MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2003

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

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 Statements of Financial Position of Minnesota State University, Mankato Foundation, Inc. (a nonprofit organization) as of June 30, 2003, 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 audit.

We conducted our audit 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 audit provides 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, 2003, 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 11 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

Mankato, Minnesota
August 12, 2003

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2003
(With Comparative Totals for June 30, 2002)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	2003	2002
ASSETS						
Cash	$9,136	$12,036			$21,172	$736,672
Investments - at market value	3,468,901	1,762,907	$6,871,102		12,102,910	9,781,294
Unconditional promises to give	647,171	3,041,530	171,305		3,860,006	3,862,893
Due from Minnesota State University, Mankato	589,431	318,650			908,081	969,947
Other receivables	42,086	29,517	23,368		94,971	88,086
Due from unrestricted		166,085	859,850	$1,025,935		
Interest in unitrusts and annuity trusts		248,971	147,444		396,415	303,208
Gift annuities		4,881	246,922		251,803	267,579
Property and equipment		578,525			578,525	1,761,066
TOTAL ASSETS	$4,756,725	$6,163,102	$8,319,991	$1,025,935	$18,213,883	$17,770,745
LIABILITIES AND NET ASSETS						
LIABILITIES						
Gift annuities payable		$3,558	$175,593		$179,151	$186,044
Accounts payable	$43,520	128,894			172,414	265,664
Due to temporarily and permanently restricted	1,025,935			$1,025,935		
Bonds payable		4,326,000			4,326,000	5,553,000
Note, mortgage, and assessments payable	608,290				608,290	887,599
TOTAL LIABILITIES	1,677,745	4,458,452	175,593		5,285,855	6,892,307
NET ASSETS	3,078,980	1,704,650	8,144,398		12,928,028	10,878,438
TOTAL LIABILITIES AND NET ASSETS	$4,756,725	$6,163,102	$8,319,991	$1,025,935	$18,213,883	$17,770,745

See Notes to Financial Statements

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

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2003
(With Comparative Totals for the Year Ended June 30, 2002)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003	2002
REVENUES AND OTHER SUPPORT					
Contributions	$2,011,861	$389,878	$329,634	$2,731,373	$2,396,167
Gifts in kind	324,678	10,200		334,878	639,964
Investment income	176,567			176,567	101,758
Net realized and unrealized gains on investments, property and equipment	1,192,404			1,192,404	
Change in carrying value of trusts and gift annuities		28,373	55,952	84,325	
Support services revenue	182,084	83,923		266,007	251,841
Miscellaneous revenues	46,709	7,064		53,773	48,492
TOTAL REVENUES AND OTHER SUPPORT	3,934,303	519,438	385,586	4,839,327	3,438,222
Net assets released from restriction	214,810	(214,810)			
	4,149,113	304,628	385,586	4,839,327	3,438,222
EXPENSES					
Program services:					
Distributions for educational purposes	1,962,624			1,962,624	2,262,969
Alumni-Foundation Building	187,625			187,625	
Taylor Center					15,553,711
Total expenses for program services	2,150,249			2,150,249	17,816,680
Net realized and unrealized losses on investments, property and equipment					1,265,543
Change in carrying value of trusts and gift annuities					78,589
Support services:					
Fund raising - promotion and development	150,577			150,577	137,618
General administrative expenses	70,986			70,986	67,268
Legal, audit, and accounting fees	15,487			15,487	16,219
Investment trust and management fees	19,535			19,535	13,387
Property and equipment expenses	15,879			15,879	57,685
Property and equipment depreciation	71,207			71,207	71,207
Interest expense	295,817			295,817	373,767
Total expenses for support services	639,488			639,488	737,151
TOTAL EXPENSES	2,789,737			2,789,737	19,897,963
INCREASE (DECREASE) IN NET ASSETS	$1,359,376	$304,628	$385,586	$2,049,590	($16,459,741)

See Notes to Financial Statements

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

STATEMENTS OF CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS, JUNE 30, 2002, AS REPORTED	$243,392	$1,400,022	$9,235,024	$10,878,438
Reclassification of permanently restricted funds to unrestricted funds	1,476,212		(1,476,212)	
NET ASSETS, JUNE 30, 2002, AS RESTATED	1,719,604	1,400,022	7,758,812	10,878,438
INCREASE IN NET ASSETS	1,359,376	304,628	385,586	2,049,590
NET ASSETS, END	$3,078,980	$1,704,650	$8,144,398	$12,928,028

