

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

FINANCIAL STATEMENTS
June 30, 2000

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

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Peterson & Company, P.A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Financial Position of Minnesota State University, Mankato Foundation, Inc., as of June 30, 2000 and 1999, and the related Statements of Cash Flows for the years then ended, and Statement of Activities for the year ended June 30, 2000. 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 audits.

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 Minnesota State University, Mankato Foundation, Inc., as of June 30, 2000 and 1999, and changes in cash flows for the years then ended, and the changes in net assets for the year ended June 30, 2000, in conformity with generally accepted accounting principles.

Peterson & Company, P.A.
Certified Public Accountants

Mankato, Minnesota
September 28, 2000

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
ASSETS		
Cash	\$2,250,938	\$1,843,992
Investments - substantially at market value	13,654,148	21,615,671
Unconditional promises to give	7,384,775	10,606,993
Other receivables	88,724	205,819
Interest in unitrusts and annuity trusts	514,276	507,382
Gift annuities	227,327	238,133
Construction in progress	15,091,169	2,766,115
Property, net of accumulated depreciation of \$374,778 and \$340,707	<u>1,276,780</u>	<u>1,310,851</u>
TOTAL ASSETS	<u><u>\$40,488,137</u></u>	<u><u>\$39,094,956</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Gift annuities payable	\$124,789	\$134,493
Accounts payable	1,624,328	1,082,307
Bond payable	6,980,000	6,980,000
Mortgage and assessments payable	<u>1,124,508</u>	<u>1,057,934</u>
TOTAL LIABILITIES	<u>9,853,625</u>	<u>9,254,734</u>
NET ASSETS		
Unrestricted	6,650,157	4,668,965
Temporarily restricted	15,428,844	17,293,525
Permanently restricted	<u>8,555,511</u>	<u>7,877,732</u>
TOTAL NET ASSETS	<u>30,634,512</u>	<u>29,840,222</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$40,488,137</u></u>	<u><u>\$39,094,956</u></u>

See Notes to Financial Statements

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

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2000
(With Comparative Totals for the Year Ended June 30, 1999)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2000</u>	<u>1999</u>
REVENUES					
Contributions	\$1,699,365	\$1,498,599	\$736,577	\$3,934,541	\$9,765,328
Investment income	619,934			619,934	446,682
Net realized and unrealized gains on investments	1,684,349			1,684,349	584,062
Change in carrying value of trusts		53,807	(47,499)	6,308	52,053
Support services revenue	124,318			124,318	222,944
Miscellaneous revenues	45,626	4,672		50,298	99,987
Net assets released from restriction	<u>3,433,058</u>	<u>(3,421,759)</u>	<u>(11,299)</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	<u>7,606,650</u>	<u>(1,864,681)</u>	<u>677,779</u>	<u>6,419,748</u>	<u>11,171,056</u>
EXPENSES					
Program services					
Distributions for educational purposes	1,572,308			1,572,308	1,422,767
Andreas Theatre Building	3,434,223			3,434,223	0
Support services					
Operating expenses	117,213			117,213	154,347
Legal and accounting fees	14,606			14,606	15,222
Investment trust and management fees	5,368			5,368	70,045
Depreciation	34,071			34,071	34,071
Fund raising - promotion and development	<u>447,669</u>			<u>447,669</u>	<u>603,570</u>
TOTAL EXPENSES	<u>5,625,458</u>	<u>0</u>	<u>0</u>	<u>5,625,458</u>	<u>2,300,022</u>
INCREASE IN NET ASSETS	1,981,192	(1,864,681)	677,779	794,290	8,871,034
NET ASSETS, BEGINNING	<u>4,668,965</u>	<u>17,293,525</u>	<u>7,877,732</u>	<u>29,840,222</u>	<u>20,969,188</u>
NET ASSETS, END	<u><u>\$6,650,157</u></u>	<u><u>\$15,428,844</u></u>	<u><u>\$8,555,511</u></u>	<u><u>\$30,634,512</u></u>	<u><u>\$29,840,222</u></u>

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$794,290	\$8,871,034
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized gain on investments	1,684,349	(584,062)
Changes in carrying value of trusts	(5,792)	(52,511)
Depreciation expense	34,071	34,071
Non-cash contributions	(876,390)	(308,410)
Contributions restricted for long-term investment	(736,577)	(1,329,226)
(Increase) decrease in		
Unconditional promises to give	3,222,218	(2,258,101)
Other receivables	117,095	(7,415)
Increase in		
Construction in progress	(12,325,054)	(2,340,985)
Accounts payable	542,021	1,013,915
	<u>(7,549,769)</u>	<u>3,038,310</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,154,656)	(18,835,063)
Proceeds from sale and maturity of investments	17,308,220	9,322,020
Proceeds from sale of land		3,546
	<u>7,153,564</u>	<u>(9,509,497)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of mortgage and assessments payable	(88,426)	(205,457)
Proceeds from bonds payable		6,980,000
Proceeds from notes payable	155,000	
Proceeds from contributions restricted for long-term investment	736,577	1,329,226
	<u>803,151</u>	<u>8,103,769</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH	406,946	1,632,582
CASH, BEGINNING OF YEAR	<u>1,843,992</u>	<u>211,410</u>
CASH, END OF YEAR	<u><u>\$2,250,938</u></u>	<u><u>\$1,843,992</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was \$64,420 and \$65,726 for the years ended June 30, 2000 and 1999, respectively.

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES

During fiscal 1999, property cost and assessments payable decrease by \$103,194 due to adjustment of final assessment by the City of Mankato.

