MINNESOTA STATE UNIVERSITY
MANKATO

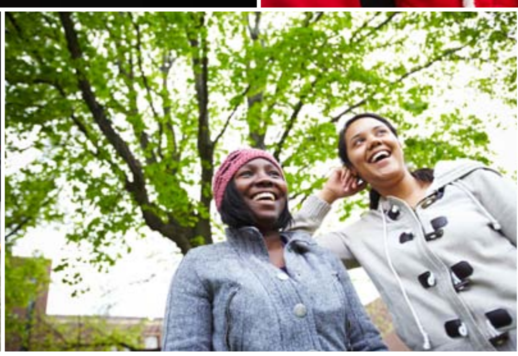
Annual Financial Report

For the Years Ended June 30, 2010 and 2009








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, 2010 and 2009

Prepared by:

Minnesota State University, Mankato
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Mankato, Minnesota 56001

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MINNESOTA STATE UNIVERSITY, MANKATO

ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2010 and 2009

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MINNESOTA STATE UNIVERSITY
MANKATO

October 27, 2010

Minnesota State Colleges and Universities Board of Trustees
James H. McCormick, Chancellor
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, 2010. 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 142nd year, Minnesota State Mankato today serves approximately 14,950 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 approximately 150 undergraduate programs of study and 66 graduate programs. The University employs close to 1800 faculty and staff (640 full-time instructional faculty, 78 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 2009-2010 academic year, the University awarded 3,306 degrees.

Minnesota State Mankato offers bachelors, masters, applied doctorate, associate, and specialist degrees, as well as graduate certificates. During 2009-2010, the University enrolled students in 4 applied doctoral programs. Our most popular programs are elementary education, physical education, biology, law enforcement, management and psychology.

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PHONE 507-389-1111 (V) · 800-627-3529 OR 711 (MRS/TTY) · FAX 507-389-6200

Minnesota State Mankato houses several renowned centers for applied research, including the Center on Aging, Center for Applied Social Services, Center for School-University Partnerships, Minnesota Center for Automotive Research, Minnesota Center for Rapid Prototyping and Production, Kessel Institute for the Study of Peace and Change, Minnesota Center for Transportation Research and Implementation, 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 continues as an academic partner in the International Renewable Energy Institute (IRETI) 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. Construction of the new Center of Renewable Energy began this year and when finished will provide laboratory space for both IRETI and the Center for Automotive Research.

During the 2009-2010 academic year, Minnesota State Mankato fielded 23 intercollegiate athletic teams, including: Division I WCHA men's and women's hockey and Division I women's bowling (independent); Division II Northern Sun Intercollegiate Conference men's baseball, basketball, cross country, football, golf, track, and wrestling; Division II Northern Sun Intercollegiate Conference women's basketball, bowling, cross country, golf, soccer, softball, tennis, track, and volleyball; Division II men's tennis and men's and women's swimming (independent). Over 600 student athletes participated in athletic competitions. These teams are sources of great pride for students and community members. Maverick Athletics enjoyed an amazing level of success this year, including a fourth place finish in the national Learfield Sports Director's Cup standings –the fourth top 4 or better finish in as many years. This measure demonstrates the depth and strength of our entire athletic program.

Equally important to the University is that our student athletes continue to excel in the classroom. Sixteen student athletes received the conference Myles Brand Academic Award – an award given to seniors completing their academic eligibility with a cumulative GPA above 3.75. We also had 14 WCHA scholar-athletes –hockey players with a cumulative 3.5 or higher GPA. Last spring 226 of our 610 athletes were named to the University's Dean's List. In addition to performing in the field of play and excelling in the classroom, our student athletes gave back to the community by contributing more than 1,000 hours in community outreach projects such as several elementary school reading programs, Salvation Army Red Kettle Campaign and Story Time at the Blue Earth County Library, to name just a few.

Minnesota State Mankato is a vibrant campus with more than 200 academic student groups, intramural and club sports, leadership and religious organizations, honorary, professional and social fraternities and sororities, and other special interest groups. We host a nationally recognized Service-Learning program (our acclaimed Campus Kitchens) with more than 2,000 students participating annually. The work of our LGBT Center has earned the University status as one of the 100 Best Campuses for LGBT students as determined by *The Advocate College Guide for LGBT Students.*

Among the notable achievements of our students: for the second time in three years, a Theatre and Dance student won the prestigious Region V Kennedy Center American College Theater Festival Irene Ryan Acting Scholarship nomination to compete at the Kennedy Center in Washington, D.C; one of our ROTC cadets finished second out of 4,700 cadets nationally in the order of merit listing, an accessions process used by the military to rank order seniors enrolled in the ROTC program; a nursing doctoral graduate won first place in the poster competition at the American Colleges of Nurse Practitioner conference; and, a Mars robot vehicle designed by two students won second place in the American Society of Mechanical Engineers International student design competition.

Work continued on three capital projects which are all nearing completion. The final phase of the large Trafton Science Center renovation is almost finished. With the construction of Ford Hall and the remodeling and renovation of Trafton, this project has reached $58.4 million. The Outdoor Recreation project will be completed in September 2010. Using student activity fees and other funding, the project included four new softball fields, a new outdoor track with a soccer infield, along with other facilities, and it corrected safety hazards on the football field at Blakeslee Stadium. The $1.8 million, 6,300 square foot Center of Renewable Energy, mentioned earlier, will be completed in September. The University also received approval from the Board of Trustees to move forward with construction of a new residence community. The Schematic Design and Design Development phases are completed with a target completion date of Fall 2012.

Our educational site in the south metro area, 7700 France, saw continued growth. Students are able 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. Credit hours generated at this location increased almost 104% from the previous year (2,099 in 2008-09 to 4,276 in 2009-2010).

Thanks to generous gifts from alumni and supporters of the University, as of June 30, 2010, total foundation support for the year was nearly $9 million from 12,200 individual donors—

one of our highest totals ever. Included in this total were 3 gifts of $1 million or more, an all-time Parent's Drive record of nearly $50,000 and an all-time Campus Drive record of more than $733,200 from faculty and staff. Additionally, we received over $15.2 million in grants and contracts. This was an increase of 171% over FY09 and $7 million more than any previous year's total. Among the grants received was a $6.5 million grant from the Bush Foundation for teacher preparation innovation and transformation.

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, South Central College and Rasmussen 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 2009-2010 academic year, the University enrolled students in our fourth doctoral program – Doctor of Educational Leadership. Our graduate programs continue to grow with graduate enrollment increasing by 6.8% in Fall 2009. Credit hour production in the doctoral programs increased 142.1%. In Fall 2009, 44 students were enrolled in our 4 doctoral programs.

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 ethnic minority students. In Fall 2009, 8.7% of our student population identified themselves as being a member of an ethnic group. A new College Access Program model was successfully implemented and enrolled the largest class for the summer bridge program since its inception.
- Several new programs were designed and approved to meet the needs of students and employers including a new applied organization studies degree (a completion degree) and a new leadership certificate program. The University collaborated with Northeast Higher Education District to bring an accredited engineering program to students on

the Iron Range. The program is receiving recognition for its innovative partnership and curriculum design.