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003
(With Comparative Totals for the Year Ended June 30, 2002)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$2,049,590	($16,459,741)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Building- Alumni Center	187,625	
Building - Taylor Center		17,767,039
Less University contributions		(2,213,328)
Net realized and unrealized loss on investments	131,717	1,565,569
Gain on sale of property and equipment	(1,324,120)	(300,026)
Changes in discounts to net present value and allowance for uncollectible amounts	(7,962)	(191,398)
Changes in carrying value of trusts and gift annuities	(84,324)	78,589
Depreciation	71,207	71,207
Contributions restricted for long-term investment	(329,634)	(395,851)
(Increase) decrease in:		
Unconditional promises to give	10,849	1,757,914
Due from Minnesota State University, Mankato	670,156	(332,647)
Other receivables	(6,885)	(17,433)
Building - Taylor Center		946,903
Increase (decrease) in:		
Accounts payable	(93,250)	9,261
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,274,969	2,286,058
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,070,782)	(3,101,303)
Proceeds from sale and maturity of investments	9,617,449	1,851,428
Proceeds from sale of property and equipment	1,639,539	363,259
NET CASH USED FOR INVESTING ACTIVITIES	(813,794)	(886,616)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of bonds	(1,227,000)	(1,227,000)
Payment of mortgage and assessments	(162,934)	(114,229)
Payment of notes	(116,375)	(113,000)
Proceeds from contributions restricted for long-term investment	329,634	395,851
NET CASH USED FOR FINANCING ACTIVITIES	(1,176,675)	(1,058,378)
NET INCREASE (DECREASE) IN CASH	(715,500)	341,064
CASH, BEGINNING OF YEAR	736,672	395,608
CASH, END OF YEAR	$21,172	$736,672

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid for interest was $330,321 for the year ended June 30, 2003.

Building - Alumni building was transferred to Minnesota State University, Mankato (University), during fiscal year 2003. The Foundation's value of the building was $795,915 net of mortgage of $608,290.

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. 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, 2003, unconditional promises to give include three donors' balances which approximated 83% 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.

Reclassification

The organization's management reviewed the permanently restricted account balances and determined that earnings were added to permanently restricted account balances without donor direction. Based on the review some of the previously restricted account balances were reclassified to unrestricted. The reclassification had no effect on the Statement of Activities and did not change the organization's total net assets.

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, 2002, from which the summarized information was derived.

3. Cash -

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

Cash in bank accounts	$66,189
Less: FDIC insured	66,189
Uninsured bank deposits	$0

4. Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 2003:

	Market Value	Cost
Mutual funds	$9,104,131	$9,725,282
U.S. government securities	77,030	63,715
Common stock	203,953	313,626
Fixed income	2,534,435	2,531,075
Life insurance contracts	123,618	123,618
Partnership interests - real estate	59,743	59,743
	$12,102,910	$12,817,059

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

	Market Value	Cost	Excess of Market Over (Under) Cost
Balance at beginning of year	$9,781,294	$11,497,892	($1,716,598)
Balance at end of year	12,102,910	12,817,059	(714,149)
Increase in unrealized appreciation			1,002,449
Realized loss			(1,134,166)
Net loss on investments			($131,717)

5. 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, 2003, are as follows:

Receivable in less than one year	$1,013,402
Receivable in one to five years	2,509,133
Receivable in six to ten years	1,177,124
Total unconditional promises to give	4,699,659
Less discounts to net present value	721,780
Less allowance for uncollectible amounts	117,873
Net unconditional promises to give	$3,860,006

6. Property and equipment -

Property and equipment consist of the following:

Building- Four-plex townhouse	$425,000
Equipment - signage and outdoor marquee	246,365
	671,365
Accumulated depreciation	92,840
	$578,525

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

Mortgage payable, Warren Street building, in monthly payments of $10,080 including interest at 6.75% per annum, paid in full July 3, 2003	$608,290
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	4,326,000
Total mortgage and bonds payable	$4,934,290

Future scheduled maturities of the above debt are as follows:

Year ending June 30,	
2004	$1,313,290
2005	705,000
2006	442,000
2007	442,000
2008	442,000
Thereafter	1,590,000

Included in temporarily restricted assets at June 30, 2003, are amounts of $4,482,188 restricted for payment of the Taylor Center bonds.

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, 2003, 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.

9. Restricted net assets -

Temporarily restricted net assets consisted of the following at June 30, 2003:

Funds available for educational purposes in future periods	$1,704,650

Permanently restricted net assets consisted of the following at June 30, 2003:

Endowment Funds	$7,925,625
Gift Annuity Funds	218,773
	$8,144,398

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

SCHEDULE OF ADMINISTRATIVE OPERATIONS
For the Year Ended June 30, 2003

	Budget	Actual	Budget vs Actual
INCOME - Designated by Board of Directors			
Unrestricted gift income	$120,000	$105,790	$14,210
Land proceeds-executive committee appropriation	125,000	125,000	0
Bequest charge	7,000	416	6,584
Agricultural land rental	500		500
Endowment interest	500		500
Administrative charge on annual fund		65,168	(65,168)
Sale of land/portion to support operations	16,500		16,500
Other income		33,985	(33,985)
TOTAL INCOME	269,500	330,359	(60,859)
EXPENDITURES			
Administrative and Overhead Expenses:			
Fund raising expense	165,000	133,758	31,242
Advancement consultants/search expenses	10,000	8,697	1,303
Campaign costs	10,000	8,122	1,878
General administrative expenses	30,000	35,333	(5,333)
Insurance	4,100	4,226	(126)
President's administrative support	25,000	28,007	(3,007)
Scholarships/recruitment fund	5,000	3,420	1,580
Attorney fees	2,500	1,047	1,453
Professional fees-audit and accounting	14,000	14,440	(440)
TOTAL EXPENDITURES	265,600	237,050	28,550
	$3,900	$93,309	($89,409)