

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

FINANCIAL STATEMENTS
June 30, 1996

PETERSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

209 South Second Street
Mankato, Minnesota 56001

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

FINANCIAL STATEMENTS
June 30, 1996

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Mankato, Minnesota

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Peterson & Company, P.A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mankato State University Foundation, Inc.
Mankato, Minnesota

We have audited the accompanying Balance Sheets of Mankato State University Foundation, Inc., as of June 30, 1996, and the related Statements of Revenues and Expenses, Changes in Fund Balances, and Cash Flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mankato State University Foundation, Inc., as of June 30, 1996, and the revenues and expenses, changes in fund balances, and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Statement of Revenues and Expenses - Budget and Actual - Unrestricted Fund is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we not express an opinion on it.

Peterson & Company, P.A.
Certified Public Accountants

Mankato, Minnesota
September 4, 1996

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

BALANCE SHEETS

June 30, 1996

With Comparative Totals at June 30, 1995

	Endowment Fund		Quasi- Endowment Fund	Restricted Fund	Unrestricted Fund	Annuity and Life Income Fund	Totals	
	Principal	Unexpended Income					1996	1995
ASSETS								
Cash				\$55,617	\$38,379	(\$5,818)	\$88,178	\$110,155
Investments	\$4,495,248	\$175,096	\$684,500	815,366	132,886	1,807,999	8,111,095	6,068,491
Investment in real estate	7,200				275,211		282,411	261,234
Life insurance contracts	96,513						96,513	111,438
Notes and other receivables	79,140		2,934	27,419		7,170	116,663	132,538
Prepaid expenses							0	2,680
Warren Street building (net of accumulated depreciation)					1,034,412		1,034,412	1,068,483
TOTAL ASSETS	\$4,678,101	\$175,096	\$687,434	\$898,402	\$1,480,888	\$1,809,351	\$9,729,272	\$7,755,019
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable				\$18,563	\$42,374		\$60,937	\$75,662
Interest payable					2,948		2,948	3,697
Assessments payable					32,682		32,682	47,665
Annuities payable						\$1,490,044	1,490,044	890,157
Deferred income - lease advances					10,932		10,932	8,727
Mortgage payable					1,048,090		1,048,090	1,095,346
TOTAL LIABILITIES				18,563	1,137,026	1,490,044	2,645,633	2,121,254
FUND BALANCES								
Restricted	\$4,678,101	\$175,096	\$687,434	879,839		319,307	6,739,777	5,346,350
Unrestricted					343,862		343,862	287,415
TOTAL FUND BALANCES	4,678,101	175,096	687,434	879,839	343,862	319,307	7,083,639	5,633,765
TOTAL LIABILITIES AND FUND BALANCES	\$4,678,101	\$175,096	\$687,434	\$898,402	\$1,480,888	\$1,809,351	\$9,729,272	\$7,755,019

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

STATEMENTS OF REVENUES AND EXPENSES
For the Year Ended June 30, 1996
With Comparative Totals for the Year Ended June 30, 1995

	Endowment Fund		Quasi- Endowment Fund	Restricted Fund	Unrestricted Fund	Eliminations	Totals	
	Principal	Unexpended Income					1996	1995
REVENUES								
Contributions	\$493,387	\$3,281	\$281,218	\$827,746	\$103,975		\$1,709,607	\$1,684,705
Investment income	16,011	51,290	23,374	24,286	1,443		116,404	137,437
Net gain on investments	355,655	167,986	27,944	132,275	3,050		686,910	286,534
Lease income					2,485		2,485	4,138
Warren Street building income, net of expenses					13,250		13,250	8,183
Administrative income					97,372	\$97,372	0	
Annuities matured							0	76,071
Other revenues	6,930	115	43	14,920	13,545		35,553	19,128
TOTAL REVENUES	871,983	222,672	332,579	999,227	235,120	97,372	2,564,209	2,216,196
EXPENSES								
Salaries		45		39,762	143,154		182,961	157,218
Rent, repairs, insurance and advertising				12,620	3,605		16,225	19,879
Printing		1,048		6,268	34,175		41,491	23,168
Consultants		2,170		16,815	288		19,273	21,077
Purchased and contracted services		767	50	14,886	18,034		33,737	29,136
Communications		1,040		7,809	3,791		12,640	11,373
Travel		2,791		37,715	14,462		54,968	31,362
Food services		2,497	1,374	36,323	39,480		79,674	54,693
Supplies and equipment		1,257	431	84,514	21,368		107,570	98,021
Purchase of library books				21,341			21,341	28,892
Stipends and scholarships		91,436	2,250	169,510	34,000		297,196	235,453
Awards				4,954			4,954	2,281
Athletic talent grants		25,898		177,036			202,934	254,026
Program expenses								
Support to athletics				53,038			53,038	9,756
Solar car				3,030			3,030	25,783
Speech and hearing instruction							0	4,736
Support theater activities				18,944			18,944	51,997
Support cultural diversity activities				6,634			6,634	
Other program expenses		178	200	16,099	836		17,313	14,700
Administrative charges	1,790	63,715	205	24,388	7,274	97,372	0	
Taxes, fees, utilities and assessments	60						60	342
Miscellaneous	121	45	1,885	118	2,471		4,640	(698)
TOTAL EXPENSES	1,971	192,887	6,395	751,804	322,938	97,372	1,178,623	1,073,195
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$870,012	\$29,785	\$326,184	\$247,423	(\$87,818)	\$0	\$1,385,586	\$1,143,001