- Our University is proud of the recognition it has received from the Office of the Chancellor. Minnesota State Mankato received awards for excellence in financial management, and excellence in facilities management. Our new partnership with the Northeast Higher Education District for bringing an innovative and unique engineering program to the Iron Range was recognized, as was our Student Health Services for innovative partnering and collaboration for the Fall 2009 H1N1 immunization initiative. An administrator was recognized for achievement and eight employees in the Information Technology Division were recognized for innovative, useful new software, systems and training programs. Additionally, an employee of the University received the Human Resources All Star Award.
- 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. In a survey conducted by the Office of the Chancellor, 82% of the respondents at Minnesota State Mankato indicated they had attended one or more professional development activities in the past year and 97% indicated the activity they attended was on our campus (compares to 88% system wide).
- During 2009-2010, a new set of strategic priorities was established and work began campus-wide to identify specific goals to achieve these priorities: The priorities include:
    - We will plan and build the Campus of the Future.
    - We will think and act like a Doctoral Institution
    - We will grow Extended Learning
    - We will promote Global Solutions
    - We will embody Quality and Excellence in all that we do.

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

- We were ranked among the top quartile of the nation's four-year public and private colleges by *Forbes* magazine. We were one of four Minnesota public universities on the list, and the highest-ranking institution in the Minnesota State Colleges and Universities system.
- The Ostrander Auditorium in the Centennial Student Union was remodeled and nationally recognized on the cover of *Sound Communications* magazine. The article highlighted the design which allows for multi-purpose uses.
- The University's series of three television spots aired during the Fall of 2009 was selected to receive a Gold award in the 2010 Circle of Excellence Award Program of the Council for Advancement and Support of Education (CASE). Our award was one of two golds given in the category of Video PSAs and Commercial Spots out of 31 entries.
- *The Minneapolis St. Paul Business Journal* ranked our Alumni Association number one by membership among alumni associations in Minnesota.

- KMSU-FM 89.7 received a $238,500 legislative grant to produce new programming and events that enrich and promote Minnesota art and cultural heritage.
- A student team won the Council on Undergraduate Research's 2010 Posters on the Hill competition in Washington, D.C.—one of 75 recognized in this year's contest.
- For the 4^{th} consecutive year, the College of Business was named one of the nation's best business schools by *The Princeton Review.*

The University's financial statements were audited by Kern DeWenter Viere, Ltd. Included in these financial statements are statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. The financial statements show that the University's financial position improved significantly during fiscal year 2010. The University's net assets increased during fiscal year 2010 by $21.9 million and now total $187.1 million. Additionally, the University's general operating fund reserve increased from $9.4 million to $11.4 million during fiscal year 2010. 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,

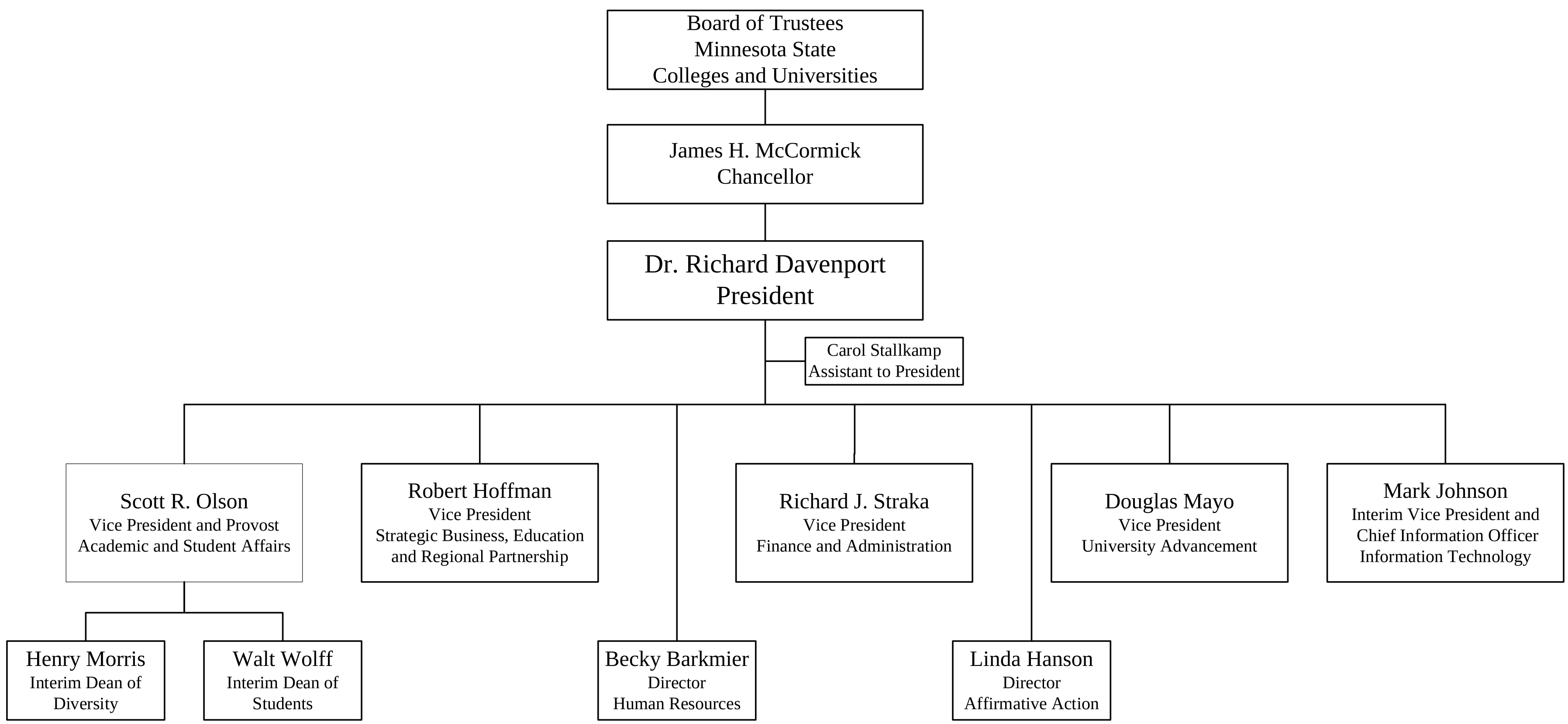
Richard Davenport
President

Enclosure

Minnesota State University, Mankato

Organizational Chart

June 30, 2010



The financial activity of the 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

KDV

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INDEPENDENT AUDITOR'S REPORT

October 27, 2010

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, 2010 and 2009, 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 $ 39,401,646 and $ 33,879,140 at June 30, 2010 and 2009, respectively, and total revenues of $ 11,673,401 and ($ 1,034,701), 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 the Foundation 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, 2010 and 2009, 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 27, 2010, 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.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.
Bloomington, 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, 2010, 2009, and 2008. 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 14,950 students including 1,900 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, 66 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 improved significantly during fiscal year 2010. Several factors contributed to the improvement. Although the University's state appropriation revenue was reduced by $6.5 million during fiscal year 2010, federal grant revenue increased by $9.9 million with $4.5 million of the increase coming from funds that the University received under the American Recovery and Reinvestment Act (ARRA) of 2009. ARRA, commonly referred to as the federal stimulus package, was enacted to create jobs and promote consumer spending in response to the most recent recession. Additionally, tuition revenue increased by $2.2 million while salary expense decreased by $1.1 million during fiscal year 2010. Over the past two fiscal years, the University has been engaged in an ongoing budget planning process that has resulted in significant operating cost reductions. All of these factors contributed to the improvement of the University's financial position.

