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

FINANCIAL STATEMENTS
June 30, 2001

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 Statements of Financial Position of Minnesota State University, Mankato Foundation, Inc., as of June 30, 2001, and the related Statements 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2001, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Peterson & Company, P.A.

Certified Public Accountants

Mankato, Minnesota
August 30, 2001

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

STATEMENTS OF FINANCIAL POSITION
For the Year Ended June 30, 2001
(With Comparative Totals for the Year Ended June 30, 2000)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2001	2000
ASSETS					
Cash	$158,490	$237,118		$395,608	$2,250,938
Investments - at market value	2,237,982	289,034	$7,569,972	10,096,988	13,654,148
Unconditional promises to give	230,844	4,993,118	205,447	5,429,409	7,384,775
Other receivables	26,347	3,988		30,335	88,724
Due from unrestricted			861,758	861,758	
Interest in unitrusts and annuity trusts		258,632	173,158	431,790	514,276
Gift annuities			187,033	187,033	227,327
Building -Taylor Center		17,713,942		17,713,942	15,091,169
Property and equipment	1,242,709	652,797		1,895,506	1,276,780
TOTAL ASSETS	$3,896,372	$24,148,629	$8,997,368	$37,042,369	$40,488,137
LIABILITIES AND NET ASSETS					
LIABILITIES					
Gift annuities payable			$115,173	$115,173	$124,789
Accounts payable	$51,998	$204,405		256,403	1,624,328
Due to permanently restricted	861,758			861,758	
Due to Minnesota State University, Mankato		576,028		576,028	
Bonds payable		6,780,000		6,780,000	6,980,000
Note, mortgage and assessments payable	885,453	229,375		1,114,828	1,124,508
TOTAL LIABILITIES	1,799,209	7,789,808	115,173	9,704,190	9,853,625
NET ASSETS	2,097,163	16,358,821	8,882,195	27,338,179	30,634,512
TOTAL LIABILITIES AND NET ASSETS	$3,896,372	$24,148,629	$8,997,368	$37,042,369	$40,488,137

See Notes to Financial Statements

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

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2001
(With Comparative Totals for the Year Ended June 30, 2000)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2001	2000
REVENUES					
Contributions	$1,139,834	$464,231	$414,287	$2,018,352	$3,934,541
Gifts in kind	216,067	682,500		898,567	
Investment income	184,309			184,309	619,934
Net realized and unrealized gains on investments					1,684,349
Change in carrying value of trusts					6,308
Support services revenue	253,739			253,739	124,318
Miscellaneous revenues	37,369	4,306		41,675	50,298
Net assets released from restriction	160,405	(157,183)	(3,222)		
TOTAL REVENUES	1,991,723	993,854	411,065	3,396,642	6,419,748
EXPENSES					
Program services:					
Distributions for educational purposes	2,649,576			2,649,576	1,572,308
Andreas Theatre					3,434,223
Total expenses for program services	2,649,576			2,649,576	5,006,531
Net realized and unrealized losses on investments	3,546,856			3,546,856	
Change in carrying value of trusts		63,877	84,381	148,258	
Support services:					
Operating expenses	128,610			128,610	117,213
Legal and accounting fees	22,082			22,082	14,606
Investment trust and management fees	9,332			9,332	5,368
Depreciation	52,639			52,639	34,071
Fund raising - promotion and development	135,622			135,622	447,669
Total expenses for support services	348,285			348,285	618,927
TOTAL EXPENSES	6,544,717	63,877	84,381	6,692,975	5,625,458
INCREASE (DECREASE) IN NET ASSETS	(4,552,994)	929,977	326,684	(3,296,333)	794,290
NET ASSETS, BEGINNING	6,650,157	15,428,844	8,555,511	30,634,512	29,840,222
NET ASSETS, END	$2,097,163	$16,358,821	$8,882,195	$27,338,179	$30,634,512

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001
(With Comparative Totals for the Year Ended June 30, 2000)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	($3,296,333)	$794,290
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized gain (loss) on investments	3,546,856	(1,684,349)
Changes in discounts to net present value and allowance for uncollectible amounts	(132,785)	(491,393)
Changes in carrying value of trusts	113,162	(5,792)
Depreciation	52,639	34,071
Non-cash contributions	(680,500)	(876,390)
Contributions restricted for long-term investment	(414,287)	(736,577)
(Increase) decrease in:		
Unconditional promises to give	2,088,150	3,713,611
Other receivables	58,389	117,095
Building - Taylor Center	(2,365,273)	(12,325,054)
Increase (decrease) in:		
Accounts payable	(1,367,924)	542,021
Due to Minnesota State University, Mankato	576,028	
NET CASH USED FOR OPERATING ACTIVITIES	(1,821,878)	(10,918,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,036,299)	(10,154,656)
Proceeds from sale and maturity of investments	10,046,604	20,676,918
Purchase of property and equipment	(246,365)	
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(236,060)	10,522,262
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of bonds	(200,000)	
Payment of mortgage and assessments	(84,055)	(88,426)
Payment of notes	(94,625)	
Proceeds from notes issued	169,000	155,000
Proceeds from contributions restricted for long-term investment	414,287	736,577
NET CASH PROVIDED BY FINANCING ACTIVITIES	204,607	803,151
NET INCREASE (DECREASE) IN CASH	(1,853,331)	406,946
CASH, BEGINNING OF YEAR	2,250,938	1,843,992
CASH, END OF YEAR	$397,607	$2,250,938

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid for interest was $82,080 and $64,420 for the years ended June 30, 2001 and 2000, respectively.
Property of $425,000 was received as a non-cash gift.
Building - Taylor Center includes $257,500 of donated non-cash materials.

