

**MANKATO STATE UNIVERSITY FOUNDATION, INC.**  
Mankato, Minnesota

**FINANCIAL STATEMENTS**  
June 30, 1997

**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, 1997

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Mankato, Minnesota

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# Peterson & Company, P.A.

## Certified Public Accountants

Northwestern Office Building, Suite 407  
209 South Second Street  
Mankato, Minnesota 56001  
507-388-1641

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Financial Position of Mankato State University Foundation, Inc., as of June 30, 1997, and the related Statement of Activities 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, 1997, and the revenues and expenses, changes in fund balances, and cash flows for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Foundation changed its method of accounting for contributions and its method of financial reporting and financial statement presentation.

*Peterson & Company, P.A.*  
Certified Public Accountants

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

STATEMENT OF FINANCIAL POSITION  
June 30, 1997  
(With Comparative Amounts for June 30, 1996)

	<u>1997</u>	<u>1996</u>
<b>ASSETS</b>		
Cash	\$84,305	\$88,178
Investments	10,822,346	8,111,095
Investment in real estate	634,848	282,411
Life insurance contracts	102,660	96,513
Unconditional promises to give	1,603,874	
Notes and other receivables	50,276	116,663
Warren Street Building (net of accumulated depreciation)	1,000,341	1,034,412
	<u>\$14,298,650</u>	<u>\$9,729,272</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$41,205	\$60,937
Interest payable	2,806	2,948
Deferred income-lease advances	13,296	10,932
Assessments payable	447,411	32,682
Annuities payable	1,703,456	1,490,044
Mortgage payable	997,293	1,048,090
	<u>3,205,467</u>	<u>2,645,633</u>
<b>NET ASSETS</b>		
Permanently restricted	5,559,601	4,763,362
Temporarily restricted	2,702,644	978,366
Unrestricted		
Designated	2,207,657	995,136
Undesignated	623,281	346,775
	<u>11,093,183</u>	<u>7,083,639</u>
<b>TOTAL NET ASSETS</b>	<u>\$14,298,650</u>	<u>\$9,729,272</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$14,298,650</u>	<u>\$9,729,272</u>

See Notes to Financial Statements

**MANKATO STATE UNIVERSITY FOUNDATION, INC.**  
Mankato, Minnesota

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 1997  
(With Comparative Totals for the Year Ended June 30, 1996)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>1997</u>	<u>1996</u>
<b>REVENUES</b>					
Contributions	\$1,110,265	\$543,305	\$715,096	\$2,368,666	\$1,709,607
Investment income	145,977			145,977	116,404
Net gain on investments	1,240,820			1,240,820	686,910
Gain on sale of land	159,252			159,252	0
Lease income	2,485			2,485	2,485
Warren Street building income, net of expenses	16,915			16,915	13,250
Other revenues	55,518	7,451		62,969	35,553
<b>TOTAL REVENUES</b>	<u>2,731,232</u>	<u>550,756</u>	<u>715,096</u>	<u>3,997,084</u>	<u>2,564,209</u>
<b>EXPENSES</b>					
Salaries	278,748			278,748	182,961
Rent, repairs, insurance and advertising	17,693			17,693	16,225
Printing	15,266			15,266	41,491
Consultants	50,096			50,096	19,273
Purchased and contracted services	63,177			63,177	33,737
Communications	9,311			9,311	12,640
Travel	81,416			81,416	54,968
Food services	84,552			84,552	79,674
Supplies and equipment	141,037			141,037	107,570
Purchase of library books	5,000			5,000	21,341
Stipends and scholarships	347,215			347,215	297,196
Awards	19,701			19,701	4,954
Athletic talent grants	231,740			231,740	202,934
Program expenses					
Support to athletics	56,836			56,836	53,038
Solar car	19,536			19,536	3,030
Support theater activities	26,434			26,434	18,944
Special projects	32,094			32,094	23,947
Taxes, fees, utilities and assessments	1,728			1,728	60
Miscellaneous	1,901			1,901	4,640
<b>TOTAL EXPENSES</b>	<u>1,483,481</u>	<u>0</u>	<u>0</u>	<u>1,483,481</u>	<u>1,178,623</u>
<b>ANNUITY AND LIFE INCOME FUND</b>					
Increase in net assets		74,783	55,258	130,041	64,288
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	71,176	(79,973)	8,797	0	0
<b>NET INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>	1,318,927	545,566	779,151	2,643,644	1,449,874
<b>CUMULATIVE EFFECT ON PRIOR YEARS OF ACCOUNTING CHANGE</b>	170,101	1,178,711	17,088	1,365,900	0
<b>NET INCREASE IN NET ASSETS</b>	1,489,028	1,724,277	796,239	4,009,544	1,449,874
<b>NET ASSETS, BEGINNING</b>	1,341,910	978,367	4,763,362	7,083,639	5,633,765
<b>NET ASSETS, END</b>	<u>\$2,830,938</u>	<u>\$2,702,644</u>	<u>\$5,559,601</u>	<u>\$11,093,183</u>	<u>\$7,083,639</u>