For the fiscal year ended June 30, 2010, assets totaled $307.5 million compared to liabilities of $120.4 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 $139 million; restricted assets of $24.3 million; and unrestricted assets of $23.8 million. The fiscal year 2010 net assets total of $187.1 million represents an increase of $21.9 million over fiscal year 2009 and $37 million over fiscal year 2008. The fiscal year 2010 unrestricted net assets total of $23.8 million represents a 40.5 percent increase from the fiscal year 2009 total of $16.9 million and a 39.2 percent increase compared to the fiscal year 2008 total of $17.1 million.

Fiscal year 2010 state appropriations revenue, excluding capital appropriations, totaled $53.8 million and represents a 10.8 percent decrease from fiscal year 2009 and a 9.5 percent decrease from fiscal year 2008. Net tuition revenue in fiscal year 2010 reached $62.3 million which is a 3.6 percent increase over fiscal year 2009 and a 7.8 percent increase over fiscal year 2008.

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.

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, 2010, 2009, and 2008, respectively, is as follows:

Statements of Net Assets
(In Thousands)

	2010	2009	2008
Assets			
Current assets	$ 77,624	$ 69,101	$ 67,395
Restricted assets	18,177	18,740	43,506
Noncurrent assets			
Student loan receivables/other	5,792	6,282	6,367
Capital assets, net	205,935	189,624	140,083
Total assets	307,528	283,747	257,351
Liabilities			
Current liabilities	29,171	28,670	29,200
Noncurrent liabilities	91,256	89,871	78,070
Total liabilities	120,427	118,541	107,270
Net Assets			
Invested in capital assets, net of related debt	139,035	123,308	112,953
Restricted	24,287	24,975	20,049
Unrestricted	23,779	16,923	17,079
Total net assets	$ 187,101	$ 165,206	$ 150,081

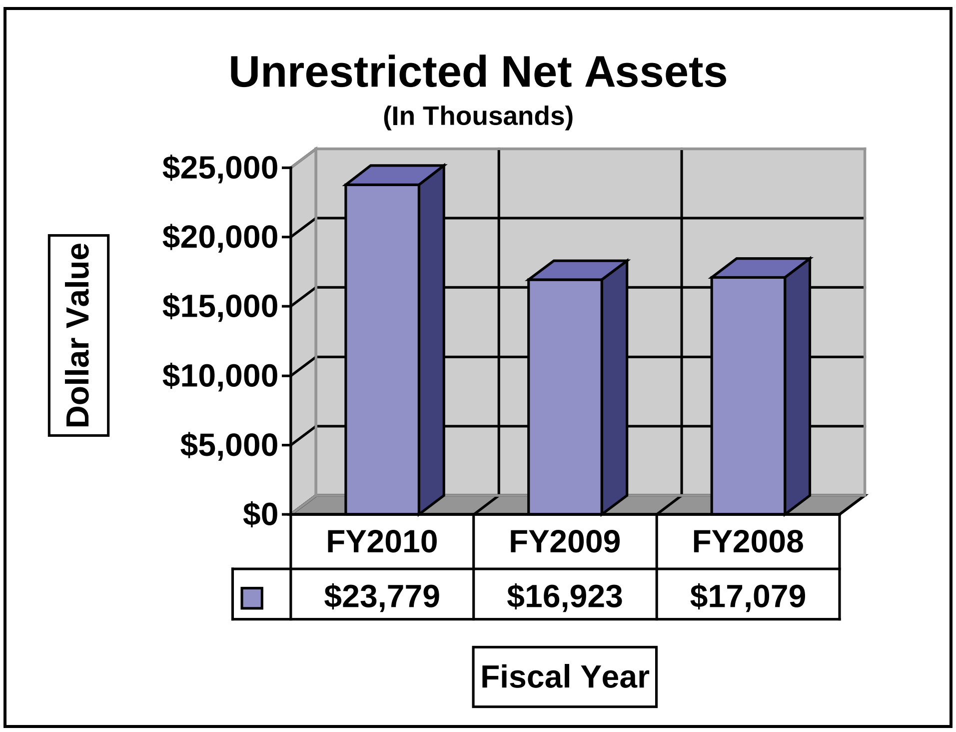
Current unrestricted assets primarily consist of cash, cash equivalents and investments totaling $68.7 million at June 30, 2010. This is an increase of $6.5 million over fiscal year 2009 and represents approximately 4.9 months of operating expenses (excluding depreciation). This is compared to 4.4 months and 4.5 months for the fiscal years ended June 30, 2009 and 2008, respectively.

Current liabilities primarily consist of accounts and salaries payable. Salaries payable totaled $13.6 million at June 30, 2010, an amount similar to the prior year. Salaries payable was static due to minimal salary increases provided to employees, a reduction of approximately 38 full time equivalent (FTE) employees, along with an increase in health insurance premiums. Included within the salary payable accrual is $7.5 million representing approximately two months of earned salary for faculty who have elected to receive salaries over a twelve month period from August 17, 2009 – August 13, 2010. Accounts payable totaled $5.9 million, $6.4 million, and $7.5 million for fiscal years ended June 30, 2010, 2009, and 2008 respectively.

The majority of the variation in accounts payable from year to year 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 $11.4 million, $9.4 million, and $8.9 million for fiscal years ended June 30, 2010, 2009, and 2008, 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.

