise the number of faculty and staff of color have increased from 96 to 125 during this same period. The President's Cabinet is composed of 11 administrators and includes 3 women and 3 persons of color.
- The number of students studying abroad increased by 15% --a total of 320 students studied abroad during the 2008-2009 academic year.

- Our University is proud of the recognition it has received from the Office of the Chancellor. Minnesota State Mankato received the top award for overall institutional excellence and two awards for innovating practices in diversity, as well as outstanding student diversity organization. We also were recognized for excellence in financial management, excellence in facilities management, and outstanding service by an individual.
- Minnesota State Mankato embraces the Employee Development Philosophy Statement for the Minnesota State Colleges and Universities System, and continues to support employee development. 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 have created a campus culture that is supportive of and actively involved in professional development at all levels.
- KMSU, the University's independent public radio station, received the 2009 Martin Luther King Jr. Pathfinder Award for its long history of diversity programming. It also was honored with the coveted "Station of the Year" award by the Association of Minnesota Public Educational Radio Stations.

Minnesota State Mankato finalized work on its strategic priorities begin in 2002. A Strategic Plan Report Card was published noting the accomplishments of this plan. 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

During 2009-2010, a new set of strategic priorities will be established.

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

- The College of Business was once again named one of the nation's best business schools by *The Princeton Review*.
- We hosted the United States' first International Bioenergy Days, a conference designed to jumpstart bioenergy commercialization and technology transfer initiatives between the United States and Sweden.
- A University student earned second place in the 2009 National Forensic Association National championship Tournament.
- The University, the College of Education and Mathematics Department were named to lead a new academy to improve science and math teaching techniques for K-12 teachers in south central Minnesota.
- The Water Resources Center received grants and contracts totaling more than $850,000 for applied research aimed at improving water quality in the Minnesota River Basin

- The Amos Owen Garden of American Indian Horticulture was relocated and dedicated in September 2008. The garden illustrates the contributions of Native Americans to agriculture.

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 remained stable during fiscal year 2009. The University's net assets increased during fiscal year 2009 by $15.1 million and now total $165.2 million. Additionally, the University's general operating fund reserve increased from $8.9 million to $9.4 million during fiscal year 2009. 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,

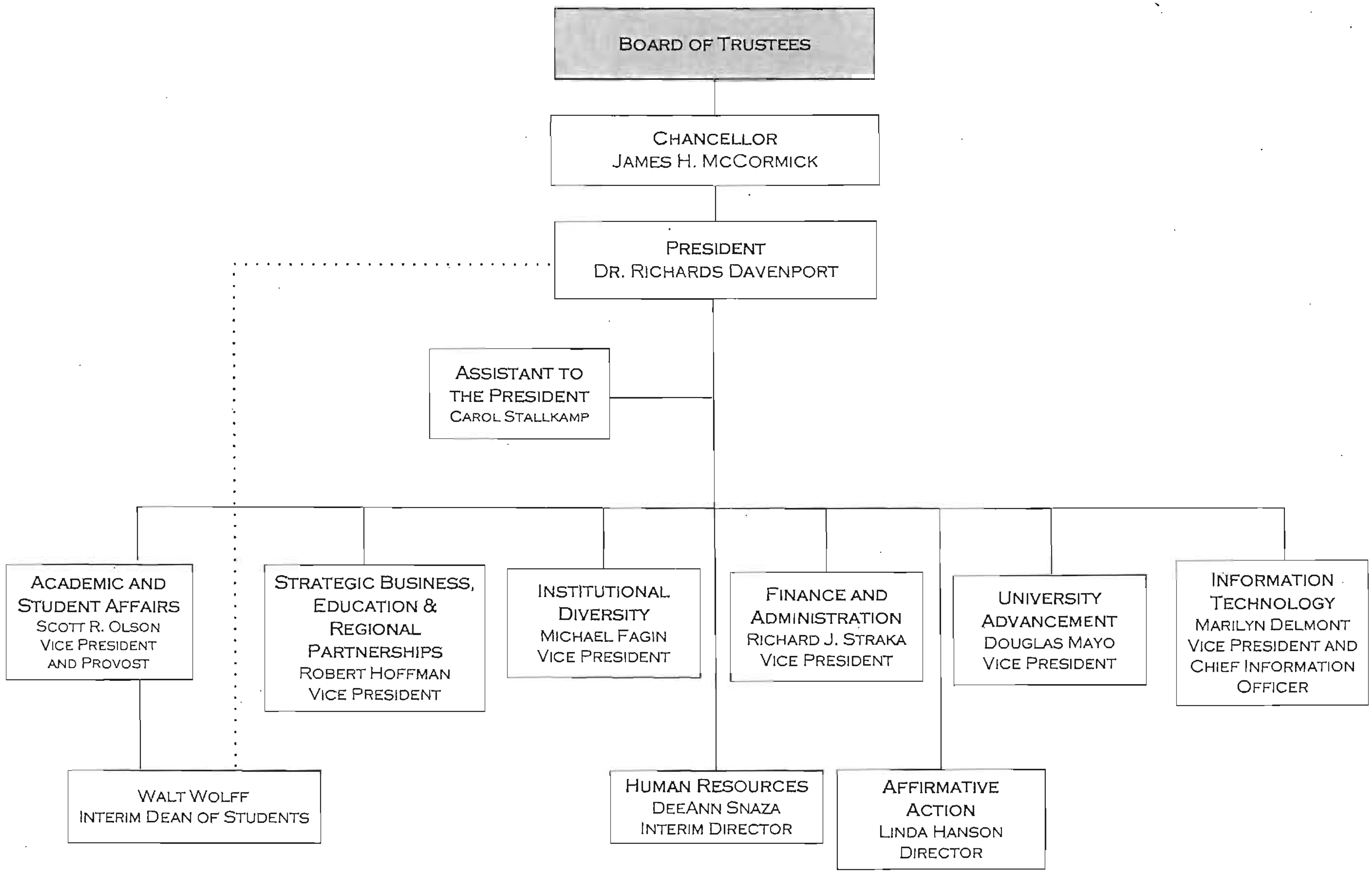
Richard Davenport
President

Enclosure

Minnesota State Colleges and Universities

Minnesota State University, Mankato

Organizational Chart



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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KDV

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INDEPENDENT AUDITOR'S REPORT

October 26, 2009

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, 2009 and 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 $ 33,879,140 and $ 41,134,160 at June 30, 2009 and 2008, respectively, and total revenues of ($ 1,034,701) and $ 13,325,979, respectively, for the years 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University, Mankato, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KDV

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009, 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, 2009, 2008, and 2007. 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 that serves 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 more than 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 4 applied doctorate degree programs. The University is accredited by 24 national accrediting agencies including the North Central Association of Colleges and AACSB International (MBA program).