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1996
With Comparative Totals for the Year Ended June 30, 1995

	Endowment Fund		Quasi- Endowment Fund	Restricted Fund	Unrestricted Fund	Annuity and Life Income Fund	Totals	
	Principal	Unexpended Income					1996	1995
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$870,012	\$29,785	\$326,184	\$247,423	(\$87,818)		\$1,385,586	\$1,143,001
ANNUITY AND LIFE INCOME								
Gifts						\$356,000	356,000	348,346
Investment income						60,084	60,084	44,239
Net gain on investments						13,052	13,052	80,345
Life income and annuity payments						(56,493)	(56,493)	(45,002)
(Increase) in actuarial liability for annuities payable						(308,355)	(308,355)	(232,361)
Annuities matured							0	(76,071)
TRANSFERS	28,159	(3,909)	11	(168,526)	144,265		0	0
CHANGES IN FUND BALANCES	898,171	25,876	326,195	78,897	56,447	64,288	1,449,874	1,262,497
FUND BALANCES, BEGINNING	3,779,930	149,220	361,239	800,942	287,415	255,019	5,633,765	4,371,268
FUND BALANCES, END	<u>\$4,678,101</u>	<u>\$175,096</u>	<u>\$687,434</u>	<u>\$879,839</u>	<u>\$343,862</u>	<u>\$319,307</u>	<u>\$7,083,639</u>	<u>\$5,633,765</u>

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 1996
With Comparative Totals for the Year Ended June 30, 1995

	Endowment Fund		Quasi- Endowment Fund	Restricted Fund	Unrestricted Fund	Annuity and Life Income Fund	Totals	
	Principal	Unexpended Income					1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES								
Excess (deficiency) of revenues over expenses	\$870,012	\$29,785	\$326,184	\$247,423	(\$87,818)		\$1,385,586	\$1,143,001
Adjustments to reconcile excess of revenues over expenditures to net cash provided by operating activities								
Depreciation expense					34,071		34,071	34,070
Net gain on investments	(355,655)	(167,986)	(27,944)	(132,275)	(3,050)	(\$13,052)	(699,962)	(398,706)
Increase (decrease) in annuity and life income funds						664,156	664,156	346,593
(Increase) decrease in								
Notes and other receivables	8,652		(2,934)	9,444		713	15,875	(83,808)
Prepaid expenses					2,680		2,680	(2,025)
Increase (decrease) in								
Accounts payable				(34,785)	20,079		(14,706)	54,686
Interest payable					(749)		(749)	(925)
Deferred income - lease advances					2,205		2,205	2,506
Net cash provided by (used for) operating activities	<u>523,009</u>	<u>(138,201)</u>	<u>295,306</u>	<u>89,807</u>	<u>(32,582)</u>	<u>651,817</u>	<u>1,389,156</u>	<u>1,095,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES								
(Purchase) of investments, net of sales	(566,058)	142,110	(295,317)	109,402	(81,362)	(651,417)	(1,342,642)	(1,065,030)
Proceeds from investment in leases							0	45,835
Investment in life insurance contracts	(5,918)						(5,918)	(14,738)
Proceeds from life insurance redemptions	20,843						20,843	
Investment in real estate	(35)						(21,177)	(8,966)
Net cash provided by (used for) investing activities	<u>(551,168)</u>	<u>142,110</u>	<u>(295,317)</u>	<u>109,402</u>	<u>(102,504)</u>	<u>(651,417)</u>	<u>(1,348,894)</u>	<u>(1,042,899)</u>
CASH FLOWS FROM FINANCING ACTIVITIES,								
Assessments payable					(14,983)		(14,983)	(14,983)
Mortgage payments					(47,256)		(47,256)	(42,254)
					<u>(62,239)</u>		<u>(62,239)</u>	<u>(57,237)</u>
TRANSFERS	<u>28,159</u>	<u>(3,909)</u>	<u>11</u>	<u>(168,526)</u>	<u>144,265</u>		<u>0</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,683</u>	<u>(38,077)</u>	<u>400</u>	<u>(6,994)</u>	<u>10,239</u>
CASH, BEGINNING OF YEAR	<u>0</u>	<u>0</u>	<u>0</u>	<u>24,934</u>	<u>91,439</u>	<u>(6,218)</u>	<u>110,155</u>	<u>114,899</u>
CASH, END OF YEAR	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$55,617</u>	<u>\$53,362</u>	<u>(\$5,818)</u>	<u>\$103,161</u>	<u>\$125,138</u>
SUPPLEMENTAL DISCLOSURE								
Interest paid for the year ended June 30, 1996					<u>\$74,148</u>			