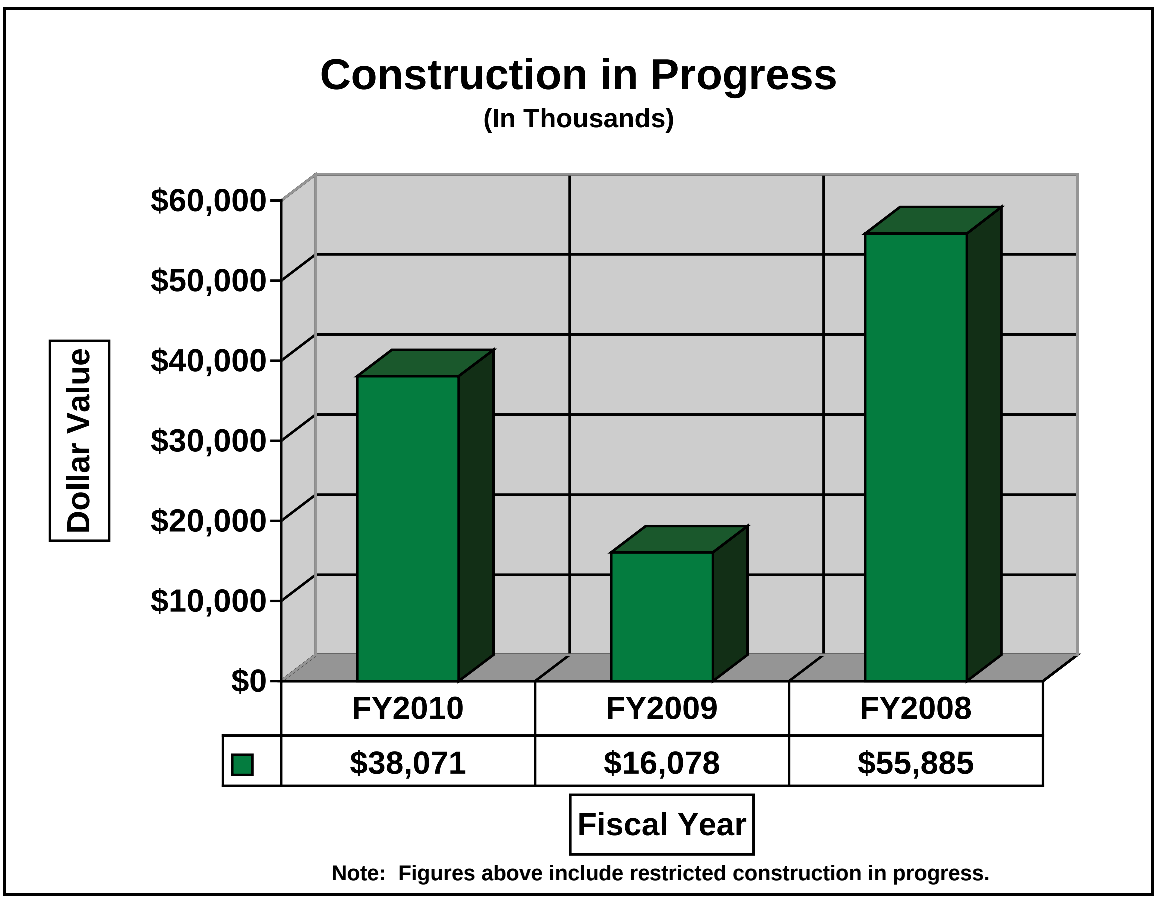


Invested in capital assets, net of related debt represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Restricted assets primarily include funding received for 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 $128.2 million, totaled $212.2 million as of June 30, 2010. This represents increases of $22.3 million and $43.2 million from June 30, 2009, and 2008, 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 $33.2 million in fiscal year 2010, an increase of $2 million from fiscal year 2009. Significant capital outlays made in fiscal year 2010 included $13.4 million for the Trafton Science Center renovation project, $5.4 million for the outdoor recreation renovation project, and $4.7 million for the McElroy Hall renovation project. Significant capital outlays made in fiscal year 2008 included $9.9 million for Ford Hall, $8.7 million for the Trafton Science Center renovation project, $3.9 million for the Crawford Hall renovation project, and $1.5 million for Sears Residential Hall. Significant capital outlays made in fiscal year 2008 included $18.4 million for Sears Residential Hall and $15.5 million for Ford Hall. Proceeds from bond sales and capital appropriations provided to the University in prior years were the primary funding sources for these projects. Construction in progress totaled $38.1 million, $16.1 million, and $55.9 million for fiscal years ended June 30, 2010, 2009, and 2008, respectively. Capital appropriations totaled $12.6 million, $14 million, and $11.8 million for fiscal years ended June 30, 2010, 2009, and 2008, respectively.



Revenue and general obligation bonds payable totaled $72.4 million at June 30, 2010. These bonds were issued to finance building construction, remodeling and repairs. The majority of the bonds payable stems from three general obligation fund projects and four revenue fund projects. General obligation bonds payable includes $9.8 million for Ford Hall which was completed in 2009, $7.9 million for the Trafton Science Center Renovation project which is expected to be completed in October 2010, and $3.5 million for athletic facility renovations completed between 2002 and 2007. Revenue bonds payable includes $0.9 million for various residence hall renovation projects completed in 2003, $7.5 million for the Centennial Student Union south entrance and food service renovation project which was completed in 2005, $33.2 million for Sears Residence Hall which was completed in 2009, and $6.8 million for the outdoor recreation renovation project which is expected to be completed in October 2010. 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)

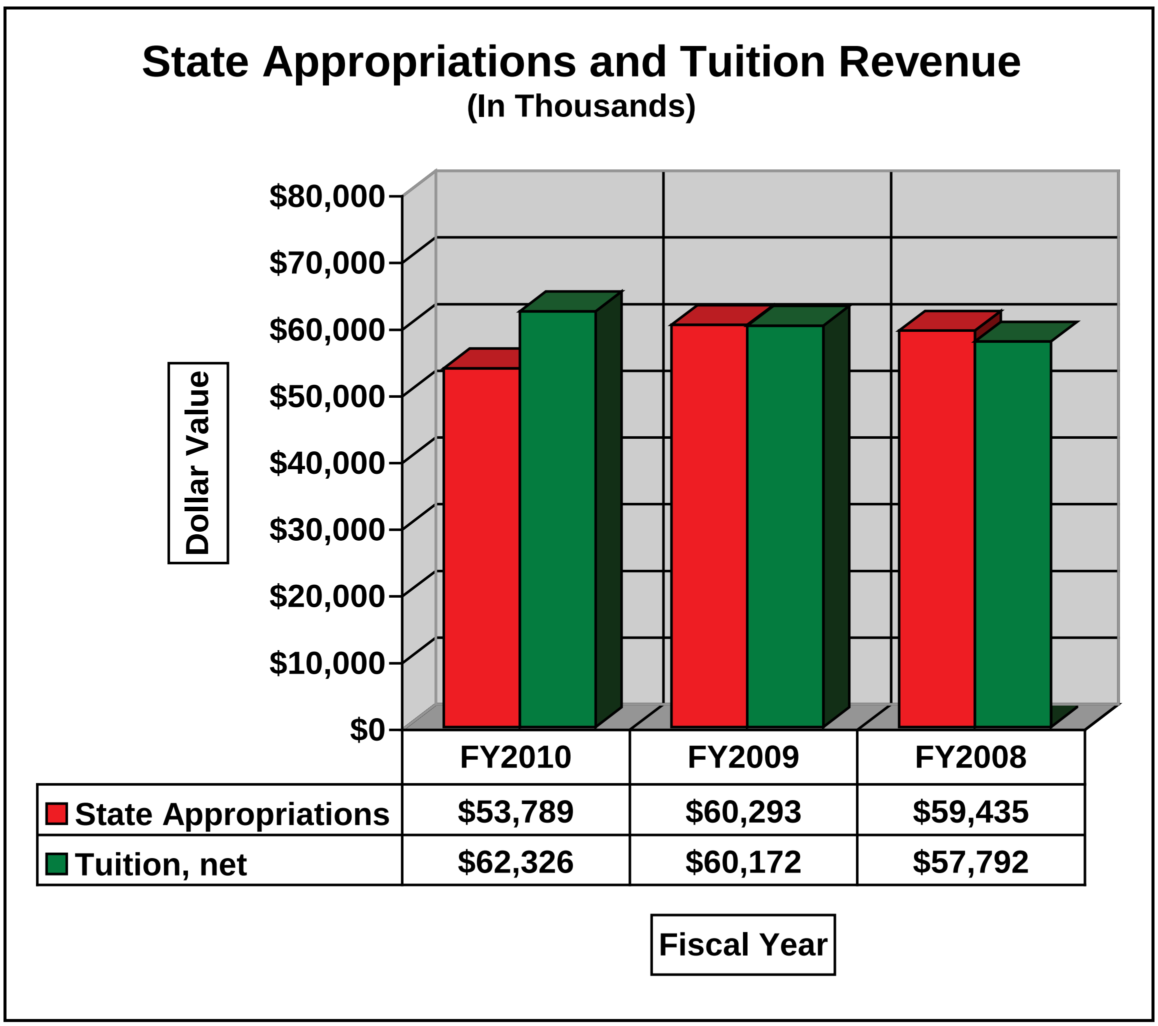
	2010	2009	2008
Operating revenues:			
Tuition, net	$ 62,326	$ 60,172	$ 57,792
Fees, net	7,347	7,439	7,389
Sales, net	9,285	9,738	9,013
Restricted student payments, net	24,305	23,104	18,912
Other income	1,296	1,122	1,072
Total operating revenues	104,559	101,575	94,178
Nonoperating revenues:			
State appropriations	53,789	60,293	59,435
Federal, state, and private grants	32,660	21,863	21,544
Capital appropriations and capital grants	13,763	14,010	11,812
Other	936	1,608	2,475
Total nonoperating revenue	101,148	97,774	95,266
Total revenue	205,707	199,349	189,444
Operating expenses:			
Salaries and benefits	125,916	127,040	118,062
Supplies and services	39,444	40,757	39,906
Depreciation	10,786	10,173	8,716
Financial aid, net	4,161	3,241	3,034
Total operating expense	180,307	181,211	169,718
Nonoperating expense:			
Loss on disposal of capital assets	205	129	31
Grants to other organizations	15	21	29
Interest expense	3,285	2,863	2,311
Total nonoperating expense	3,505	3,013	2,371
Total expense	183,812	184,224	172,089
Increase in net assets	21,895	15,125	17,355
Net assets, beginning of year	165,206	150,081	132,726
Net assets, end of year	$ 187,101	$ 165,206	$ 150,081