FINANCIAL HIGHLIGHTS

The University's financial position remained stable during fiscal year 2009. Assets totaled $283.7 million compared to liabilities of $118.5 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 $123.3 million; restricted assets of $25 million; and unrestricted assets of $16.9 million. The fiscal year 2009 net assets total of $165.2 million represents an increase of $15.1 million over fiscal year 2008 and $32.5 million over fiscal year 2007. The fiscal year 2009 unrestricted net assets total of $16.9 million represents a 0.9 percent decrease from the fiscal year 2008 total of $17.1 million and a 24.4 percent increase compared to the fiscal year 2007 total of $13.6 million.

Fiscal year 2009 state appropriations revenue, excluding capital appropriations, totaled $60.3 million and represents a 1.4 percent increase from fiscal year 2008 and a 9.7 percent increase from fiscal year 2007. Net tuition revenue in fiscal year 2009 reached $60.2 million which is a 4.1 percent increase over fiscal year 2008 and a 10.4 percent increase over fiscal year 2007.

USING THE FINANCIAL STATEMENTS

This annual 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 three financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). 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. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements.

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 Note 17 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 fiscal 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, 2009, 2008, and 2007, respectively, is as follows:

Statements of Net Assets
(In Thousands)

	2009	2008	2007
Assets			
Current assets	$ 69,101	$ 67,395	$ 63,656
Restricted assets	18,740	43,506	44,534
Noncurrent assets			
Student loan receivables/other	6,282	6,367	5,357
Capital assets, net	189,624	140,083	126,137
Total assets	283,747	257,351	239,684
Liabilities			
Current liabilities	28,670	29,200	32,990
Noncurrent liabilities	89,871	78,070	73,968
Total liabilities	118,541	107,270	106,958
Net Assets			
Invested in capital assets, net of related debt	123,308	112,953	102,976
Restricted	24,975	20,049	16,144
Unrestricted	16,923	17,079	13,606
Total net assets	$ 165,206	$ 150,081	$ 132,726

Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $62.1 million at June 30, 2009. This is an increase of $1.9 million over fiscal year 2008 and represents approximately 4.4 months of operating expenses (excluding depreciation). This is compared to 4.5 months and 4.2 months for the fiscal years ended June 30, 2008 and 2007, respectively.

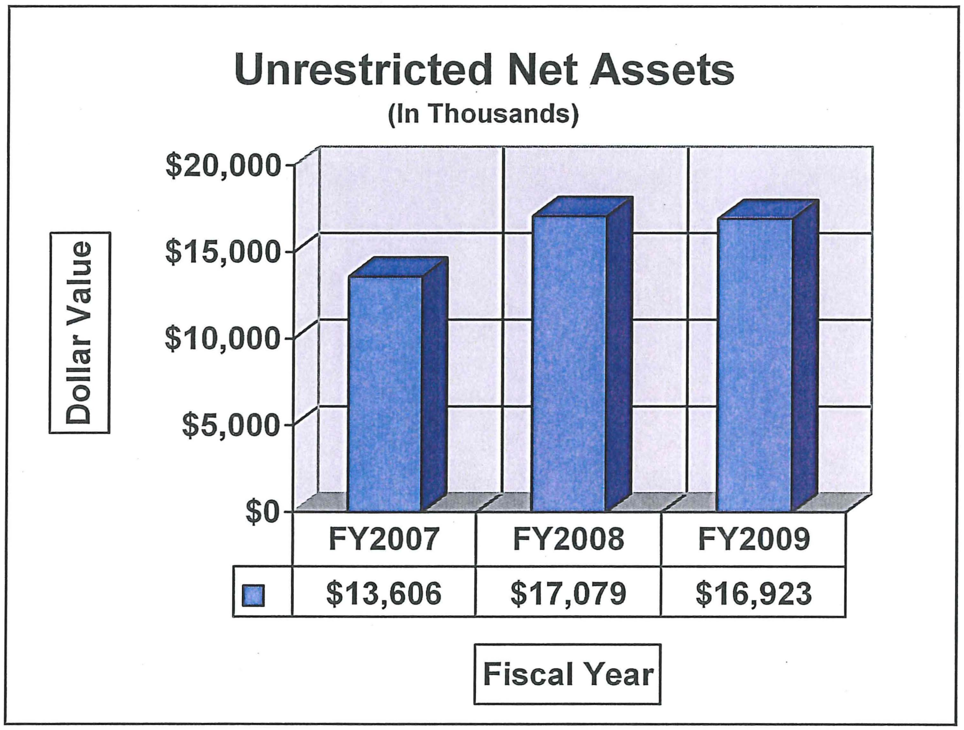
Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled $13.5 million at June 30, 2009, an increase of $1.1 million over the prior year. This increase was caused primarily by an 8 percent salary increase provided to faculty, a 3.3 percent increase provided to classified employees, and the addition of approximately 24 full time equivalent (FTE) employees. Another factor contributing to the increase in salaries payable stemmed from having one more payroll accrual day in fiscal year 2009 as compared to fiscal year 2008. Included within the salary payable accrual is $7.4 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 18, 2008 – August 14, 2009.

Accounts payable totaled $6.4 million, $7.5 million, and $10.5 million for fiscal years ended June 30, 2009, 2008, and 2007 respectively.

The $3 million accounts payable decrease from fiscal year 2007 to fiscal year 2008 and the $1.1 million accounts payable decrease from fiscal year 2008 to fiscal year 2009 was caused by normal fluctuations in 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 $9.4 million, $8.9 million, and $7.6 million for fiscal years ended June 30, 2009, 2008, and 2007, respectively.

The unrestricted net asset balance for the fiscal year ended June 30, 2008 contained 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.