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

STATEMENT OF CASH FLOWS  
June 30, 1997  
(With comparative Amounts for June 30, 1996)

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$4,009,544	\$1,385,586
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation expense	34,071	34,071
Investment in life insurance contracts	(6,147)	14,925
Increase in investment in partnerships	(72,119)	
Increase in annuity and life income funds	213,412	664,156
Net gain on investments	(1,240,820)	(699,962)
Gain on sale of land	(159,252)	
Cumulative effect of accounting change	(1,365,900)	
(Increase) decrease in		
Unconditional promises to give	(237,974)	
Notes and other receivables	66,387	18,555
Increase (decrease) in		
Accounts payable	(19,732)	(14,706)
Interest payable	(142)	(749)
Deferred income - lease advances	2,364	2,205
	<hr/>	<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,223,692</b>	<b>1,404,081</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(3,110,377)	(4,061,836)
Proceeds from sale of investments	1,639,946	2,719,194
Proceeds from sale of land	293,663	
Investment in real estate		(21,177)
	<hr/>	<hr/>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(1,176,768)</b>	<b>(1,363,819)</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of long-term debt	(50,797)	(47,256)
Payment of assessments		(14,983)
	<hr/>	<hr/>
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<b>(50,797)</b>	<b>(62,239)</b>
	<hr/>	<hr/>
<b>NET DECREASE IN CASH</b>	<b>(3,873)</b>	<b>(21,977)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>88,178</b>	<b>110,155</b>
	<hr/>	<hr/>
<b>CASH, END OF YEAR</b>	<b>\$84,305</b>	<b>\$88,178</b>
	<hr/> <hr/>	<hr/> <hr/>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid for interest was \$70,163 and \$74,148 in the years ended June 30, 1997 and 1996, respectively.

**SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES**

At June 30, 1997, land increased \$414,729 by an increase in assessments payable.

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

NOTES TO FINANCIAL STATEMENTS

1. Organization -

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 and expend these amounts for the benefit of Mankato State University.

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

2. Summary of Significant Accounting Policies -

For the year ended June 30, 1997, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116 contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. As permitted by SFAS No. 116, the Foundation has retroactively applied the provisions of the Statement by restating net assets as of June 30, 1996. The adjustment of \$1,365,900 made to net assets as of June 30, 1996, represents previously unrecorded unconditional promises to give.

For the year ended June 30, 1997, the Foundation also adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a Statement of Cash Flows. As permitted by SFAS No. 117, the Foundation has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present the three classes of net assets required. The reclassification had no effect on the change in net assets for the year ended June 30, 1997. The three classes of net assets and revenues, gains and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the 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.