Tuition and state appropriations are the primary sources of funding for University operations. Enrollment grew by 160 full year equivalents (FYE) from fiscal year 2009 to fiscal year 2010 which represents a 1.2 percent increase.

Enrollment levels totaled 13,933, 13,773, and 13,624 FYE for fiscal years ended June 30, 2010, 2009, and 2008, respectively. In addition to the enrollment increase seen during fiscal year 2010, tuition revenue also increased in fiscal years 2010 and 2009 as a result of tuition rate increases in each of the last two fiscal years. Tuition rates increased 3 percent from fiscal year 2008 to fiscal year 2009 and 3 percent from fiscal year 2009 to fiscal year 2010. State appropriations decreased by $6.5 million during fiscal year 2010 to $53.8 million representing a 10.8 percent decrease and a 9.5 percent decrease from fiscal years ending June 30, 2009, and 2008 respectively.

Capital appropriations have fluctuated the past three fiscal years with the University receiving of $12.6 million, $14 million, and $11.8 million for the fiscal years ended June 30, 2010, 2009, and 2008, respectively.

Resources expended for employee compensation totaled $125.9 million for the fiscal year ended June 30, 2010, which represents a decrease of $1.1 million over the prior year. Minimal employee salary increases, normal health insurance increases, and the reduction of approximately 38 FTE employees all contributed to the slight decrease in employee compensation for the fiscal year ended June 30, 2010.



	FY2010	FY2009	FY2008
State Appropriations	$53,789	$60,293	$59,435
Tuition, net	$62,326	$60,172	$57,792

COMPONENT UNIT

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.

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 budget deficit for the 2012-2013 biennium is projected at between $5.8 and $7 billion. The University may 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 as the number of Minnesota high school graduates declines in the near future
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.

Anticipated 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. After implementing a $7 million base budget reduction plan in fiscal year 2010, the University has completed another University-wide budget process which has identified up to $6 million in base budget reductions to instructional areas and up to $2 million in base budget reductions to non-academic areas to meet the anticipated worst case reduction in state appropriation in fiscal year 2012. 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. As of October 1, 2010, University enrollment is projected to exceed 2 percent growth for fiscal year 2011.

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 anticipated cost increases for purchased services and supplies, may result in significant financial challenges for the University in fiscal years 2012, 2013 and beyond. However, the University believes that its open budget planning process, which incorporates a shared governance philosophy into decision making, positions the University to respond effectively to current and future financial challenges.

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:

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

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009
(IN THOUSANDS)

Assets	2010	2009
Current Assets		
Cash and cash equivalents	$ 61,066	$ 55,362
Investments	7,588	6,747
Grants receivable	1,459	599
Accounts receivable, net	3,801	3,352
Prepaid expense	2,455	1,610
Inventory	84	130
Student loans and other assets, net	1,171	1,301
Total current assets	77,624	69,101
Current Restricted Assets		
Cash and cash equivalents	11,901	18,477
Total current restricted assets	11,901	18,477
Noncurrent Restricted Assets		
Other assets	18	25
Construction in progress	6,258	238
Total noncurrent restricted assets	6,276	263
Total restricted assets	18,177	18,740
Noncurrent Assets		
Student loans and other assets, net	5,792	6,282
Capital assets, net	205,935	189,624
Total noncurrent assets	211,727	195,906
Total Assets	307,528	283,747
Liabilities		
Current Liabilities		
Salaries and benefits payable	13,572	13,536
Accounts payable	3,670	3,126
Unearned revenue	3,880	2,859
Payable from restricted assets	2,187	3,251
Interest payable	584	570
Funds held for others	208	477
Current portion of long-term debt	3,080	2,833
Other compensation benefits	1,990	2,018
Total current liabilities	29,171	28,670
Noncurrent Liabilities		
Noncurrent portion of long-term debt	71,056	69,591
Other compensation benefits	13,710	13,712
Capital contributions payable	6,490	6,568
Total noncurrent liabilities	91,256	89,871
Total Liabilities	120,427	118,541
Net Assets		
Invested in capital assets, net of related debt	139,035	123,308
Restricted expendable, bond covenants	11,448	12,506
Restricted expendable, other	12,839	12,469
Unrestricted	23,779	16,923
Total Net Assets	$ 187,101	$ 165,206

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 108	$ 166
Investments	34,062	29,055
Pledges and contributions receivable, net	2,514	2,924
Other receivables	45	127
Total current assets	36,729	32,272
Noncurrent Assets		
Long-Term Pledges Receivable	1,716	625
Property and equipment, net	957	982
Total noncurrent assets	2,673	1,607
Total Assets	$ 39,402	$ 33,879
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 112	$ 180
Bonds payable	245	432
Total current liabilities	357	612
Noncurrent Liabilities		
Annuities payable	1,168	1,134
Bonds payable	471	716
Total noncurrent liabilities	1,639	1,850
Total Liabilities	1,996	2,462
Net Assets		
Unrestricted	4,269	1,770
Temporarily restricted	2,364	1,273
Permanently restricted	30,773	28,374
Total Net Assets	37,406	31,417
Total Liabilities and Net Assets	$ 39,402	$ 33,879

