

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2002

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

C O N T E N T S

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 – 9
Schedule of Administrative Operations	10



Peterson & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Northwestern Office Building ■ Suite 407
209 South Second Street
Mankato, Minnesota 56001
Phone: 507.388.1641

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, 2002, 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, 2002, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of administrative operations on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peterson & Company, P.A.
Certified Public Accountants

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2002
(With Comparative Totals for June 30, 2001)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Eliminations</u>	<u>2002</u>	<u>2001</u>
ASSETS						
Cash	\$126,201	\$610,278	\$193		\$736,672	\$395,608
Investments - at market value	1,544,400	1,356,939	6,879,955		9,781,294	10,096,988
Unconditional promises to give	224,581	3,494,712	143,600		3,862,893	5,429,409
Due from Minnesota State University, Mankato	332,647	637,300			969,947	
Other receivables	24,090	32,895	31,101		88,086	70,653
Due from unrestricted		264,992	2,017,353	\$2,282,345		
Interest in unitrusts and annuity trusts		220,650	82,558		303,208	391,472
Gift annuities		4,924	262,655		267,579	187,033
Building - Taylor Center						17,713,942
Property and equipment	1,145,405	615,661			1,761,066	1,895,506
TOTAL ASSETS	<u><u>\$3,397,324</u></u>	<u><u>\$7,238,351</u></u>	<u><u>\$9,417,415</u></u>	<u><u>\$2,282,345</u></u>	<u><u>\$17,770,745</u></u>	<u><u>\$36,180,611</u></u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Gift annuities payable		\$3,653	\$182,391		\$186,044	\$115,173
Accounts payable	\$100,364	165,300			265,664	256,403
Due to temporarily and permanently restricted	2,282,345			\$2,282,345		
Due to Minnesota State University, Mankato						576,028
Bonds payable		5,553,000			5,553,000	6,780,000
Note, mortgage, and assessments payable	771,224	116,375			887,599	1,114,828
TOTAL LIABILITIES	<u><u>3,153,933</u></u>	<u><u>5,838,328</u></u>	<u><u>182,391</u></u>		<u><u>6,892,307</u></u>	<u><u>8,842,432</u></u>
NET ASSETS	<u><u>243,391</u></u>	<u><u>1,400,023</u></u>	<u><u>9,235,024</u></u>		<u><u>10,878,438</u></u>	<u><u>27,338,179</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$3,397,324</u></u>	<u><u>\$7,238,351</u></u>	<u><u>\$9,417,415</u></u>	<u><u>\$2,282,345</u></u>	<u><u>\$17,770,745</u></u>	<u><u>\$36,180,611</u></u>

See Notes to Financial Statements

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

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2002</u>	<u>2001</u>
REVENUES AND OTHER SUPPORT					
Contributions	\$1,490,518	\$509,798	\$395,851	\$2,396,167	\$2,018,352
Gifts in kind	639,964			639,964	898,567
Investment income	101,758			101,758	184,309
Support services revenue	177,768	74,073		251,841	253,739
Miscellaneous revenues (expense)	56,103	(7,611)		48,492	41,675
	<u>2,466,111</u>	<u>576,260</u>	<u>395,851</u>	<u>3,438,222</u>	<u>3,396,642</u>
TOTAL REVENUES AND OTHER SUPPORT					
Net assets released from restriction	<u>15,775,244</u>	<u>(15,774,100)</u>	<u>(1,144)</u>		
	<u>18,241,355</u>	<u>(15,197,840)</u>	<u>394,707</u>	<u>3,438,222</u>	<u>3,396,642</u>
EXPENSES					
Program services:					
Distributions for educational purposes	2,262,969			2,262,969	2,432,005
Taylor Center	15,553,711			15,553,711	
Total expenses for program services	<u>17,816,680</u>			<u>17,816,680</u>	<u>2,432,005</u>
Net realized and unrealized losses on investments, property and equipment					
	<u>1,265,543</u>			<u>1,265,543</u>	<u>3,546,856</u>
Change in carrying value of trusts and gift annuities		36,711	41,878	<u>78,589</u>	<u>148,258</u>
Support services:					
Fund raising - promotion and development	137,618			137,618	129,307
General administrative expenses	67,268			67,268	58,974
Legal, audit, and accounting fees	16,219			16,219	22,082
Investment trust and management fees	13,387			13,387	9,332
Property and equipment expenses	57,685			57,685	69,636
Property and equipment depreciation	71,207			71,207	52,639
Interest expense	373,767			373,767	223,886
Total expenses for support services	<u>737,151</u>			<u>737,151</u>	<u>565,856</u>
TOTAL EXPENSES					
	<u>19,819,374</u>	<u>36,711</u>	<u>41,878</u>	<u>19,897,963</u>	<u>6,692,975</u>
INCREASE (DECREASE) IN NET ASSETS					
	<u>(1,578,019)</u>	<u>(15,234,551)</u>	<u>352,829</u>	<u>(16,459,741)</u>	<u>(3,296,333)</u>
NET ASSETS, BEGINNING					
	<u>1,821,410</u>	<u>16,634,574</u>	<u>8,882,195</u>	<u>27,338,179</u>	<u>30,634,512</u>
NET ASSETS, END					
	<u>\$243,391</u>	<u>\$1,400,023</u>	<u>\$9,235,024</u>	<u>\$10,878,438</u>	<u>\$27,338,179</u>