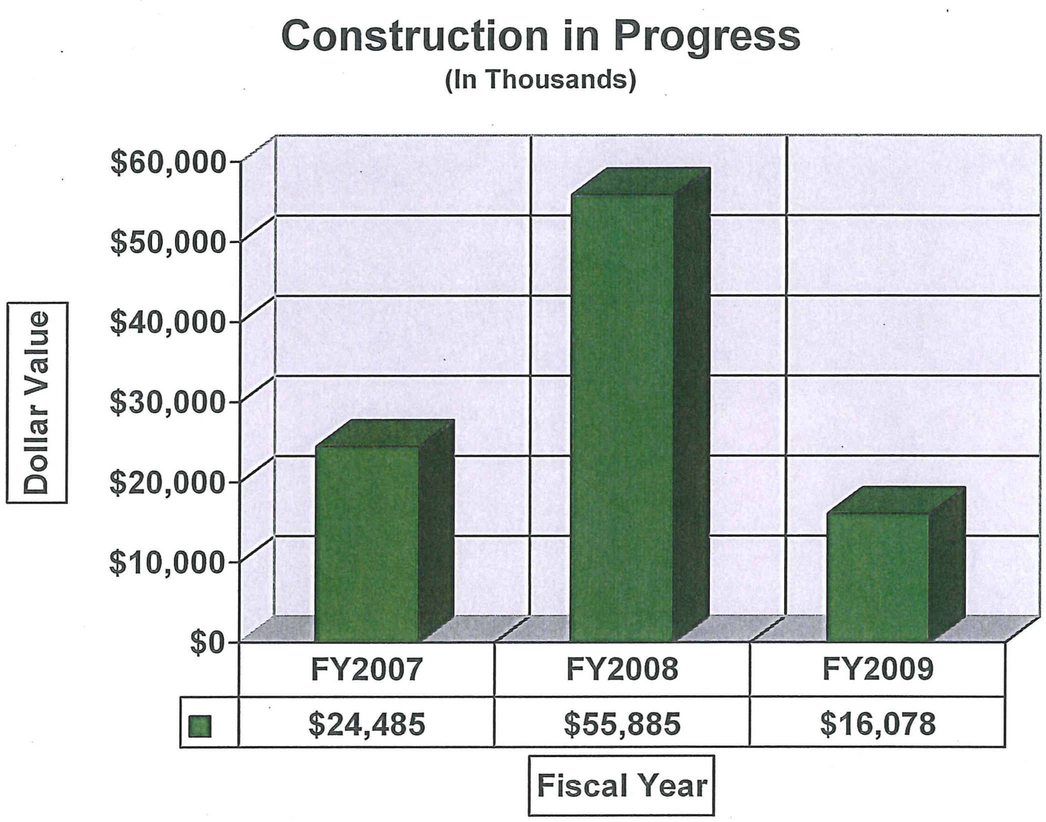


Invested in capital assets, net of related debt represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Restricted assets primarily include funding received for 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 $122.3 million, totaled $189.9 million as of June 30, 2009. This represents increases of $20.9 million and $53.3 million from June 30, 2008, and 2007, 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 $31.3 million in fiscal year 2009, a decrease of $9.6 million from fiscal year 2008. The decrease is primarily due to the significant outlays for the construction of Sears Residential Hall and Ford Hall that primarily occurred during fiscal year 2008. 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 $16.1 million, $55.9 million, and $24.5 million for fiscal years ended June 30, 2009, 2008, and 2007, respectively. Capital appropriations totaled $14 million, $11.8 million, and $7.7 million for fiscal years ended June 30, 2009, 2008, and 2007, respectively.



Note: Figures above include restricted construction in progress.

Revenue and general obligation bonds payable totaled $70.3 million at June 30, 2009. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from four revenue fund projects. $1 million of the bonds payable relates to various residence hall renovation projects completed in fiscal year 2003. $7.9 million of the bonds payable relates to the Centennial Student Union south entrance and food service renovation project which was completed in fiscal year 2005. $34 million of the bonds payable relates to Sears Residence Hall which was completed in fiscal year 2009. $6.8 million of the bonds payable relates to the outdoor recreation renovation project in which construction began in fiscal year 2009.

Additional information on capital and debt activities can be found in Notes 6 and 8 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, 2009, 2008, and 2007, respectively, follows:

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

	2009	2008	2007
Operating revenues:			
Tuition, net	$ 60,172	$ 57,792	$ 54,508
Fees, net	7,439	7,389	7,064
Sales, net	9,738	9,013	8,401
Restricted student payments, net	23,104	18,912	17,021
Federal grants	12,632	12,355	11,057
State grants	7,716	7,702	7,942
Other income	1,122	1,072	1,080
Total operating revenues	121,923	114,235	107,073
Nonoperating revenues:			
State appropriations	60,293	59,435	54,980
Private grants	1,515	1,487	1,607
Capital appropriations	14,010	11,812	7,738
Other	1,608	2,475	3,119
Total nonoperating revenue	77,426	75,209	67,444
Total revenue	199,349	189,444	174,517
Operating expenses:			
Salaries and benefits	127,040	118,062	110,973
Supplies and services	40,757	39,906	36,840
Depreciation	10,173	8,716	8,700
Financial aid, net	3,241	3,034	2,879
Total operating expense	181,211	169,718	159,392
Nonoperating expense:			
Loss on disposal of capital assets	129	31	59
Grants to other organizations	21	29	—
Interest expense	2,863	2,311	2,561
Total nonoperating expense	3,013	2,371	2,620
Total expense	184,224	172,089	162,012
Increase in net assets	15,125	17,355	12,505
Net assets, beginning of year	150,081	132,726	120,221
Net assets, end of year	$ 165,206	$ 150,081	$ 132,726