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies -

The purpose of Mankato State University Foundation, Inc., a nonprofit organization, is to receive monies and other property through fund raising and gift acceptance and to hold, invest, or expend these amounts for the benefit of Mankato State University.

Donors may designate the Foundation as a beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts will be recorded when clear title is established and the proceeds are measurable. Noncash donations are reflected as revenues at their estimated values at the date of receipt. Pledges are not recorded; contributions are recorded when received.

The Foundation is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and also qualifies as a tax exempt organization under applicable statutes of the State of Minnesota.

The Foundation considers demand checking and savings accounts as cash.

Investments in debt and equity securities are carried at current market value. Investments of various funds are pooled and the income and the realized and unrealized gains and losses on the investments are allocated equitably to the participating funds, except that earnings on restricted funds are transferred to the unrestricted fund.

The building is stated at cost less accumulated depreciation. Major additions and betterments are charged to the building account, while maintenance and repairs which do not extend the life of the asset are expensed currently. When the property is retired or otherwise disposed of, the cost of the property is removed from the asset account and accumulated depreciation is charged with an amount equivalent to the depreciation provided.

Depreciation on the building is provided on the straight-line method over 20 to 40 years.

The major transfers between funds include restricted fund investment income of \$153,919 transferred to the unrestricted fund and the establishment of endowment accounts, by transfer of \$28,159 from the restricted account. Other transfers result in transfer of subsidiary accounts to more appropriately reflect the proper account purpose and restrictions.

The Foundation maintains its accounting records on the fund accounting basis, using subsidiary accounts to maintain separately, within each fund, individual account balances. The following funds are in use:

Endowment Fund:

The Endowment Fund represents funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

The Unexpended Income Fund is credited with the earnings of the endowment principal net of administrative expenses. Earnings net of administrative expenses in excess of 5% per annum investment return are added to the endowment principal accounts. Administrative expenses include transaction fees for each donation received and each check issued plus one and one-half percent of the March 31 principal balance. The administrative charges are credited to the income of the Unrestricted Fund.

Quasi-Endowment Fund:

The quasi-endowment fund represents amounts that have been restricted by donors for specific projects. Administrative expenses include transaction fees for each donation received and each check issued plus one and one-half percent of the March 31 principal balance. The board-designated endowment monies are invested to earn income for projects until such time as the amounts are expended.

Restricted Fund:

The restricted fund is available for student scholarships and grants and support of various university activities as designated by the donors.

Annuity and Life Income Fund:

The annuity and life income fund consists of funds received from donors subject to agreements whereby assets are made available to the Foundation on the condition that the Foundation bind itself to pay stipulated amounts periodically to the donors. These agreements provide that such periodical payments will terminate upon the death of the donor or after a specific term.

Unrestricted Fund:

To cover the Foundation's administrative expenses the unrestricted fund receives income from the Endowment, Quasi-Endowment and the Restricted Funds. Such income includes transaction fees for the recording of donation income and the issuance of disbursement checks, an amount equal to one and one-half percent of the March 31 principal balances of the endowment and quasi-endowment funds, and the income earned on the investment balances of the restricted fund.

The financial information for the year ended June 30, 1995, is presented for comparative purposes and is not intended to be complete financial statement presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash -

Demand checking	\$32,561
Savings accounts	<u>55,617</u>
	<u>\$88,178</u>

3. Investments -

Quoted market prices were used to value the investments which consist of the following at June 30, 1996:

	<u>Market Value</u>	<u>Cost</u>
Money market accounts	\$303,746	\$303,746
Stocks and bonds	6,968,727	6,317,041
U.S. government securities	596,204	554,076
Municipal bonds	<u>242,418</u>	<u>243,637</u>
	<u>\$8,111,095</u>	<u>\$7,418,500</u>

The relationship between market value and cost of investments is summarized as follows:

	<u>Market Value</u>	<u>Cost</u>	<u>Excess of Market over Cost</u>
Balance at beginning of year	\$6,068,491	\$5,764,761	\$303,730
Balance at end of year	8,111,095	7,418,500	<u>692,595</u>
Increase in unrealized appreciation			388,865
Realized gain			298,045
Annuity and Life Income Fund gain			<u>13,052</u>
Net gain on investments			<u>\$699,962</u>

Custodial and investment advisory fees paid for the year ended June 30, 1996, were \$44,370.