See Notes to Financial Statements

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	(\$16,459,741)	(\$3,296,333)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Building - Taylor Center	17,767,039	
Less University contributions	(2,213,328)	
Net realized and unrealized loss on investments	1,565,569	3,546,855
Gain on sale of property and equipment	(300,026)	
Changes in discounts to net present value and allowance for uncollectible amounts	(191,398)	(132,785)
Changes in carrying value of trusts and gift annuities	78,589	113,164
Depreciation	71,207	52,639
Non-cash contributions		(682,500)
Contributions restricted for long-term investment	(395,851)	(414,287)
(Increase) decrease in:		
Unconditional promises to give	1,757,914	2,088,150
Due from Minnesota State University, Mankato	(332,647)	
Other receivables	(17,433)	58,389
Building - Taylor Center	946,903	(2,365,273)
Increase (decrease) in:		
Accounts payable	9,261	(1,367,924)
Due to Minnesota State University, Mankato		576,028
NET CASH USED FOR OPERATING ACTIVITIES	<u>2,286,058</u>	<u>(1,823,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,101,303)	(10,036,299)
Proceeds from sale and maturity of investments	1,851,428	10,046,604
Purchase of property and equipment		(246,365)
Proceeds from sale of property and equipment	<u>363,259</u>	
NET CASH USED FOR INVESTING ACTIVITIES	<u>(886,616)</u>	<u>(236,060)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of bonds	(1,227,000)	(200,000)
Payment of mortgage and assessments	(114,229)	(84,055)
Payment of notes	(113,000)	(94,625)
Proceeds from notes issued		169,000
Proceeds from contributions restricted for long-term investment	<u>395,851</u>	<u>414,287</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(1,058,378)</u>	<u>204,607</u>
NET DECREASE IN CASH	341,064	(1,855,330)
CASH, BEGINNING OF YEAR	<u>395,608</u>	<u>2,250,938</u>
CASH, END OF YEAR	<u><u>\$736,672</u></u>	<u><u>\$395,608</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was \$422,580 for the year ended June 30, 2002.

Building - Taylor Center was transferred to Minnesota State University, Mankato (University), during fiscal year 2002. The Foundation's value of the building, \$17,767,039, was reduced by cash and credits from the University of \$2,213,328.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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).

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. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when the purpose restriction is accomplished.
- 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 the 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, savings deposits, and certificates of 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, 2002, promises to give include three donors' balances 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. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as unrestricted revenues 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 revenues. 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 requires management to make estimates and assumptions that affect certain reported amounts and disclosures. 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, 2001, from which the summarized information was derived.