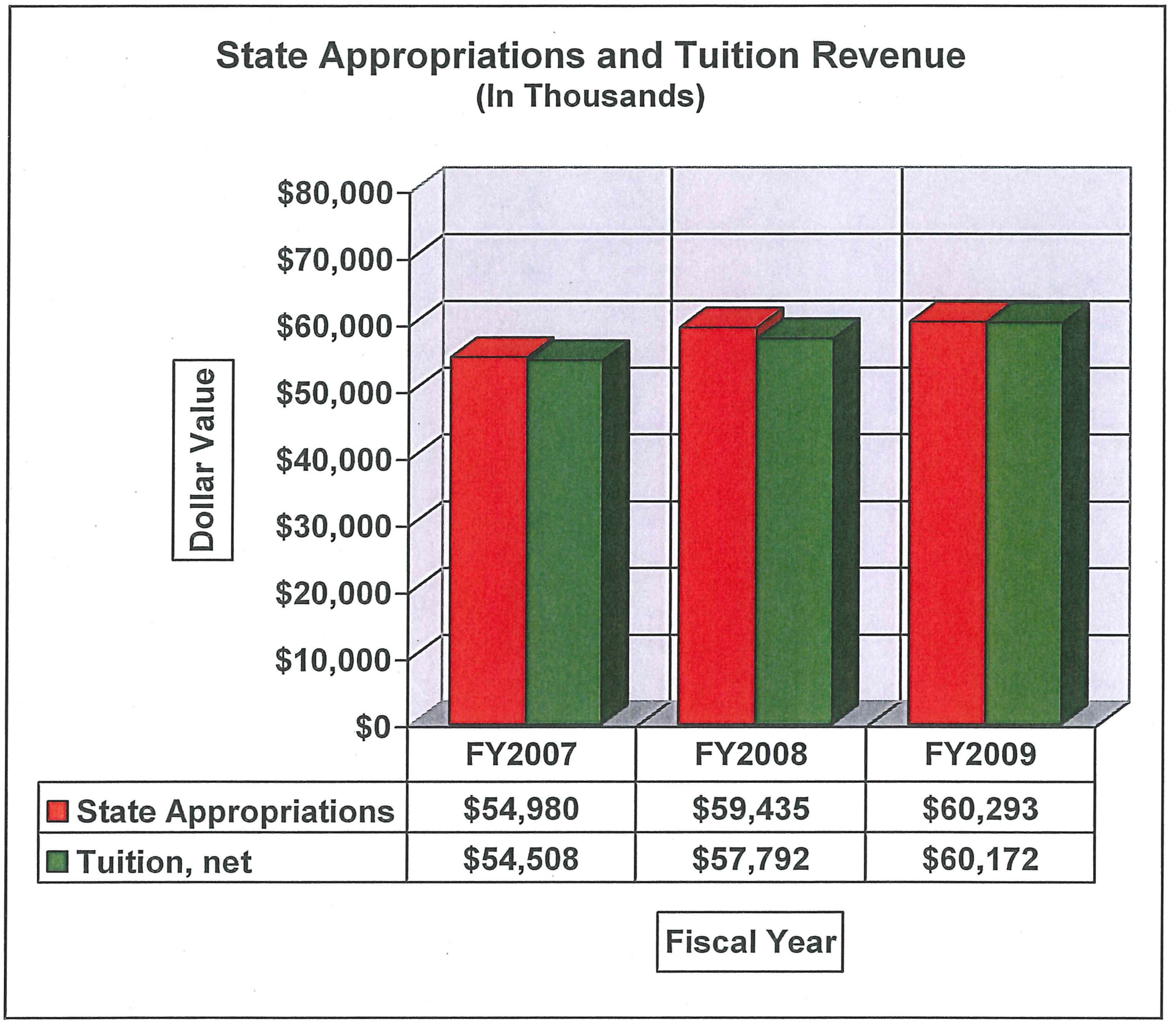
Tuition and state appropriations are the primary sources of funding for University operations. Enrollment grew by 149 full year equivalents (FYE) from fiscal year 2008 to fiscal year 2009 which represents a 1.1 percent increase.

Enrollment levels totaled 13,773, 13,624, and 13,222 FYE for fiscal years ended June 30, 2009, 2008, and 2007, respectively. In addition to the enrollment increase seen during fiscal year 2009, tuition revenue also increased in fiscal years 2009 and 2008 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 4 percent from fiscal year 2007 to fiscal year 2008 and 3 percent from fiscal year 2008 to fiscal year 2009.

State appropriations increased by $0.9 million during fiscal year 2009 to $60.3 million representing a 1.4 percent increase and a 9.7 percent increase from fiscal years ending June 30, 2008, and 2007 respectively.

Capital appropriations have fluctuated the past three fiscal years with the University receiving of $14 million, $11.8 million, and $7.7 million for the fiscal years ended June 30, 2009, 2008, and 2007, respectively.

Resources expended for employee compensation increased $9 million to $127 million for the fiscal year ended June 30, 2009. Faculty salary increases of approximately 8 percent, classified employee salary increases of approximately 3.3 percent, health insurance increases, the addition of approximately 24 employees, and promotional and step increases for some employees all contributed to the increase for the fiscal year ended June 30, 2009.



ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Looking toward the future, state appropriation revenue looms as the primary fiscal challenge for the University in the upcoming years. The State of Minnesota general fund revenues are currently running behind budget projections raising the possibility of a legislative reduction in appropriation or further unallotment by the Governor in the next 20 months. The state budget deficit for the 2011-2012 biennium is projected at between $4 and $7 billion which represents a deficit of approximately 13 percent to 22 percent of the state's general fund budget. The University could likely experience a reduction of state appropriation proportional to its share of the state budget deficit.

The University faces other challenges in addition to anticipated reductions in state appropriation including:

1) Pressure to limit tuition rate increases
2) Enrollment management challenges
3) Collective bargaining pressure to increase salaries after two years of wage freezes
4) Increasing employer paid health insurance premiums for employees
5) Impacts on University operations of recently implemented and anticipated budget reductions.

Likely state appropriation reductions coupled with pressure to limit tuition increases to the cost of inflation will likely lead to significant budget challenges in the 2012-2013 biennium. The University responded to last year's economic crisis by completing a University-wide budget process which resulted in University based budget reductions of nearly $8 million effective for fiscal year 2010. Non instructional budgets to divisions were reduced by 10 percent. The University will be challenged to maintain existing programs and services if faced with a similar level of budget reductions for the 2012-2013 biennium.

Enrollment management will remain 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 areas over the next five years. However, in the short-term, the economic crisis has led and may lead to a short-term increase in demand for higher education from the incumbent work force and increased number of unemployed workers. Enrollment management remains the University's primary strategic initiative. The University continues to commit resources to maintaining the University's goal of steady management enrollment growth of approximately 1 percent per year.

Collective bargaining for the 2012-2013 biennium may be challenging. The looming state budget deficit will be pitted against wages which have been frozen for two years. In addition, health insurance costs are anticipated to increase significantly for the University after one-time revenue sources kept the true cost of health premiums artificially low in the 2010-2011 biennium. The competitiveness of University faculty compensation will also be a factor as University faculty compensation has declined in national competitiveness over the last decade despite a boost in the 2008-2009 biennium.

The recent rebound in world financial markets, if stabilized or maintained, should increase the ability of the University's foundation to increase endowment earnings distributions and help revive the environment for additional fundraising in the future.