4. Notes and other receivables -

Notes receivable, students	\$18,724
Interest and dividends receivable	<u>100,214</u>
	118,938
Less provision for uncollectible notes	<u>2,275</u>
	<u>\$116,663</u>

The notes receivable from students are unsecured, noninterest-bearing, and generally due within one year.

5. Investment in real estate -

<i>Investment in real estate</i>	
Land, located in City of Mankato, near Mankato State University	
Parcel 1	\$126,956
Parcel 2	148,255
Lot near Breezy Point, Minnesota	<u>7,200</u>
	<u>\$282,411</u>

Parcel 1 consists of approximately 56 acres to be held as an investment to further the interests of Mankato State University. The property is subject to City of Mankato sewer assessments of \$32,682, which are deferred indefinitely and are due upon commercial development of the property. The property is carried at the fair value determined at the date of the gift receipt.

The Foundation has engaged an engineering firm to assist in the development of Parcel 1. Development costs of \$21,142 were incurred during the year and have been added to the cost of the property. It is anticipated that the City will construct storm and sanitary sewer services and extend Stadium Road, a street which runs alongside the property. Such development will result in additional City assessments, which will be added to the cost of this property.

Parcel 2 was purchased during August 1994, consists of approximately 33 acres, and is to be held as an investment to further the interests of Mankato State University. The investment is carried at cost.

The Breezy Point lot was received as a contribution and is being carried at estimated realizable value. No gross income is received from this property.

6. Mortgage payable -

The mortgage on the Warren Street building is payable in monthly installments of \$10,080, including interest at 6.75% per annum through June 30, 1999.

Principal payments due over the next three years on the mortgage loan are as follows:

1997	\$50,845
1998	54,434
1999	942,811

At June 30, 1999, it is assumed that the unpaid mortgage balance will be refinanced subject to Mankato State University, the lessee, exercising either its second five year lease option extension or its purchase option as defined in Note 7.

7. Warren Street building -

The Foundation has an agreement with Mankato State University for the lease of the Warren Street building for an initial term of five years with an option for three additional successive five year terms. The lease provides for monthly payments of \$10,080 plus reimbursement for operating expenses and gives the lessee the option to purchase the property for an amount equal to the unpaid mortgage principal at the date the purchase option is exercised. Lease income earned during the current year was \$122,955.

Lease income	\$122,955
Depreciation expense	(34,070)
Interest expense	(72,955)
Other operating expenses	<u>(2,680)</u>
	<u>\$13,250</u>

At June 30, 1996, payments received from the lessee in excess of operating expenses totaled \$10,932 and have been recorded as deferred income.

8. Related party transactions -

The Foundation has an agreement with Mankato State University whereby Mankato State University has agreed to furnish services for the operation of the Foundation. The value of such services has not been determined and, accordingly, no amounts are included in the organization's expenses. In return, the Foundation has agreed to expend its revenues exclusively for the benefit of Mankato State University.

MANKATO STATE UNIVERSITY FOUNDATION, INC.
Mankato, Minnesota

STATEMENT OF REVENUES AND EXPENSES
Budget and Actual - Unrestricted Fund - Unaudited
For the Year Ended June 30, 1996

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Contributions - unrestricted	\$122,000	\$98,839	(\$23,161)
Net gain on investments		3,050	3,050
Lease income	1,760	2,485	725
Investment income and transfers from other funds	55,000	155,362	100,362
Miscellaneous	460	7,060	6,600
Warren Street building income, net of expenses		13,250	13,250
Endowment fund administration income	60,000	62,213	2,213
Transaction charges	39,000	35,160	(3,840)
Sale of land	100,000		(100,000)
Reimbursement of engineering cost of land	29,731		(29,731)
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	407,951	377,419	(30,532)
EXPENSES			
Development salaries	105,000	114,927	(9,927)
Staff accountant	19,500	18,550	950
Professional fees	10,000	9,015	985
General administrative expenses	13,000	14,159	(1,159)
Fund raising	73,000	74,850	(1,850)
President's budget	25,000	30,420	(5,420)
Scholarships	40,000	34,000	6,000
Special projects			0
Rent, repairs, insurance and advertising	250	284	(34)
Development director expenses	100,000	22,298	77,702
Purchase of land	14,983	122	14,861
Engineering consultants	20,872		20,872
Miscellaneous	1,400	2,347	(947)
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	423,005	320,972	102,033
	<hr/>	<hr/>	<hr/>
INCREASE (DECREASE) IN FUND BALANCE	(\$15,054)	\$56,447	\$71,501