For purposes of the Statements of Cash Flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments and receivables arising from promises to give. The Foundation places its temporary cash investments with financial institutions and limits the amount of exposure to any one financial institution. Concentrations of credit risk with respect to receivables arising from promises to give are limited due to the large number of contributors comprising the Foundation's contributor base and their dispersion across geographic areas. As of June 30, 1997, the Foundation had no significant concentrations of credit risk.



The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. The Foundation carries its real estate investments acquired by purchase at cost and interests donated at the fair market value as of the date received by the Foundation. Investments of various accounts are pooled and the income and realized and unrealized gains and losses from those investments are allocated to the individual accounts based on the relationship of the market value of each account to the total market value of all the accounts, as adjusted for additions to or deductions from those accounts.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets or decreases of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions to be received after one year are discounted at a 5% rate which is considered commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

The Warren Street building is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over its estimated useful life of 40 years. Building components are depreciated on the straight-line method over their useful lives of 20 years.

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 1996, from which the summarized information was derived.

2. Cash -

Demand checking	\$63,829
Savings accounts	20,476
	<hr/>
	\$84,305
	<hr/> <hr/>

3. Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 1997:

	<u>Market Value</u>	<u>Cost</u>
Money market accounts	\$681,648	\$681,648
Stocks and bonds	9,113,487	7,515,436
U.S. government securities	809,239	813,774
Municipal bonds	217,972	167,943
	<hr/>	<hr/>
	\$10,822,346	\$9,178,801
	<hr/> <hr/>	<hr/> <hr/>

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	\$8,111,095	\$7,418,500	\$692,595
Balance at end of year	10,822,346	9,178,801	1,643,545
Increase in unrealized appreciation			<u>950,950</u>
Realized gain			<u>289,870</u>
Net gain on investments			<u><u>\$1,240,820</u></u>

Custodial and investment fees paid were \$50,719 for the year ended June 30, 1997.

4. Investment in real estate -

Land, located in City of Mankato, near Mankato State University

Parcel 1, 7 lots	\$409,985
Parcel 2	148,255
Lot near Breezy Point, Minnesota	7,200
Real Estate Limited Partnership interests	<u>69,408</u>
	<u><u>\$634,848</u></u>

Parcel 1 consisted of 56 acres held as an investment to further the interests of Mankato State University. The Foundation has engaged an engineering firm to assist in the development of this property. The property has been subdivided into 8 lots approximating 18 acres. The remaining property is designated as wetland and ownership has been transferred to the City of Mankato. Currently, the City is constructing storm and sanitary sewer services and extending Stadium Road, a street which runs alongside the property. Such development will result in additional city assessments of \$414,729 which have been added to the cost of this property.

During 1997, one of the eight lots was sold for \$300,000 resulting in a gain of \$159,252. The remaining property is carried at fair value determined at the date of gift plus added cost of subsequent assessments. Unpaid assessments of \$447,411 are due over 10 years or upon sale of the lots.

Parcel 2 consists of approximately 33 acres and is 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.

5. Notes and other receivables -

Interest and dividends receivable	\$30,728
Notes receivable, students	18,724
Insurance paid in advance	3,099
	<u>52,551</u>
Less provision for uncollectible notes	<u>2,275</u>
	<u><u>\$50,276</u></u>

**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 two years on the mortgage loan are as follows:

1998	\$54,434
1999	945,907

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 \$122,795.

Lease income	\$122,795
Depreciation expense	(34,071)
Interest expense	(70,021)
Other operating expenses	(1,788)
	<hr/>
	\$16,915
	<hr/>

At June 30, 1997, payments received from the lessee in excess of operating expenses totaled \$13,296; such excess has been recorded as deferred income.

**8. Promises to give -**

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period received and as assets or, decreases of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give at June 30, 1997, are as follows:

Receivable in less than one year	\$940,320
Receivable in one to five years	724,443
	<hr/>
Total unconditional promises to give	1,664,763
Less discounts to net present value	25,865
Less allowance for uncollectible amounts	35,024
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Net unconditional promises to give at June 30, 1997	\$1,603,874
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**9. 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.