In summary, these factors, along with the increasing costs for purchased services and supplies, may result in significant financial challenges for the University in fiscal years 2011, 2012, 2013 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
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Mankato, MN 56001
steven.smith@mnsu.edu

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)

Assets	2009	2008
Current Assets		
Cash and cash equivalents	$ 55,362	$ 54,623
Investments	6,747	5,617
Grants receivable	599	590
Accounts receivable, net	3,352	3,015
Prepaid expense	1,610	1,276
Inventory	130	97
Student loans and other assets, net	1,301	1,516
Securities lending collateral	-	661
Total current assets	69,101	67,395
Current Restricted Assets		
Cash and cash equivalents	18,477	14,617
Total current restricted assets	18,477	14,617
Noncurrent Restricted Assets		
Other assets	25	27
Construction in progress	238	28,862
Total noncurrent restricted assets	263	28,889
Total restricted assets	18,740	43,506
Noncurrent Assets		
Student loans and other assets, net	6,282	6,367
Capital assets, net	189,624	140,083
Total noncurrent assets	195,906	146,450
Total Assets	283,747	257,351
Liabilities		
Current Liabilities		
Salaries payable	13,536	12,435
Accounts payable	3,126	2,977
Unearned revenue	2,859	3,161
Payable from restricted assets	3,251	4,532
Interest payable	570	544
Funds held for others	477	331
Current portion of long-term debt	2,833	2,408
Other compensation benefits	2,018	2,151
Securities lending collateral	-	661
Total current liabilities	28,670	29,200
Noncurrent Liabilities		
Noncurrent portion of long-term debt	69,591	59,548
Other compensation benefits	13,712	11,957
Capital contributions payable	6,568	6,565
Total noncurrent liabilities	89,871	78,070
Total Liabilities	118,541	107,270
Net Assets		
Invested in capital assets, net of related debt	123,308	112,953
Restricted expendable, bond covenants	12,506	12,488
Restricted expendable, other	12,469	7,561
Unrestricted	16,923	17,079
Total Net Assets	$ 165,206	$ 150,081

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	$ 166	$ 154
Investments	29,055	35,739
Pledges and contributions receivable, net	2,924	2,891
Other receivables	127	56
Total current assets	32,272	38,840
Noncurrent Assets		
Long-Term Pledges Receivable	625	1,458
Property and equipment, net	982	836
Total noncurrent assets	1,607	2,294
Total Assets	$ 33,879	$ 41,134
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 180	$ 181
Bonds payable	432	442
Total current liabilities	612	623
Noncurrent Liabilities		
Annuities payable	1,134	1,521
Bonds payable	716	1,148
Total noncurrent liabilities	1,850	2,669
Total Liabilities	2,462	3,292
Net Assets		
Unrestricted	1,770	8,039
Temporarily restricted	1,273	2,340
Permanently restricted	28,374	27,463
Total Net Assets	31,417	37,842
Total Liabilities and Net Assets	$ 33,879	$ 41,134

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, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Operating Revenues		
Tuition, net	$ 60,172	$ 57,792
Fees, net	7,439	7,389
Sales, net	9,738	9,013
Restricted student payments, net	23,104	18,912
Federal grants	12,632	12,355
State grants	7,716	7,702
Other income	1,122	1,072
Total operating revenues	121,923	114,235
Operating Expenses		
Salaries	127,040	118,062
Purchased services	20,072	19,598
Supplies	9,391	9,650
Repairs and maintenance	1,652	1,467
Depreciation	10,173	8,716
Financial aid, net	3,241	3,034
Other expense	9,642	9,191
Total operating expenses	181,211	169,718
Operating loss	(59,288)	(55,483)
Nonoperating Revenues (Expenses)		
Appropriations	60,293	59,435
Private grants	1,515	1,487
Interest income	1,294	2,373
Interest expense	(2,863)	(2,311)
Grants to other organizations	(21)	(29)
Total nonoperating revenue (expenses)	60,218	60,955
Income Before Other Revenues, Expenses, Gains, or Losses	930	5,472
Capital appropriations	14,010	11,812
Donated assets and supplies	314	102
Loss on disposal of capital assets	(129)	(31)
Change in net assets	15,125	17,355
Total Net Assets, Beginning of Year	150,081	132,726
Total Net Assets, End of Year	$ 165,206	$ 150,081

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, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Support and Revenue		
Contributions, net	$ 3,207	$ 11,831
In-kind contributions	1,716	2,009
Investment income	1,345	1,112
Realized losses	(7,378)	(1,659)
Unrealized losses	(103)	(181)
Other income	178	214
Total support and revenue	(1,035)	13,326
Expenses		
Program Services		
Scholarships	3,001	3,218
Total program services	3,001	3,218
Supporting services		
Interest expense	69	91
Management and general	512	521
Fundraising expenses	1,776	1,785
Depreciation and amortization	25	25
Property and equipment expenses	7	34
Total supporting services	2,389	2,456
Total expenses	5,390	5,674
Change in Net Assets	(6,425)	7,652
Net Assets, Beginning of Year	37,842	30,190
Net Assets, End of Year	$ 31,417	$ 37,842

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	$ 102,500	$ 95,102
Cash repayment of program loans	745	929
State grants	7,716	7,702
Federal grants	12,623	12,411
Cash paid to suppliers for goods or services	(42,615)	(40,475)
Cash payments to employees	(124,565)	(115,269)
Financial aid disbursements	(3,237)	(3,114)
Cash payments of program loans	(564)	(1,410)
Net cash flows used in operating activities	(47,397)	(44,124)
Cash Flows from Noncapital and Related Financing Activities		
Appropriations	60,293	59,435
Agency activity	146	48
Private grants	1,515	1,487
Grants to other organizations	(21)	(29)
Net cash flows from noncapital financing activities	61,933	60,941
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(31,709)	(44,874)
Capital appropriation	14,010	12,233
Proceeds from sale of capital assets	47	-
Proceeds from issuance of debt	13,027	5,341
Proceeds from bond premium	208	238
Interest paid	(2,928)	(2,404)
Repayment of lease principal	(407)	(356)
Repayment of bond principal	(2,315)	(1,230)
Net cash flows from capital and related financing activities	(10,067)	(31,052)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,480	3,747
Purchase of investments	(4,600)	(5,160)
Investment earnings	1,250	2,623
Net cash flows from investing activities	130	1,210
Net Increase (Decrease) in Cash and Cash Equivalents	4,599	(13,025)
Cash and Cash Equivalents, Beginning of Year	69,240	82,265
Cash and Cash Equivalents, End of Year	$ 73,839	$ 69,240