See Notes to Financial Statements

1. Organization -

The purpose of Minnesota State University, Mankato Foundation, Inc. (Foundation), 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 (University).

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 have been fulfilled and for which 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, 2001, promises to give include three donors' balances which approximated 68% 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. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated or acquired assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated over their estimated useful lives of 10 – 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, 2000, 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, 2001:

	Market Value	Cost
Stocks and bonds	$9,624,173	$10,603,935
U.S. government securities	281,164	266,888
Certificates of deposit	124,165	124,165
Partnership interests - real estate	67,486	67,486
	$10,096,988	$11,062,474

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	$13,654,148	$12,107,904	$1,546,244
Balance at end of year	10,096,988	11,062,474	(965,486)
Increase (decrease) in unrealized appreciation			(2,511,730)
Realized loss			(1,035,126)
Net loss on investments			($3,546,856)

Investment trust and management fees paid were $9,332 for the year ended June 30, 2001.

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, 2001, are as follows:

Receivable in less than one year	$1,617,004
Receivable in one to five years	2,744,297
Receivable in six to ten years	1,688,780
Receivable in over ten years	418,342
Total unconditional promises to give	6,468,423
Less discounts to net present value	953,725
Less allowance for uncollectible amounts	85,289
Net unconditional promises to give	$5,429,409

5. Building – Taylor Center -

Construction on the Taylor Center began during fiscal year 1999 and was completed during fiscal year 2001. The cost of the project was $17,713,942.

Upon approval of a financing plan satisfactory to the State of Minnesota, the Foundation's equity interest in the building will be donated to Minnesota State University, Mankato. As of June 30, 2001, a financing plan had not been completed.

6. Property and equipment -

Property and equipment consist of the following:

Land:	
University Place	$230,397
Other	148,255
Buildings:	
Warren Street building	1,272,906
Four-plex townhouse	425,000
Equipment - signage and outdoor marquee	246,365
	2,322,923
Accumulated depreciation	427,417
	$1,895,506

The Foundation has an agreement with the 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 $122,519.

7. Note, mortgage, assessments, and bonds payable -

Note payable, bank, collateralized by unconditional promises to give restricted by donors for Andreas Theatre project completed in fiscal year 2000 payable annually with interest at 7.53% on October 1, 2001 and October 1, 2002, with final payment due February 1, 2003	$229,375
Assessments payable, University Place and other land, in semi-annual payments of $11,482 including interest	129,664
Mortgage payable, Warren Street building, in monthly payments of $10,080 including interest at 6.75% per annum, due June 15, 2004	755,789
Total mortgage and assessments payable	1,114,828
Bonds payable, collateralized by a security interest in the right to payment consisting of unconditional promises to give to the Foundation for the Taylor Center Campaign payable annually in varying amounts through December 1, 2012, with interest at 5.14% per annum	6,780,000
	$7,894,828

Future scheduled maturities of the above debt are as follows:

Year ending June 30,	
2002	$1,429,473
2003	1,433,496
2004	1,333,000
2005	722,331
2006	459,331
Thereafter	2,517,197

Included in temporarily restricted cash and temporarily restricted unconditional promises to give at June 30, 2001, are amounts of $341,014 and $5,641,279 restricted for the Andreas Theatre and the Taylor Center note and bond payments, respectively.

At June 30, 2001, the Foundation has a line-of-credit agreement with a bank for maximum borrowings of $2,000,000 for the Taylor Center project. The agreement provides for interest at 8.67% and the agreement expires December 31, 2002. No amounts were outstanding at June 30, 2001.

8. Related party transactions -

The Foundation has an agreement with the University 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 the University.

For the year ended June 30, 2001, certain operating and fundraising expenses, primarily salaries and wages, related to the support of the Foundation were paid directly by the University. The value of such services has not been determined. For the year ended June 30, 2000, similar operating and fundraising expenses totaling $231,722 were paid by the Foundation.

9. Temporarily restricted net assets -

Temporarily restricted net assets consisted of the following at June 30, 2001:

Taylor Center	$15,796,782
Funds available for future periods	562,039
	$16,358,821

Permanently restricted net assets consisted of the following at June 30, 2001:

Endowment Funds	$8,637,177
Gift Annuity Funds	245,018
	$8,882,195