

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2004

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. (a nonprofit organization) as of June 30, 2004, and the related Statements of Activities, of Changes in Net Assets, 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, 2004, 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 3, 2004

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

STATEMENT OF FINANCIAL POSITION
June 30, 2004
(With Comparative Totals for June 30, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Eliminations</u>	<u>2004</u>	<u>2003</u>
ASSETS						
Cash	\$60,230	\$7,924			\$68,154	\$21,172
Investments - at market value	5,671,153	1,710,408	\$7,886,901		15,268,462	12,102,910
Unconditional promises to give	573,407	2,714,861	128,313		3,416,581	3,860,006
Due from Minnesota State University, Mankato						908,081
Other receivables	21,463	2,120	17,181		40,764	94,971
Due from unrestricted		163,700	288,805	\$452,505		
Interest in unitrusts and annuity trusts		248,612	147,290		395,902	396,415
Gift annuities		4,990	241,984		246,974	251,803
Property and equipment		160,139			160,139	578,525
TOTAL ASSETS	<u>\$6,326,253</u>	<u>\$5,012,754</u>	<u>\$8,710,474</u>	<u>\$452,505</u>	<u>\$19,596,976</u>	<u>\$18,213,883</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Gift annuities payable		\$3,600	\$167,069		\$170,669	\$179,151
Accounts payable	\$31,993	107,593			139,586	172,414
Due to temporarily and permanently restricted	452,505			\$452,505		
Due to Minnesota State University, Mankato	8,965				8,965	
Bonds payable		3,621,000			3,621,000	4,326,000
Note, mortgage, and assessments payable						608,290
TOTAL LIABILITIES	<u>493,463</u>	<u>3,732,193</u>	<u>167,069</u>		<u>3,940,220</u>	<u>5,285,855</u>
NET ASSETS	<u>5,832,790</u>	<u>1,280,561</u>	<u>8,543,405</u>		<u>15,656,756</u>	<u>12,928,028</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,326,253</u>	<u>\$5,012,754</u>	<u>\$8,710,474</u>	<u>\$452,505</u>	<u>\$19,596,976</u>	<u>\$18,213,883</u>

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(With Comparative Totals for the Year Ended June 30, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004</u>	<u>2003</u>
REVENUES AND OTHER SUPPORT					
Contributions	\$1,882,077	\$219,915	\$447,943	\$2,549,935	\$2,731,373
Gifts in kind	86,925	7,000		93,925	334,878
Investment income	154,943			154,943	176,567
Net realized and unrealized gains on investments, property and equipment	1,816,101			1,816,101	1,192,404
Change in carrying value of trusts and gift annuities		(292)	3,431	3,139	84,325
Support services revenue	75,119	84,273		159,392	266,007
Miscellaneous revenues	59,296	8,521		67,817	53,773
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES AND OTHER SUPPORT	4,074,461	319,417	451,374	4,845,252	4,839,327
Net assets released from restriction	795,873	(743,506)	(52,367)		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	4,870,334	(424,089)	399,007	4,845,252	4,839,327
EXPENSES					
Program services:					
Distributions for educational purposes	1,533,756			1,533,756	1,962,624
Alumni-Foundation Building					187,625
Total expenses for program services	<hr/>			<hr/>	<hr/>
	1,533,756			1,533,756	2,150,249
Support services:					
Fund raising - promotion and development	221,178			221,178	150,577
General administrative expenses	65,411			65,411	70,986
Legal, audit, and accounting fees	16,359			16,359	15,487
Investment trust and management fees	34,982			34,982	19,535
Property and equipment expenses	10,461			10,461	15,879
Property and equipment depreciation	32,969			32,969	71,207
Interest expense	201,408			201,408	295,817
Total expenses for support services	<hr/>			<hr/>	<hr/>
	582,768			582,768	639,488
TOTAL EXPENSES	<hr/>			<hr/>	<hr/>
	2,116,524			2,116,524	2,789,737
INCREASE (DECREASE) IN NET ASSETS	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$2,753,810	(\$424,089)	\$399,007	\$2,728,728	\$2,049,590

