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

FINANCIAL STATEMENTS
June 30, 1999

PETERSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
209 South Second Street
Mankato, Minnesota 56001

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
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CONTENTS

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, 1999 and 1998, and the related Statements of Cash Flows for the years then ended, and Statement of Activities for the year ended June 30, 1999. 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, 1999 and 1998, and changes in cash flows for the years then ended, and the changes in net assets for the year ended June 30, 1999, in conformity with generally accepted accounting principles.

Peterson & Company, P.A.
Certified Public Accountants

Mankato, Minnesota
September 10, 1999

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

STATEMENTS OF FINANCIAL POSITION
June 30, 1999 and 1998

	1999	1998
ASSETS		
Cash	$1,843,992	$211,410
Investments - substantially at market value	21,615,671	11,306,681
Unconditional promises to give	10,606,993	8,348,892
Other receivables	205,819	108,226
Interest in unitrusts and annuity trusts	507,382	459,361
Gift annuities	238,133	239,227
Construction in progress	2,766,115	425,130
Property, net of accumulated depreciation of $340,707 and $306,636	1,310,851	1,469,050
TOTAL ASSETS	$39,094,956	$22,567,977
LIABILITIES AND NET ASSETS		
LIABILITIES		
Gift annuities payable	$134,493	$140,077
Accounts payable	1,082,307	68,392
Bond payable	6,980,000	
Mortgage and assessments payable	1,057,934	1,390,320
TOTAL LIABILITIES	9,254,734	1,598,789
NET ASSETS		
Unrestricted	4,668,965	3,649,619
Temporarily restricted	17,293,525	10,789,285
Permanently restricted	7,877,732	6,530,284
TOTAL NET ASSETS	29,840,222	20,969,188
TOTAL LIABILITIES AND NET ASSETS	$39,094,956	$22,567,977

See Notes to Financial Statements

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

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 1999
(With Comparative Totals for the Year Ended June 30, 1998)

	Unrestricted	Temporarily Restricted	Permanently Restricted	1999	1998
REVENUES					
Contributions	$1,441,977	$6,994,125	$1,329,226	$9,765,328	$10,086,595
Investment income	446,682			446,682	259,459
Net realized and unrealized gains on investments	584,062			584,062	1,042,062
Change in carrying value of trusts		(3,731)	55,784	52,053	115,377
Support services revenue	222,944			222,944	130,250
Miscellaneous revenues	85,737	14,250		99,987	68,558
Net assets released from restriction	537,966	(500,404)	(37,562)	0	0
TOTAL REVENUES	3,319,368	6,504,240	1,347,448	11,171,056	11,702,301
EXPENSES					
Program services					
Distributions for educational purposes	1,422,767			1,422,767	1,194,608
Support services					
Operating expenses	154,347			154,347	155,069
Legal and accounting fees	15,222			15,222	29,742
Investment trust and management fees	70,045			70,045	68,005
Depreciation	34,071			34,071	34,071
Fund raising - promotion and development	603,570			603,570	344,801
TOTAL EXPENSES	2,300,022	0	0	2,300,022	1,826,296
INCREASE IN NET ASSETS	1,019,346	6,504,240	1,347,448	8,871,034	9,876,005
NET ASSETS, BEGINNING	3,649,619	10,789,285	6,530,284	20,969,188	11,093,183
NET ASSETS, END	$4,668,965	$17,293,525	$7,877,732	$29,840,222	$20,969,188

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 1999 and 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$8,871,034	$9,876,005
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized gain on investments	(584,062)	(1,042,062)
Changes in carrying value of trusts	(52,511)	(109,164)
Depreciation expense	34,071	34,071
Non-cash contributions	(308,410)	(907,934)
Contributions restricted for long-term investment	(1,329,226)	(956,665)
Increase in unconditional promises to give	(2,258,101)	(6,740,172)
Increase in other receivables	(7,415)	(63,237)
Increase in construction in progress	(2,340,985)	(425,130)
Increase in accounts payable	1,013,915	11,088
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	3,038,310	(323,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(18,835,063)	(4,984,867)
Proceeds from sale and maturity of investments	9,322,020	4,354,830
Proceeds from sale of land	3,546	180,000
NET CASH USED FOR INVESTING ACTIVITIES	(9,509,497)	(450,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of mortgage and assessments payable	(205,457)	(54,384)
Proceeds from bonds payable	6,980,000	0
Proceeds from contributions restricted for long-term investment	1,329,226	956,665
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,103,769	902,281
NET INCREASE IN CASH	1,632,582	129,044
CASH, BEGINNING OF YEAR	211,410	82,366
CASH, END OF YEAR	$1,843,992	$211,410

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid for interest was $65,726 and $66,333 for the years ended June 30, 1999 and 1998, 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

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, 1999, promises to give include three donors' balances which approximated 79% 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.

Restatement

During the year ending June 30, 1998 the Foundation incurred costs for the feasibility of construction of the Andreas Theatre and Taylor Center. Costs incurred, principally architectural costs, were included with Program Service Costs for the year ended June 30, 1998. During the year ended June 30, 1999 construction contracts were entered into for both projects and management believes that architectural and related building costs are more properly recorded as construction costs. Therefore, the financial statements for June 30, 1998 have been restated for these costs. The restatement resulted in the following changes to June 30, 1998 financial statements.

Increase in Total Assets	$425,130
Increase in Net Assets	425,130
Decrease in Program Services - Distributions for Educational Purposes	425,130

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, 1998, 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, 1999:

	Market Value	Cost
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
Cash value - life insurance contracts	118,993	118,993
Partnership interests - real estate	63,472	63,472
	$21,615,671	$20,533,318

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

	Market Value	Cost	Excess of Market over Cost
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	1,082,353
Decrease in unrealized appreciation			(428,328)
Realized gain			1,012,390
Net gain on investments			$584,062

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.

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

	Market Value	Cost
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
	$11,306,681	$9,796,000

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

	Market Value	Cost	Excess of Market over Cost
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	1,510,681
Increase in unrealized appreciation			81,164
Realized gain			960,898
Net gain on investments			$1,042,062

Investment trust and management fees paid were $68,005 for the year ended June 30, 1998.

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, 1999 and 1998, are as follows:

	1999	1998
Receivable in less than one year	$3,255,349	$1,018,947
Receivable in one to five years	6,802,147	8,037,592
Receivable in six to ten years	1,712,681	0
Receivable in over ten years	500,008	0
Total unconditional promises to give	12,270,185	9,056,539
Less discounts to net present value	1,516,130	620,251
Less allowance for uncollectible amounts	147,062	87,396
Net unconditional promises to give	$10,606,993	$8,348,892

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 with completion scheduled for fiscal year 2000. Estimated cost of this project is $3,166,000 with $916,344 incurred through June 30, 1999.

Construction also began during fiscal 1999 on the Taylor Center with completion scheduled for the fall of 2000. Estimated cost of the project is $16,526,000 with $1,849,771 incurred through June 30, 1999.

Upon completion of these projects 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 $122,431.

The Foundation has a mortgage payable of $884,684, secured by a building, payable in monthly installments of $10,080, including interest at 6.75% per annum through June 30, 1999. On June 30, 1999, the mortgage loan agreement was extended at the same terms until June 30, 2004.

The Foundation has property held for sale with related assessments payable of $173,250. These 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. Payments due for the years ending June 30 are as follows:

2000	$0
2001	200,000
2002	1,227,000
2003	1,227,000
2004	705,000
Thereafter	3,621,000
	$6,980,000

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.