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(IN THOUSANDS)

	2009	2008
Operating Loss	$ (59,288)	$ (55,483)
Adjustment to Reconcile Operating Income to		
Net Cash Flows used in Operating Activities		
Depreciation	10,173	8,716
Provision for loan defaults	(8)	23
Loan principal repayments	745	929
Loans issued	(564)	(1,410)
Loans forgiven	88	84
Change in assets and liabilities		
Inventory	(34)	(41)
Accounts receivable	(338)	(488)
Grants receivable	(9)	56
Accounts payable	(620)	1,041
Salaries payable	1,101	1,538
Other compensation benefits	1,622	1,203
Capital contributions payable	3	(79)
Unearned revenues	(302)	(24)
Other	34	(189)
Net reconciling items to be added to operating income	11,891	11,359
Net cash flows used in operating activities	$ (47,397)	$ (44,124)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 3,629	$ 4,763
Donated equipment	314	102
Loss on retirement of capital assets	(176)	(31)
Change in fair marker value of investment	9	51
Investment earnings on account	270	376
Amortization of bond premium	141	125

MINNESOTA STATE UNIVERSITY, MANKATO
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

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 17. Complete financial statements may be obtained from the Minnesota State University, Mankato Foundation, Inc., 224 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 $10,000 and over for items purchased since July 1, 2008; $5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and $2,000 and over for items purchased prior to July 1, 2003. Buildings, building improvements, and internally developed software include all projects with a cost of $250,000 and over for projects started since July 1, 2008, and $100,000 and over for projects started prior to July 1, 2008. All land and library collection purchases are capitalized regardless of amount spent.

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 compensated absences, early termination benefits, net 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, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of $17,587,959 and $17,021,158 for fiscal years 2009 and 2008, respectively. Sales are also net of cost of goods sold of $1,564,674 and $1,434,971 for fiscal years 2009 and 2008, respectively.

Restricted Student Payments — Restricted student payments consist of room, board, sales, and fee revenue restricted for payment of revenue bonds, and are net of scholarship allowances of $458,348 and $439,657 for fiscal years 2009 and 2008, respectively.

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.

Reclassifications — Certain prior year amounts have been reclassified to conform to current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2008 accounts payable related to capital projects funded with general obligation bonds, in the amount of $2,224,821, have been reclassified as restricted accounts payable.

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)

	2009	2008
Donations	$ 162	$ 153
Loans	760	759
Capital projects	8,634	4,107
Debt service	1,462	1,276
Faculty contract obligations	1,451	1,266
Total	$ 12,469	$ 7,561

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

New Accounting Pronouncements — In June 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 June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires, when governments invest in derivative instruments, that they be reported at fair market value. This statement is effective for Minnesota State Colleges and Universities for the year ending June 30, 2010. The effect GASB Statement No. 53 will have on the fiscal year 2010 basic financial statements has not yet been determined.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash and Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2009	2008
Cash, in bank	$ 1,979	$ 2,302
Money markets	161	25
Cash, trustee account (US Bank)	9,754	3,427
Total local cash and cash equivalents	11,894	5,754
Total treasury cash accounts	61,945	63,486
Grand Total	$ 73,839	$ 69,240

At June 30, 2009 and 2008, the University's local bank balances were $2,649,481 and $2,813,170, 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)				
	2009		2008	
Investment Type	Fair Value	Weighted Maturities (Years)	Fair Value	Weighted Maturities (Years)
US agencies	$ 6,747	14.01	$ 5,617	12.71

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 2009 and 2008, 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 United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Neither State Street nor Wells Fargo has the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the fair value of the loaned securities.

The state of Minnesota did not impose any restrictions during the fiscal years on the amount of the loans that either State Street or Wells Fargo made on its behalf. State Street and Wells Fargo indemnified the state of Minnesota by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. No borrower failed to return loaned securities or pay distributions thereon during fiscal years 2009 or 2008. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo.

During fiscal years 2009 and 2008, 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, 2009 and 2008, 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.

The securities lending activity for Wells Fargo ceased in May 2009. Therefore, at June 30, 2009 there were no collateral balances or unsettled trades. As a result, the University's portion of the securities lending collateral was zero in fiscal year 2009. During 2008, 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 as of June 30, 2008.

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

Security Lending Analysis, June 30, 2009
(In Thousands)

	State Street
Fair value of securities on loan	$6,587,602
Collateral held	$6,829,949
Average duration	37 days
Average weighted maturity	201 days

Security Lending Analysis, June 30, 2008 (In Thousands)	State Street	Wells Fargo
Fair value of securities on loan	$6,551,076	$101,584
Collateral held	$6,775,914	$102,968
Average duration	37 days	113 days
Average weighted maturity	393 days	114 days

3. ACCOUNTS RECEIVABLE

Summary of Accounts Receivable at June 30 (In Thousands)	2009	2008
Tuition	$ 1,662	$ 1,612
Sales and services	1,328	1,066
Fees	468	471
Room and board	396	329
Other	636	584
Total accounts receivable	4,490	4,062
Allowance for uncollectible accounts	(1,138)	(1,047)
Net accounts receivable	$ 3,352	$ 3,015

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2009 and 2008, the total accounts receivable balances for the University were $4,490,232 and $4,062,422, respectively, less an allowance for uncollectible receivables of $1,137,915 and $1,047,040, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

4. PREPAID EXPENSE

This primarily consists of $1,462,325 and $1,275,520 for fiscal years 2009 and 2008, 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. Also, included in prepaid expense for fiscal year 2009 is $147,362 stemming from prepaid software maintenance agreements and prepaid conference registrations.