During fiscal 1999, land cost decreased \$13,734 and other receivables increased \$90,178 due to sale of land on contract for deed.

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

1. Organization -

The purpose of Minnesota State University, Mankato 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 Minnesota State University, Mankato.

2. 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 5.5% 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 demand and savings deposits 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, 2000, promises to give include three donors' balances which approximated 77% 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 of \$1,272,906 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, 1999, from which the summarized information was derived.

3. Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 2000:

	<u>Market Value</u>	<u>Cost</u>
Money market accounts	\$2,205,169	\$2,205,169
Stocks and bonds	10,784,727	9,241,945
U.S. government securities	476,667	473,205
Cash value - life insurance contracts	119,859	119,859
Partnership interests - real estate	<u>67,726</u>	<u>67,726</u>
	<u>\$13,654,148</u>	<u>\$12,107,904</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	\$21,615,671	\$20,533,318	\$1,082,353
Balance at end of year	13,654,148	12,107,904	<u>1,546,244</u>
Increase in unrealized appreciation			463,891
Realized gain			<u>1,220,458</u>
Net gain on investments			<u>\$1,684,349</u>

Investment trust and management fees paid were \$5,368 for the year ended June 30, 2000.

Quoted market prices were used to value the investments, which consist of the following at June 30, 1999:

	<u>Market Value</u>	<u>Cost</u>
Money market accounts	\$12,627,755	\$12,627,755
Stocks and bonds	8,545,609	7,473,976
U.S. government securities	259,842	249,122
Certificates of deposit	0	0
Cash value - life insurance contracts	118,993	118,993
Partnership interests - real estate	<u>63,472</u>	<u>63,472</u>
	<u>\$21,615,671</u>	<u>\$20,533,318</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	\$11,306,681	\$9,796,000	\$1,510,681
Balance at end of year	21,615,671	20,533,318	<u>1,082,353</u>
Decrease in unrealized appreciation			(428,328)
Realized gain			<u>1,012,390</u>
Net gain on investments			<u>\$584,062</u>

Investment trust and management fees paid were \$70,045 for the year ended June 30, 1999.

Money market balances have been accumulated for construction costs to be incurred for Andreas Theatre and Taylor Center.

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, 2000 and 1999, are as follows:

	<u>2000</u>	<u>1999</u>
Receivable in less than one year	\$3,725,442	\$3,255,349
Receivable in one to five years	2,962,560	6,802,147
Receivable in six to ten years	1,535,230	1,712,681
Receivable in over ten years	<u>333,342</u>	<u>500,008</u>
Total unconditional promises to give	8,556,574	12,270,185
Less discounts to net present value	1,036,388	1,516,130
Less allowance for uncollectible amounts	<u>135,411</u>	<u>147,062</u>
Net unconditional promises to give	<u><u>\$7,384,775</u></u>	<u><u>\$10,606,993</u></u>

5. Construction in progress -

During fiscal year 1999 the Foundation entered into contracts for construction of two buildings on the campus of Minnesota State University, Mankato.

Construction began during fiscal year 1999 on the Andreas Theatre and was substantially complete by June 30, 2000, at a cost of \$3,434,223. As of June 30, 2000, the building has been donated to Minnesota State University, Mankato.

The Foundation had entered into a bank loan agreement for an amount up to \$600,000 for the purpose to finance the completion of the Andreas Theatre. The amount outstanding at June 30, 2000, \$155,000, is payable with interest at 2.25% over the lender's intermediate term certificate of deposit rate. The loan is secured in part by the Foundation's Unconditional Promises to Give of \$432,000 designated by donors for the Andreas Theatre project.

Construction also began during fiscal 1999 on the Taylor Center with completion scheduled for the fall of 2000. Estimated cost of the project is \$16,464,000 with \$15,091,169 incurred through June 30, 2000. Upon completion of the Taylor Center and approval by the State of Minnesota, the Foundation's equity interest in the building will be donated to Minnesota State University, Mankato.

6. Property -

The Foundation has an agreement with Minnesota State University, Mankato 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 \$122,533.

The Foundation has a mortgage payable of \$822,512, secured by a building, payable in monthly installments of \$10,080, including interest at 6.75% per annum through June 30, 2004.

The Foundation has property held for sale with a carrying value of \$378,652 and related assessments payable of \$146,996. The assessments are due upon sale but in no event later than 2007, which is 10 years from the original assessment date.

7. Bonds payable -

During 1999 the City of Mankato issued bonds in the amount of \$6,980,000 and entered into an agreement with the Minnesota State University, Mankato Foundation, Inc., to lend the bond proceeds to the Foundation for the construction financing of a multi-purpose Arena and Alumni Center on the University Campus. The bonds are collateralized by a security interest in the right to payment consisting of pledges to the Foundation for the Taylor Center Capital Campaign. Annual payments with interest at 5.14% per annum commence on December 1, 2000 and continue annually through December 1, 2012. By agreement between the Foundation and the University, the Foundation will pay the bond principal and the University will pay the interest when due under the bond agreement. Payments due for the years ending June 30 are as follows:

2001	\$200,000
2002	1,227,000
2003	1,227,000
2004	705,000
2005	705,000
Thereafter	<u>2,916,000</u>
	<u>\$6,980,000</u>

The Foundation's Unconditional Promises to Give include donor designated amounts of \$6,759,000, the proceeds of which will be used to complete Taylor Center construction and to pay bond principal as scheduled above.

8. Related party transactions -

The Foundation has an agreement with Minnesota State University, Mankato whereby the 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 Minnesota State University, Mankato.