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, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Revenues		
Tuition, net	$ 62,326	$ 60,172
Fees, net	7,347	7,439
Sales, net	9,285	9,738
Restricted student payments, net	24,305	23,104
Other income	1,296	1,122
Total operating revenues	104,559	101,575
Operating Expenses		
Salaries and benefits	125,916	127,040
Purchased services	19,434	20,072
Supplies	9,073	9,391
Repairs and maintenance	1,996	1,652
Depreciation	10,786	10,173
Financial aid, net	4,161	3,241
Other expense	8,941	9,642
Total operating expenses	180,307	181,211
Operating loss	(75,748)	(79,636)
Nonoperating Revenues (Expenses)		
Appropriations	53,789	60,293
Federal grants	22,525	12,632
State grants	8,217	7,716
Private grants	1,918	1,515
Interest income	913	1,294
Interest expense	(3,285)	(2,863)
Grants to other organizations	(15)	(21)
Total nonoperating revenues (expenses)	84,062	80,566
Income Before Other Revenues, Expenses, Gains, or Losses	8,314	930
Capital appropriations	12,590	14,010
Capital grants	1,173	-
Donated assets and supplies	23	314
Loss on disposal of capital assets	(205)	(129)
Change in net assets	21,895	15,125
Total Net Assets, Beginning of Year	165,206	150,081
Total Net Assets, End of Year	$ 187,101	$ 165,206

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, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Support and Revenue		
Contributions, net	$ 6,155	$ 3,207
In-kind contributions	2,289	1,716
Investment income	947	1,345
Realized gains and (losses)	2,127	(7,378)
Unrealized losses	(5)	(103)
Other income	160	178
Total support and revenue	11,673	(1,035)
Expenses		
Program Services		
Scholarships	3,401	3,001
Total program services	3,401	3,001
Supporting services		
Interest expense	46	69
Management and general	540	512
Fundraising expenses	1,661	1,776
Depreciation and amortization	25	25
Property and equipment expenses	11	7
Total supporting services	2,283	2,389
Total expenses	5,684	5,390
Change in Net Assets	5,989	(6,425)
Net Assets, Beginning of Year	31,417	37,842
Net Assets, End of Year	$ 37,406	$ 31,417

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	$ 106,415	$ 102,500
Cash repayment of program loans	833	745
Cash paid to suppliers for goods or services	(40,843)	(42,615)
Cash payments to employees	(125,845)	(124,565)
Financial aid disbursements	(4,237)	(3,237)
Cash payments of program loans	(525)	(564)
Net cash flows used in operating activities	(64,202)	(67,736)
Cash Flows from Noncapital Financing Activities		
Appropriations	53,789	60,293
Federal grants	21,665	12,623
State grants	8,217	7,716
Private grants	1,918	1,515
Agency activity	(269)	146
Grants to other organizations	(15)	(21)
Net cash flows from noncapital financing activities	85,305	82,272
Cash Flows from Capital and Related Financing Activities		
Investment in capital assets	(33,590)	(31,709)
Capital appropriation	12,590	14,010
Capital grants	1,173	-
Proceeds from sale of capital assets	16	47
Proceeds from issuance of debt	4,491	13,027
Proceeds from bond premium	276	208
Interest paid	(3,644)	(2,928)
Repayment of lease principal	(396)	(407)
Repayment of bond principal	(2,943)	(2,315)
Net cash flows from capital and related financing activities	(22,027)	(10,067)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	2,210	3,480
Purchase of investments	(2,800)	(4,600)
Investment earnings	642	1,250
Net cash flows from investing activities	52	130
Net Increase (Decrease) in Cash and Cash Equivalents	(872)	4,599
Cash and Cash Equivalents, Beginning of Year	73,839	69,240
Cash and Cash Equivalents, End of Year	$ 72,967	$ 73,839

The notes are an integral part of the financial statements.

MINNESOTA STATE UNIVERSITY, MANKATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(IN THOUSANDS)

	2010	2009
Operating Loss	$ (75,748)	$ (79,636)
Adjustment to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	10,786	10,173
Provision for loan defaults	3	(8)
Loan principal repayments	833	745
Loans issued	(525)	(564)
Loans forgiven	97	88
Change in assets and liabilities		
Inventory	47	(34)
Accounts receivable	(357)	(338)
Accounts payable	(178)	(620)
Salaries and benefits payable	36	1,101
Other compensation benefits	(30)	1,622
Capital contributions payable	(78)	3
Unearned revenues	1,022	(302)
Other	(110)	34
Net reconciling items to be added to operating income	11,546	11,900
Net cash flows used in operating activities	$ (64,202)	$ (67,736)
Non-Cash Investing, Capital, and Financing Activities		
Capital projects on account	$ 2,952	$ 3,629
Equipment purchased on account	314	76
Investment purchased on account	100	-
Donated equipment	23	314
Loss on retirement of capital assets	(221)	(176)
Change in fair market value of investment	152	9
Investment earnings on account	227	270
Amortization of bond premium	162	141
Grants Receivable	(860)	9

MINNESOTA STATE UNIVERSITY, MANKATO
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

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, Minnesota 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 (Minnesota SBI) 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 SBI 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, Minnesota 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, federal, state and private grants and investment income.

Tuition, Fees, and Sales, Net — Tuition, fees, and sales are reported net of scholarship allowances of $22,129,384 and $17,587,959, for fiscal years 2010 and 2009, respectively. Sales are also net of cost of goods sold of $1,192,918 and $1,564,674, for fiscal years 2010 and 2009, 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 $753,901 and $458,348, for fiscal years 2010 and 2009, 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. Federal Grant revenue is recognized as nonoperating revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* During fiscal year 2010, $4,626,534 of federal aid was recognized as revenue related to the American Recovery and Reinvestment Act of 2009. Of this amount, $1,223,881 was used to mitigate tuition increases that would have otherwise been necessary. 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.

Capital Grants — The University receives federal, state, and private grants which are restricted for the acquisition or construction of capital assets.

Reclassifications — Certain prior year amounts have been reclassified to conform with current year presentation. These classifications had no effect on net assets previously reported. Fiscal year 2009 federal and state grant revenue, in the amount of $12,631,990 and $7,716,148, respectively, have been reclassified from operating to nonoperating revenue. This reclassification increases the total operating loss by $20,348,138 while increasing total nonoperating revenue by the same amount.

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)

	2010	2009
Donations	$ 171	$ 162
Loans	751	760
Capital projects	8,046	8,634
Debt service	2,284	1,462
Faculty contract obligations	1,587	1,451
Total	$ 12,839	$ 12,469

- *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.

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.

At June 30, 2010 and 2009, the University's local bank balances were $3,054,709 and $2,649,481, 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 SBI as part of the state investment pool. This asset is reported as a cash equivalent.

Cash and Cash Equivalents at June 30
(In Thousands)

Carrying Amount	2010	2009
Cash, in bank	$ 2,134	$ 1,979
Money markets	201	161
Cash, trustee account (US Bank)	—	9,754
Total local cash and cash equivalents	2,335	11,894
Total treasury cash accounts	70,632	61,945
Grand Total	$ 72,967	$ 73,839

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

Investments — The Minnesota SBI manages the majority of the state's investments. All investments managed by Minnesota 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, Minnesota 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.