5. 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, 2009 and 2008, the total loans receivable were $7,253,932 and $7,522,720, respectively, less an allowance for uncollectible loans of $232,056 and $240,499, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2009 and 2008 follow:

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	55,885	28,425	—	(68,232)	16,078
Total capital assets, not depreciated	56,796	28,425	—	(68,232)	16,989
Capital assets, depreciated:					
Buildings and improvements	192,074	—	—	68,232	260,306
Equipment	29,556	1,506	5,075	—	25,987
Internally developed software	108	30	—	—	138
Library collections	8,564	1,292	1,155	—	8,701
Total capital assets, depreciated	230,302	2,828	6,230	68,232	295,132
Less accumulated depreciation:					
Buildings and improvements	92,338	6,657	—	—	98,995
Equipment	20,879	2,253	4,912	—	18,220
Internally developed software	—	20	—	—	20
Library collections	4,936	1,243	1,155	—	5,024
Total accumulated depreciation	118,153	10,173	6,067	—	122,259
Total capital assets, depreciated, net	112,149	(7,345)	163	68,232	172,873
Total capital assets, net	$ 168,945	$ 21,080	$ 163	$ —	$ 189,862

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	28,262	1,979	685	—	29,556
Internally developed software	—	108	—	—	108
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	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

7. 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)

	2009	2008
Purchased services	$ 1,025	$ 1,212
Supplies	314	529
Salaries	171	419
Repairs and maintenance	482	339
Capital projects	378	231
Equipment	76	64
Library Materials	5	15
Inventory	18	7
Other	657	161
Total	$ 3,126	$ 2,977

In addition, as of June 30, 2009 and 2008, the university had payables from restricted assets in the amounts of $3,250,891 and $4,531,928 which were related to capital projects financed by general obligation bonds and revenue bonds.

8. 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 debt for fiscal years 2009 and 2008 follow:

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 2,149	$ 208	$ 141	$ 2,216	$ —
Capital leases	2,514	—	407	2,107	396
General obligation bonds	13,208	6,217	1,004	18,421	1,167
Revenue bonds	44,085	6,810	1,215	49,680	1,270
Total long term debt	$ 61,956	$ 13,235	$ 2,767	$ 72,424	$ 2,833

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

The changes in other compensation benefits for fiscal years 2009 and 2008 follow:

Year Ended June 30, 2009
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 12,655	$ 2,065	$ 1,090	$ 13,630	$ 1,484
Early termination benefits	382	132	370	144	144
Net other postemployment benefits	487	879	386	980	—
Workers' compensation	584	692	300	976	390
Total other compensated benefits	$ 14,108	$ 3,768	$ 2,146	$ 15,730	$ 2,018

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
Net 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

Bond Premium — In fiscal years 2009 and 2008, general obligation bonds were issued resulting in premiums of $191,401 and $237,883, respectively. In fiscal year 2009, revenue bonds were issued resulting in a premium of $16,536. Prior to that 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 11 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 between 2 percent and 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 16.41 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $80,819,651. Principal and interest paid for the current year and total customer net revenues were $3,367,807 and $23,620,083 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 9 for details.

Net 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 10 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 $975,748 and $583,926 at June 30, 2009 and 2008, 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 $6,568,133 and $6,564,801 at June 30, 2009 and 2008, respectively, represent the amounts the University would owe the federal government if it were to discontinue the Perkins loan program. The net change is a $3,332 increase and $78,903 decrease for the fiscal years 2009 and 2008, respectively.

Principal and interest payment schedules are provided in the following table for capital leases, general obligation bonds, and revenue bonds. There are no payment schedules for bond premium, compensated absences, early termination benefits, net other postemployment benefits, workers' compensation, or capital contributions.

Long-Term Debt Repayment Schedule
(In Thousands)

Fiscal Years	Capital Leases		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 396	$ 92	$ 1,167	$ 922	$ 1,270	$ 2,307
2011	165	76	1,122	822	1,569	2,306
2012	150	69	1,122	770	1,629	2,244
2013	157	62	1,072	717	1,694	2,177
2014	164	54	1,072	665	1,768	2,106
2015-2019	949	145	5,017	2,562	10,118	9,160
2020-2024	126	2	4,776	1,324	11,837	6,332
2025-2029	—	—	3,073	307	10,780	3,619
2030-2034	—	—	—	—	9,015	889
Total	$ 2,107	$ 500	$ 18,421	$ 8,089	$ 49,680	$ 31,140

9. 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 2009 and 2008 follow.

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2009	6	$ 144
2008	16	382

10. NET 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, 2008 there were approximately 49 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 (expense) for 2009 and 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2009	2008
Annual required contribution (ARC)	$ 875	$ 825
Interest on net OPEB obligation	23	—
Adjustment to ARC	(19)	—
Annual OPEB cost	879	825
Contributions during the year	(386)	(338)
Increase in net OPEB obligation	493	487
Net OPEB cost, beginning of year	487	—
Net OPEB cost, end of year	$ 980	$ 487

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009 and 2008 were as follows:

For the Year Ended June 30
(In Thousands)

	2009	2008
Beginning of year net OPEB obligation	$ 487	$ —
Annual OPEB cost	879	825
Employer contribution	(386)	(338)
End of year net OPEB obligation	$ 980	$ 487
Percentage contributed	43.91%	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, 2008	—	$9,405	$9,405	0.00%	$91,822	10.24%

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, 2008 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 8.97 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.

11. 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, 2009 and 2008, totaled approximately $870,468 and $696,835, respectively.

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

Year Ended June 30
(In Thousands)

Fiscal Year	Amount
2010	$ 518
2011	369
2012	324
2013	306
2014	26
Total	$ 1,543

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 8 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, 2009 and 2008, totaled $222,541 and $235,668, 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
2010	$ 189
2011	150
2012	56
2013	43
2014	38
2015-2019	127
Total	$ 603

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2009 (In Thousands)			
Description	Salaries	Other	Total
Academic support	$ 16,744	$ 6,408	$ 23,152
Institutional support	11,294	6,132	17,426
Instruction	63,582	2,836	66,418
Operation & maintenance of plant	7,112	6,722	13,834
Public service	1,797	579	2,376
Research	1,833	1,376	3,209
Student services	16,151	6,288	22,439
Auxiliary enterprises	8,527	10,416	18,943
Depreciation	—	10,173	10,173
Scholarships & fellowships	—	3,241	3,241
Total operating expenses	$ 127,040	$ 54,171	$ 181,211

For the Year Ended June 30, 2008 (In Thousands)			
Description	Salaries	Other	Total
Academic support	$ 15,729	$ 6,574	$ 22,303
Institutional support	10,363	6,221	16,584
Instruction	59,100	3,082	62,182
Operation & maintenance of plant	6,794	5,932	12,726
Public service	1,708	730	2,438
Research	1,620	1,703	3,323
Student services	15,262	6,522	21,784
Auxiliary enterprises	7,486	9,142	16,628
Depreciation	—	8,716	8,716
Scholarships & fellowships	—	3,034	3,034
Total operating expenses	$ 118,062	$ 51,656	$ 169,718

13. 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. Beginning July 1, 2007 the funding requirement for both employer and employee increases 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
2009	$ 1,101
2008	964
2007	873

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 for service rendered before July 1, 2006, and 1.4 percent and 1.9 percent for service rendered on or after July 1, 2006. 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, 2007, 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
2009	$ 684	$ 684
2008	620	620
2007	667	728

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
2009	$ 2,971	$ 2,209
2008	2,551	1,892
2007	2,557	1,881

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 $60,000	$2,700

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
2009	$ 1,450
2008	1,241
2007	1,337

Public Employees Retirement Fund (PERF)

Pension fund information is provided by the Public Employees Retirement Association of Minnesota, 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 Public Employee Retirement Association at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103.

