

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

**FINANCIAL STATEMENTS**  
**June 30, 1998**

**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, 1998

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

C O N T E N T S

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statement of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 8

# Peterson & Company, P.A.

## Certified Public Accountants

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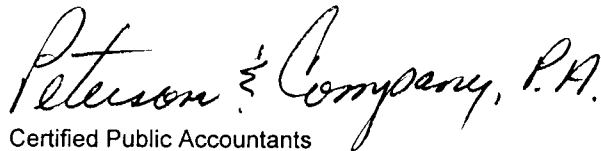
### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Financial Position of Mankato State University Foundation, Inc., as of June 30, 1998 and 1997, and the related Statements of Cash Flows for the years then ended, and Statement of Activities for the year ended June 30, 1998. 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 audits 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 audits provide 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, 1998 and 1997, and changes in cash flows for the years then ended, and the changes in net assets for the year ended June 30, 1998, in conformity with generally accepted accounting principles.

  
Certified Public Accountants

Mankato, Minnesota  
August 20, 1998

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

STATEMENT OF FINANCIAL POSITION  
June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Cash	\$211,410	\$82,366
Investments - substantially at market value	11,306,681	8,843,988
Unconditional promises to give	8,348,893	1,608,721
Other receivables	108,226	44,990
Interest in Unitrusts and Annuity Trusts	459,361	354,991
Gift annuities	239,227	231,459
Property, net of accumulated depreciation of \$306,636 and \$272,565	<u>1,469,050</u>	<u>1,565,781</u>
<b>TOTAL ASSETS</b>	<u><u>\$22,142,848</u></u>	<u><u>\$12,732,296</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Gift annuities payable	\$140,077	\$137,103
Accounts payable	68,392	57,306
Mortgage and assessments payable	<u>1,390,320</u>	<u>1,444,704</u>
<b>TOTAL LIABILITIES</b>	<u>1,598,789</u>	<u>1,639,113</u>
<b>NET ASSETS</b>		
Unrestricted	3,410,923	2,830,938
Temporarily restricted	10,602,852	2,702,644
Permanently restricted	<u>6,530,284</u>	<u>5,559,601</u>
<b>TOTAL NET ASSETS</b>	<u>20,544,059</u>	<u>11,093,183</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$22,142,848</u></u>	<u><u>\$12,732,296</u></u>

See Notes to Financial Statements

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 1998  
(With Comparative Totals for the Year Ended June 30, 1997)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>1998</u>	<u>1997</u>
REVENUES					
Contributions	\$1,071,036	\$8,058,894	\$956,665	\$10,086,595	\$2,337,948
Investment income	259,459			259,459	196,696
Net realized and unrealized gains on investments	1,042,062			1,042,062	1,400,072
Change in carrying value of trusts		60,116	55,261	115,377	130,041
Support services revenue	130,250			130,250	125,280
Miscellaneous revenues	58,440	10,118		68,558	105,139
Net assets released from restriction	270,163	(228,920)	(41,243)	0	0
<b>TOTAL REVENUES</b>	<u>2,831,410</u>	<u>7,900,208</u>	<u>970,683</u>	<u>11,702,301</u>	<u>4,295,176</u>
EXPENSES					
Program services					
Distributions for educational purposes	1,619,737			1,619,737	1,104,397
Support services					
Operating expenses	155,069			155,069	147,845
Legal and accounting fees	29,742			29,742	10,862
Investment trust and management fees	68,004			68,004	50,719
Depreciation	34,071			34,071	34,071
Fund raising - promotion and development	344,802			344,802	303,639
<b>TOTAL EXPENSES</b>	<u>2,251,425</u>	<u>0</u>	<u>0</u>	<u>2,251,425</u>	<u>1,651,533</u>
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	579,985	7,900,208	970,683	9,450,876	2,643,643
CUMULATIVE EFFECT ON PRIOR YEARS OF ACCOUNTING CHANGE					1,365,900
<b>INCREASE IN NET ASSETS</b>	579,985	7,900,208	970,683	9,450,876	4,009,543
NET ASSETS, BEGINNING	2,830,938	2,702,644	5,559,601	11,093,183	7,083,640
<b>NET ASSETS, END</b>	<u>\$3,410,923</u>	<u>\$10,602,852</u>	<u>\$6,530,284</u>	<u>\$20,544,059</u>	<u>\$11,093,183</u>

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

STATEMENT OF CASH FLOWS  
For the Years Ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$9,450,876	\$4,009,543
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized gain on investments	(1,042,062)	(1,478,338)
Changes in carrying value of trusts	109,164	213,412
Depreciation expense	34,071	34,071
Non-cash contributions	907,934	244,528
Contributions restricted for long-term investment	(956,665)	(715,096)
Increase in unconditional promises to give	(6,740,172)	(242,821)
Decrease in other receivables	63,236	71,673
Increase (decrease) in accounts payable	11,086	(17,510)
Cumulative effect of accounting change	0	(1,365,900)
	<u>1,837,468</u>	<u>753,562</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,984,867)	(3,110,377)
Proceeds from sale of investments	2,194,162	1,393,040
Proceeds from sale of land	180,000	293,663
	<u>(2,610,705)</u>	<u>(1,423,674)</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of mortgage and assessments payable	(54,384)	(50,797)
Proceeds from contributions restricted for long-term investment	956,665	715,096
	<u>902,281</u>	<u>664,299</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	129,044	(5,813)
CASH, BEGINNING OF YEAR	82,366	88,179
	<u>\$211,410</u>	<u>\$82,366</u>
CASH, END OF YEAR	<u>\$211,410</u>	<u>\$82,366</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid for interest was \$66,333 and \$70,163 for the years ended June 30, 1998 and 1997, respectively.

**SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES**

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

MANKATO STATE UNIVERSITY FOUNDATION, INC.  
Mankato, Minnesota

NOTES TO FINANCIAL STATEMENTS

**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 exclusively for the benefit of Mankato State University.

**Summary of Significant Accounting Policies -**

**Basis of Presentation**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Foundation and changes therein are classified into the following categories:

- Unrestricted net assets represent the portion of expendable funds that are not subject to donor-imposed stipulations and are available for support of the operations of the Foundation.
- Temporarily restricted net assets are 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 consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently by the Foundation. Generally, the donors permit the Foundation to use all or part of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed restrictions. Expirations of temporary restrictions on net assets for which the stipulated purposes has been fulfilled and for the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

**Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a rate of 5% 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.

**Unitrusts and Annuity Agreements**

The Foundation has entered into unitrust and annuity agreements that provide, among other matters, that the trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. The Foundation records its interest in these trusts based upon certain actuarially determined factors and the current market value of the related assets. Upon termination of the income obligation, property in the trust fund is held or disposed of by the Foundation in accordance with the donor's trust agreement.



### Gift Annuity Agreements

The Foundation has entered into gift annuity agreements that provide that the Foundation shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. The Foundation records these gift annuities at market value with a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries with residual amount recorded for the purposes designated when the gift is received. Upon the death of the beneficiaries, property in the gift annuity fund is held or disposed of by the Foundation in accordance with the agreements.

### Trusts Held by Other Entities

The Foundation may be a charitable remainder or perpetual beneficiary of trust accounts that are held by another entity, such as a bank or another charitable organization. The Foundation records these trusts, after discovery of their existence, at the present value of the estimated future cash receipts from the assets of the trust. Because of the complex issues related to collecting the data for these transactions, there can be a time delay in recording the asset because of the time needed for discovery, verification of the Foundation's rights, and the determination of the valuation of future payments.

### Cash and Cash Equivalents

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

### Concentrations of Credit Risk

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. However, at June 30, 1998, promises to give include one donor balance which approximated 93% of the total promises to give.

### Investments

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. For management efficiency, invested assets 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.

### Property

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. Improvements are stated at cost and depreciated over their estimated useful lives of 20 - 40 years using the straight-line method.

### Income Taxes

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.

### Use of Estimates

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.

## Prior-Year Information

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 account principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 1997, from which the summarized information was derived.

### Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 1998:

	<u>Market Value</u>	<u>Cost</u>
Money market accounts	\$146,952	\$146,952
Stocks and bonds	9,560,018	8,068,323
U.S. government securities	261,831	242,845
Certificates of deposit	1,155,693	1,155,693
Cash value - life insurance contracts	112,779	112,779
Partnership interests - real estate	69,408	69,408
	<u>\$11,306,681</u>	<u>\$9,796,000</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	\$8,843,987	\$7,414,470	\$1,429,517
Balance at end of year	11,306,681	9,796,000	<u>1,510,681</u>
Increase in unrealized appreciation			81,164
Realized gain			<u>960,898</u>
Net gain on investments			<u>\$1,042,062</u>

Investment trust and management fees paid were \$68,004 for the year ended June 30, 1998.

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	\$141,710	\$141,710
Stocks and bonds	7,759,697	6,340,049
U.S. government securities	263,646	253,777
Certificates of deposit	506,866	506,866
Cash value - life insurance contracts	102,660	102,660
Partnership interests - real estate	69,408	69,408
	<u>\$8,843,987</u>	<u>\$7,414,470</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	\$6,392,678	\$5,794,920	\$597,758
Balance at end of year	8,843,987	7,414,470	<u>1,429,517</u>
Increase in unrealized appreciation			831,759
Realized gain			<u>646,579</u>
Net gain on investments			<u>\$1,478,338</u>

Investment trust and management fees paid were \$50,719 for the year ended June 30, 1997.

4. Promises to give -

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give at June 30, 1998 and 1997, are as follows:

	<u>1998</u>	<u>1997</u>
Receivable in less than one year	\$1,018,947	\$940,320
Receivable in one to five years	<u>8,037,592</u>	<u>729,290</u>
Total unconditional promises to give	9,056,539	1,669,610
Less discounts to net present value	620,251	25,865
Less allowance for uncollectible amounts	<u>87,395</u>	<u>35,024</u>
Net unconditional promises to give at June 30, 1998	<u><u>\$8,348,893</u></u>	<u><u>\$1,608,721</u></u>

5. Property -

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 \$122,431.

The Foundation has a mortgage payable of \$942,909, secured by a building, payable in monthly installments of \$10,080, including interest at 6.75% per annum through June 30, 1999. When the entire balance becomes due 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 described above.

The Foundation has property held for sale with related assessments payable of \$447,411. These assessments are due upon sale but in no event later than 2007, which is 10 years from the original assessment date.

6. 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 Foundation's expenses. In return, the Foundation has agreed to expend its revenues exclusively for the benefit of Mankato State University.