Cash -

The Foundation's demand deposits, savings, and certificate of deposits with financial institutions is summarized as follows:

Cash in bank accounts	\$749,403
Less: FDIC insured	<u>200,000</u>
Uninsured bank deposits	<u><u>\$549,403</u></u>

Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 2002:

	<u>Market Value</u>	<u>Cost</u>
Mutual funds	\$7,766,805	\$9,465,182
U.S. government securities	994,272	981,519
Common stock	270,056	313,626
Fixed income	569,114	556,518
Life insurance contracts	116,554	116,554
Partnership interests - real estate	64,493	64,493
	<u><u>\$9,781,294</u></u>	<u><u>\$11,497,892</u></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 (Under) Cost</u>
Balance at beginning of year	\$10,096,988	\$11,578,191	(\$1,481,203)
Balance at end of year	9,781,294	11,497,892	<u>(1,716,598)</u>
Increase (decrease) in unrealized appreciation			(235,395)
Realized loss			<u>(1,030,148)</u>
Net loss on investments			<u><u>(\$1,265,543)</u></u>

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, 2002, are as follows:

Receivable in less than one year	\$1,009,424
Receivable in one to five years	2,337,745
Receivable in six to ten years	<u>1,363,340</u>
Total unconditional promises to give	4,710,509
Less discounts to net present value	777,309
Less allowance for uncollectible amounts	<u>70,307</u>
Net unconditional promises to give	<u><u>\$3,862,893</u></u>

6. Building – Taylor Center -

Construction on the Taylor Center began during fiscal year 1999 and was completed during fiscal year 2001. During the current fiscal year the building, valued at \$15,553,711, has been transferred to Minnesota State University, Mankato.

7. Property and equipment -

Property and equipment consist of the following:

Land:	
University Place	\$167,164
Other	148,255
Buildings:	
Warren Street building	1,272,906
Four-plex townhouse	425,000
Equipment - signage and outdoor marquee	<u>246,365</u>
	2,259,690
Accumulated depreciation	<u>498,624</u>
	<u><u>\$1,761,066</u></u>

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 \$122,729.

8. 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 with interest at 7.53% on October 1, 2002, and February 1, 2003	\$116,375
Assessments payable, University Place and other land, in semi-annual payments of \$11,482 including interest	86,871
Mortgage payable, Warren Street building, in monthly payments of \$10,080 including interest at 6.75% per annum, due June 15, 2004	<u>684,353</u>
Total mortgage and assessments payable	887,599
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	<u>5,553,000</u>
	<u><u>\$6,440,599</u></u>

Future scheduled maturities of the above debt are as follows:

Year ending June 30,	
2003	\$1,434,459
2004	1,324,999
2005	718,365
2006	455,365
2007	455,365
Thereafter	2,052,046

Included in temporarily restricted assets at June 30, 2002, are amounts of \$201,167 and \$5,240,025 restricted for payment of the Andreas Theatre bank note and the Taylor Center bonds, respectively.

9. 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, 2002, 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.

10. Temporarily restricted net assets -

Temporarily restricted net assets consisted of the following at June 30, 2002:

Funds available for educational purposes in future periods	<u><u>\$1,400,023</u></u>
--	---------------------------

Permanently restricted net assets consisted of the following at June 30, 2002:

Endowment Funds	\$9,072,202
Gift Annuity Funds	<u>162,822</u>
	<u><u>\$9,235,024</u></u>

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

SCHEDULE OF ADMINISTRATIVE OPERATIONS
For the Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Budget vs Actual</u>
INCOME - Designated by Board of Directors			
Unrestricted gift income	\$150,000	\$95,943	\$54,057
Charges on endowment income (quarterly)	230,000		230,000
Bequest charge		5,867	(5,867)
Agricultural land rental	1,785	1,785	0
Endowment interest	670	630	40
Sale of land/portion to support operations		116,880	(116,880)
	<u>382,455</u>	<u>221,105</u>	<u>161,350</u>
TOTAL INCOME			
EXPENDITURES			
Administrative and Overhead Expenses:			
General administrative expenses	35,000	37,243	(2,243)
Insurance	4,100	3,836	264
President's administrative support	32,000	22,189	9,811
Scholarships/recruitment fund	5,000	4,000	1,000
Attorney fees	7,000	3,209	3,791
Professional fees-audit and accounting	15,000	13,010	1,990
Fund raising expense	235,000	123,688	111,312
Advancement consultants/search expenses	25,000	13,930	11,070
Campaign costs	25,000		25,000
	<u>383,100</u>	<u>221,105</u>	<u>161,995</u>
TOTAL EXPENDITURES	<u>383,100</u>	<u>221,105</u>	<u>161,995</u>
	<u>(\$645)</u>	<u>\$0</u>	<u>(\$645)</u>

NOTE: Proceeds from land sale of \$363,259 were designated in part (\$116,880) to provide for income to be equal to administrative expenditures for the year.