The PERF is a cost sharing, multiple employer defined benefit plan. Former employees of various governmental subdivisions including counties, cities, school districts and related organizations participate in the plan. Normal retirement age is 65. 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 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 PERF is Minnesota Statutes, Chapter 353. Effective January 1, 2007, the funding requirement increased to 5.75 percent for employees and 6.25 percent for employers. Effective January 1, 2008, the funding requirement increased to 6 percent for employees and to 6.5 percent for employers. Effective January 1, 2009 and again January 1, 2010, employer contributions will increase 0.25 percent respectively. Actual contributions were 100 percent of required contributions.

Required contributions for the University were:

(In Thousands)		
Fiscal Year	Employer	Employee
2009	$ 3	$ 3

14. 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)

	2009	2008
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 15,258	$ 15,249
Current restricted assets	15,243	12,392
Non current restricted assets	263	28,889
Non current capital assets, net	63,056	29,903
Total assets	93,820	86,433
Liabilities:		
Current liabilities	4,375	5,975
Non current liabilities	50,255	44,699
Total liabilities	54,630	50,674
Net Assets:		
Invested in capital assets, net of related debt	18,049	19,165
Restricted	21,141	16,594
Total net assets	$ 39,190	$ 35,759
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 23,620	$ 19,671
Operating expenses	18,933	15,962
Net operating income	4,687	3,709
Nonoperating revenues (expenses)	(1,232)	184
Gain (loss) on disposal of capital assets	(24)	—
Change in net assets	3,431	3,893
Net assets, beginning of year	35,759	31,866
Net assets, end of year	$ 39,190	$ 35,759
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 7,699	$ 5,531
Investing activities	885	1,575
Capital and related financing activities	(5,392)	(24,283)
Net increase (decrease)	3,192	(17,177)
Cash, beginning of year	25,916	43,093
Cash, end of year	$ 29,108	$ 25,916

15. COMMITMENTS

During fiscal year 2009, construction continued on the $25.8 million Trafton Science Center renovation project, the $4.4 million Crawford Residence Hall renovation project, and the $6.9 million outdoor recreation renovation project. As of June 30, 2009, $9.4 million had been expended on Trafton Science Center, $4.1 million had been expended on Crawford Residence Hall, and $0.3 million had been expended on the outdoor recreation renovation project. The Trafton Science Center renovation project is expected to be completed in August 2010, the Crawford Residence Hall renovation project is expected to be completed in July 2009, and the outdoor recreation renovation project is expected to be completed in August 2010.

New commitments made by the University during fiscal year 2009 include multiple building improvement projects. New commitments for building improvement projects, worth approximately $8.3 million, are for projects such as a new residence hall, residence hall renovations, electrical upgrades, roof repairs, HVAC system upgrades, exterior masonry repairs, and other miscellaneous building improvements.

Most of the smaller building improvement projects are expected to be completed during fiscal year 2010. The three largest building construction and improvement commitments made during fiscal year 2009 were for the design costs associated with the residence hall building and food service renovation project, the Ostrander Auditorium renovation project, and the Performing Arts Center roof repair project.

The design phase of the residence hall building and food service renovation project, funded by revenue fund bond proceeds, is expected to be completed in June 2010 at a cost of $1 million. The Ostrander Auditorium renovation project, funded by revenue fund operating funds, is expected to be completed by October 2009 at a cost of $1.7 million. The Performing Arts Center roof repair project, funded by general obligation bond proceeds, is expected to be completed in October 2009 at a cost of $1.5 million.

16. 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 $1,000,000
Primary re insurer coverage	$1,000,001 to $25,000,000
Catastrophic Insurance	$25,000,001 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, 2009 and 2008.

(In Thousands)	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/09	$ 584	$ 692	$ 300	$ 976
Fiscal Year Ended 6/30/08	509	444	369	584

17. 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.

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 $1,487,457 and $1,547,962 for fiscal years 2009 and 2008, respectively, and are included in the university's expenses.

During fiscal years 2009 and 2008, the foundation expended $3,001,226 and $3,217,942 respectively, for University educational program purposes. Approximately $1,160,947 and $1,238,370 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2009 and 2008, respectively. In addition to providing the University with supplemental funds for current operations, the Foundation's net assets decreased by $6,424,445 and increased by $7,651,177 for fiscal years 2009 and 2008, respectively.

An estimated $830,537 and $868,348 of revenues and expenditures in fiscal years 2009 and 2008, 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.

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	2009	2008
Money Market Funds	$ 2,132	$ 980
Equity Mutual Funds	17,856	25,062
Equity Securities	46	82
Fixed Income Mutual Funds	5,711	4,210
Balanced Investment Mutual Fund	2,688	3,392
Fixed Income Securities	13	12
Real Estate Shares and Units	42	1,802
Life Insurance Contracts	97	109
Other investments	470	90
Total investments	$ 29,055	$35,739

Capital Assets—Summaries of the foundations' capital assets for fiscal years 2009 and 2008 are:

Schedule of Capital Assets at June 30
(In Thousands)

Investments	2009	2008
Capital assets, not depreciated:		
Land	$ 945	$ 775
Total capital assets, not depreciated	945	775
Capital assets, depreciated		
Equipment	246	246
Total capital assets, depreciated	246	246
Total accumulated depreciation	(209)	(185)
Total capital assets depreciated, net	37	61
Total capital assets, net	$ 982	$ 836

Long Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $1,148,000.

Future scheduled debt payments are as follows:

Year Ending June 30 (In Thousands)	
2010	$ 432
2011	245
2012	245
2013	226
Total	$ 1,148

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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 26, 2009

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, 2009, and have issued our report thereon dated October 26, 2009. 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, 2009. 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.

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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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