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)

	2010		2009	
Investment Type	Fair Value	Weighted Maturities (In Years)	Fair Value	Weighted Maturities (In Years)
US agencies	$ 7,588	14.18	$ 6,747	14.01

Securities Lending Transactions — State statutes do not prohibit the state of Minnesota from participating in securities lending transactions. The Minnesota SBI 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 2010 and 2009, 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. The securities lending activity for Wells Fargo ceased in May 2009. 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 2010 or 2009. In addition, there were no losses during the fiscal years resulting from default of the borrowers, State Street, or Wells Fargo.

During fiscal years 2010 and 2009, 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 SBI. 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, 2010 and 2009, 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 University had no security lending allocation for fiscal year 2010 and 2009. The following tables provide information related to the securities invested by State Street:

Security Lending Analysis, State Street, at June 30
(In Thousands)

	2010	2009
Fair value of securities on loan	$3,720,274	$6,587,602
Collateral held	3,845,017	6,829,949
Average duration	8 days	37 days
Average weighted maturity	43 days	201 days

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are primarily receivables from individuals and businesses. At June 30, 2010 and 2009, the total accounts receivable balances for the University were $4,901,937 and $4,490,232, respectively, less an allowance for uncollectible receivables of $1,101,297 and $1,137,915, respectively. The allowance for uncollectible accounts has been computed using historical collection rates.

Summary of Accounts Receivable at June 30
(In Thousands)

	2010	2009
Tuition	$ 1,728	$ 1,662
Sales and services	1,472	1,328
Fees	470	468
Room and board	403	396
Other	829	636
Total accounts receivable	4,902	4,490
Allowance for uncollectible accounts	(1,101)	(1,138)
Net accounts receivable	$ 3,801	$ 3,352

4. PREPAID EXPENSE

This primarily consists of $2,283,623 and $1,462,325 for fiscal years 2010 and 2009, 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 years 2010 and 2009 respectively, is $171,361 and $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, 2010 and 2009, the total loans receivable were $6,849,857 and $7,253,932, respectively, less an allowance for uncollectible loans of $235,104 and $232,056, respectively.

6. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Completed Construction	Ending Balance
Capital assets, not depreciated:					
Land	$ 911	$ —	$ —	$ —	$ 911
Construction in progress	16,078	30,515	—	(8,522)	38,071
Total capital assets, not depreciated	16,989	30,515	—	(8,522)	38,982
Capital assets, depreciated:					
Buildings and improvements	260,306	—	—	8,522	268,828
Equipment	25,987	1,561	3,577	—	23,971
Internally developed software	138	—	—	—	138
Library collections	8,701	1,144	1,362	—	8,483
Total capital assets, depreciated	295,132	2,705	4,939	8,522	301,420
Less accumulated depreciation:					
Buildings and improvements	98,995	7,542	—	—	106,537
Equipment	18,220	2,012	3,474	—	16,758
Internally developed software	20	20	—	—	40
Library collections	5,024	1,212	1,362	—	4,874
Total accumulated depreciation	122,259	10,786	4,836	—	128,209
Total capital assets, depreciated, net	172,873	(8,081)	103	8,522	173,211
Total capital assets, net	$ 189,862	$ 22,434	$ 103	$ —	$ 212,193

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

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)

	2010	2009
Purchased services	$ 786	$ 1,025
Supplies	470	314
Salaries	236	171
Repairs and maintenance	631	482
Capital projects	765	378
Equipment	314	76
Library materials	1	5
Inventory	10	18
Investments	100	—
Other	357	657
Total	$ 3,670	$ 3,126

In addition, as of June 30, 2010 and 2009, the university had payables from restricted assets in the amounts of $2,187,395 and $3,250,891, respectively, 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 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Bond premium	$ 2,216	$ 276	$ 162	$ 2,330	$ —
Capital leases	2,107	—	396	1,711	165
General obligation bonds	18,421	4,491	1,227	21,685	1,346
Revenue bonds	49,680	—	1,270	48,410	1,569
Total long term debt	$ 72,424	$ 4,767	$ 3,055	$ 74,136	$ 3,080

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

The changes in other compensation benefits for fiscal years 2010 and 2009 follow:

Year Ended June 30, 2010
(In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Liabilities for:					
Compensated absences	$ 13,630	$ 2,422	$ 2,798	$ 13,254	$ 1,432
Early termination benefits	144	225	144	225	225
Net other postemployment benefits	980	906	458	1,428	—
Workers’ compensation	976	367	550	793	333
Total other compensated benefits	$ 15,730	$ 3,920	$ 3,950	$ 15,700	$ 1,990

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

Bond Premium — In fiscal years 2010 and 2009, general obligation bonds were issued resulting in premiums of $276,332 and $191,401, 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 — Liabilities for capital leases include those leases that meet the criteria in the FASB Accounting Standards Codification (ASC) 840, *Leases* (previously FAS 13). 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 2.0 to 5.5 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 $300,000,000 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 15.39 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $77,242,468. Principal and interest paid for the current year and total customer net revenues were $3,591,769 and $25,196,041, 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 Management and Budget manages the self insured workers' compensation claims activities. The reported liability for workers' compensation of $793,258 and $975,748, at June 30, 2010 and 2009, 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 $6,490,400 and $6,568,133, at June 30, 2010 and 2009, 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 $77,733 decrease and a $3,332 increase for the fiscal years 2010 and 2009, 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
2011	$ 165	$ 76	$ 1,346	$ 1,014	$ 1,569	$ 2,306
2012	149	69	1,347	954	1,629	2,244
2013	157	62	1,296	891	1,694	2,177
2014	164	54	1,297	829	1,768	2,106
2015	172	47	1,248	766	1,852	2,025
2016-2020	904	100	6,112	2,914	10,584	8,648
2021-2025	—	—	5,733	1,430	11,479	5,750
2026-2030	—	—	3,306	283	11,295	3,076
2031-2035	—	—	—	—	6,540	501
Total	$ 1,711	$ 408	$ 21,685	$ 9,081	$ 48,410	$ 28,833

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 2010 and 2009 follow.

Fiscal Year	Number of Faculty	Future Liability (In thousands)
2010	11	$ 225
2009	6	144

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 2010 and 2009, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Components of the Annual OPEB Cost
(In Thousands)

	2010	2009
Annual required contribution (ARC)	$ 897	$ 875
Interest on net OPEB obligation	47	23
Adjustment to ARC	(38)	(19)
Annual OPEB cost	906	879
Contributions during the year	(458)	(386)
Increase in net OPEB obligation	448	493
Net OPEB cost, beginning of year	980	487
Net OPEB cost, end of year	$ 1,428	$ 980

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 and 2009, were as follows:

For the Year Ended June 30
(In Thousands)

	2010	2009
Beginning of year net OPEB obligation	$ 980	$ 487
Annual OPEB cost	906	879
Employer contribution	(458)	(386)
End of year net OPEB obligation	$ 1,428	$ 980
Percentage contributed	50.55%	43.91%

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%	$97,250	9.67%

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, 2010 and 2009, totaled approximately $872,662 and $870,468, respectively. Future minimum lease payments for existing lease agreements are as follows.

Year Ended June 30 (In Thousands)	
Fiscal Year	Amount
2011	$ 469
2012	418
2013	411
2014	86
2015	5
Total	$ 1,389

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 FASB ASC 840, *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, 2010 and 2009, totaled $249,545 and $222,541, 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
2011	$ 194
2012	99
2013	77
2014	67
2015	29
2016-2020	101
Total	$ 567

12. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

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

For the Year Ended June 30, 2010
(In Thousands)

Description	Salaries/ Benefits	Other	Total
Academic support	$ 16,905	$ 5,979	$ 22,884
Institutional support	11,524	6,559	18,083
Instruction	62,614	2,605	65,219
Operation & maintenance of plant	6,626	6,201	12,827
Public service	1,762	494	2,256
Research	1,879	1,405	3,284
Student services	15,308	6,149	21,457
Auxiliary enterprises	9,298	10,052	19,350
Depreciation	—	10,786	10,786
Scholarships & fellowships	—	4,161	4,161
Total operating expenses	$ 125,916	$ 54,391	$ 180,307

For the Year Ended June 30, 2009
(In Thousands)

Description	Salaries/ Benefits	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

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. Beginning July 1, 2007 the funding requirement for both employer and employee was 4.25 percent. The funding contribution rate increases 0.25 percent in each of the subsequent years until reaching 5 percent from July 1, 2010, and thereafter. For the period July 1, 2009 to June 30, 2010, the funding requirement is 4.75 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 1,083
2009	1,101
2008	964

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, 2007, the funding requirement is 5.5 percent for both employer and employee coordinated members. Beginning July 1, 2011, both employee and employer contribution rate increases will be phased in with a 0.5 percent increase, occurring every July 1 over four years, until it reaches a contribution rate of 7.5 percent on July 1, 2014. Actual contributions were 100 percent of required contributions. Required contributions for Minnesota State University, Mankato were:

(In Thousands)	
Fiscal Year	Amount
2010	$ 624
2009	684
2008	620

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, Minnesota 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
2010	$ 2,958	$ 2,196
2009	2,971	2,209
2008	2,551	1,892

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
2010	$ 1,474
2009	1,450
2008	1,241

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, 2008, the funding requirement for employees was 6 percent and 6.5 percent for employers. Effective January 1, 2009, and again January 1, 2010, employer contributions increased 0.25 percent, respectively. Beginning January 1, 2011, contribution rates for both employees and employers will increase 0.25 percent. Actual contributions were 100 percent of required contributions.

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

(In Thousands)		
Fiscal Year	Employer	Employee
2010	$ 4	$ 3
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)

	2010	2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current assets	$ 14,169	$ 15,258
Current restricted assets	10,377	15,243
Noncurrent restricted assets	6,280	263
Noncurrent capital assets, net	66,403	63,056
Total assets	97,229	93,820
Liabilities:		
Current liabilities	5,223	4,375
Noncurrent liabilities	48,655	50,255
Total liabilities	53,878	54,630
Net Assets:		
Invested in capital assets, net of related debt	23,857	18,049
Restricted	19,494	21,141
Total net assets	$ 43,351	$ 39,190
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$ 25,198	$ 23,620
Operating expenses	19,133	18,933
Net operating income	6,065	4,687
Nonoperating revenues (expenses)	(1,893)	(1,232)
Loss on disposal of capital assets	(11)	(24)
Change in net assets	4,161	3,431
Net assets, beginning of year	39,190	35,759
Net assets, end of year	$ 43,351	$ 39,190
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	$ 8,827	$ 7,699
Investing activities	333	885
Noncapital and related financing activities	2	—
Capital and related financing activities	(15,269)	(5,392)
Net increase (decrease)	(6,107)	3,192
Cash, beginning of year	29,108	25,916
Cash, end of year	$ 23,001	$ 29,108

15. COMMITMENTS

During fiscal year 2010, construction continued on the $25.8 million Trafton Science Center renovation project, the $6.9 million outdoor recreation renovation project, the $5.4 million McElroy Residence Hall renovation project, and the $3.0 million Center of Renewable Energy (CORE) building. As of June 30, 2010, $22.7 million had been expended on Trafton Science Center, $5.7 million had been expended on the outdoor recreation renovation, $4.8 million had been expended on the McElroy Residence Hall renovation, and $0.9 million had been expended on the Center of Renewable Energy (CORE) building. The Trafton Science Center renovation is expected to be completed in October 2010, the outdoor recreation renovation is expected to be completed in

October 2010, the McElroy Residence Hall renovation is expected to be completed in August 2010, and the Center of Renewable Energy (CORE) building is expected to be completed in October 2010.

New commitments made by the University during fiscal year 2010 include multiple building improvement projects. New commitments for building improvement projects, worth approximately $8.7 million, are for projects such as 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 2011. The largest building improvement commitment made during fiscal year 2010 was for costs associated with the Nelson Hall HVAC replacement project. The Nelson Hall HVAC replacement project, funded by general obligation bond proceeds, is expected to be completed in August 2011 at a cost of $1.7 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	$500,000
Bodily injury and property damage per occurrence	$1,500,000
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, 2010 and 2009.

(In Thousands)

	Beginning Liability	Net Additions and Changes	Payments	Ending Liability
Fiscal Year Ended 6/30/10	$ 976	$ 367	$ 550	$ 793
Fiscal Year Ended 6/30/09	584	692	300	976

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 FASB ASC 958-205, *Presentation of Financial Statements* (previously FAS 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 are to 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 $1,478,598 and $1,487,457, for fiscal years 2010 and 2009, respectively, and are included in the university's expenses.

During fiscal years 2010 and 2009, the foundation expended $3,400,774 and $3,001,226, respectively, for University educational program purposes. Approximately $1,120,166 and $1,108,474 of the total went to support student scholarships, talent grants, and other awards in fiscal years 2010 and 2009, respectively.

In addition to providing the University with supplemental funds for current operations, the Foundation's net assets increased by $5,988,805 and decreased by $6,424,445, for fiscal years 2010 and 2009, respectively.

An estimated $1,154,461 and $830,537, of revenues and expenditures in fiscal years 2010 and 2009, 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's investments are presented in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities* (previously FAS 124). Under ASC 958-320, 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	2010	2009
Money market funds	$ 1,679	$ 2,132
Equity mutual funds	19,661	17,856
Equity securities	32	46
Fixed income mutual funds	10,230	5,711
Balanced investment mutual fund	2,140	2,688
Fixed income securities	3	13
Life insurance contracts	90	97
Other investments	227	512
Total investments	$ 34,062	$29,055

Capital Assets—Summaries of the foundations' capital assets for fiscal years 2010 and 2009 are:

Schedule of Capital Assets at June 30
(In Thousands)

Investments	2010	2009
Capital assets, not depreciated:		
Land	$ 945	$ 945
Total capital assets, not depreciated	945	945
Capital assets, depreciated		
Equipment	246	246
Total capital assets, depreciated	246	246
Total accumulated depreciation	(234)	(209)
Total capital assets depreciated, net	12	37
Total capital assets, net	$ 957	$ 982

Long Term Obligations — Minnesota State University, Mankato Foundation, Inc. has bonds payable for the Taylor Center of $716,000.

Future scheduled debt payments are as follows:

Year Ending June 30
(In Thousands)

2011	$ 245
2012	245
2013	226
Total	$ 716

SUPPLEMENTAL SECTION

KDV

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

October 27, 2010

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, 2010, and have issued our report thereon dated October 27, 2010. 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, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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