See Notes to Financial Statements

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

STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, BEGINNING	\$3,078,980	\$1,704,650	\$8,144,398	\$12,928,028
INCREASE (DECREASE) IN NET ASSETS	<u>2,753,810</u>	<u>(424,089)</u>	<u>399,007</u>	<u>2,728,728</u>
NET ASSETS, END	<u>\$5,832,790</u>	<u>\$1,280,561</u>	<u>\$8,543,405</u>	<u>\$15,656,756</u>

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(With Comparative Totals for the Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$2,728,728	\$2,049,590
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Building- Alumni Center		187,625
Net realized and unrealized (gain) loss on investments	(1,816,101)	131,717
(Gain) loss on sale of property and equipment	16,449	(1,324,120)
Changes in discounts to net present value and allowance for uncollectible amounts	164,086	(7,962)
Changes in carrying value of trusts and gift annuities	(3,139)	(84,324)
Depreciation	32,969	71,207
Contributions restricted for long-term investment	(447,943)	(329,634)
(Increase) decrease in:		
Unconditional promises to give	279,339	10,849
Due from Minnesota State University, Mankato	908,081	670,156
Other receivables	54,207	(6,885)
Increase (decrease) in:		
Accounts payable	(32,828)	(93,250)
Due to Minnesota State University, Mankato	8,965	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,892,813</u>	<u>1,274,969</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(7,416,483)	(12,070,782)
Proceeds from sale and maturity of investments	6,067,031	9,617,449
Proceeds from sale of property and equipment	368,968	1,639,539
NET CASH USED FOR INVESTING ACTIVITIES	<u>(980,484)</u>	<u>(813,794)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of bonds	(705,000)	(1,227,000)
Payment of mortgage and assessments	(608,290)	(162,934)
Payment of notes		(116,375)
Proceeds from contributions restricted for long-term investment	447,943	329,634
NET CASH USED FOR FINANCING ACTIVITIES	<u>(865,347)</u>	<u>(1,176,675)</u>
NET INCREASE (DECREASE) IN CASH	46,982	(715,500)
CASH, BEGINNING OF YEAR	<u>21,172</u>	<u>736,672</u>
CASH, END OF YEAR	<u>\$68,154</u>	<u>\$21,172</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was \$ 222,356 for the year ended June 30, 2004.

See Notes to Financial Statements

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, 2004, unconditional promises to give include three donors' balances which approximated 76% 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 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, 2003, from which the summarized information was derived.

3. Cash -

The Foundation's demand deposits, savings, and certificate of deposits with financial institutions are covered by FDIC insurance at June 30, 2004.

4. Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 2004:

	<u>Market Value</u>	<u>Cost</u>
Mutual funds	\$10,459,412	\$8,951,248
U.S. government securities	57,189	48,988
Common stock	2,204,368	1,977,957
Fixed income	2,367,798	3,116,357
Life insurance contracts	121,990	121,990
Partnership interests - real estate	57,706	57,706
	<u>\$15,268,462</u>	<u>\$14,274,246</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	\$12,102,910	\$12,817,059	(\$714,149)
Balance at end of year	15,268,462	14,274,246	994,216
Increase in unrealized appreciation			1,708,365
Realized gain			107,736
Net gain on investments			<u>\$1,816,101</u>

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, 2004, are as follows:

Receivable in less than one year	\$939,151
Receivable in one to five years	2,349,233
Receivable in six to ten years	<u>803,764</u>
Total unconditional promises to give	4,092,148
Less discounts to net present value	574,436
Less allowance for uncollectible amounts	<u>101,131</u>
Net unconditional promises to give	<u><u>\$3,416,581</u></u>

6. Property and equipment -

Property and equipment consist of the following:

Equipment - signage and outdoor marquee	\$246,365
Accumulated depreciation	<u>86,226</u>
	<u><u>\$160,139</u></u>

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

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

\$3,621,000

Future scheduled maturities of the above debt are as follows:

Year ending June 30,	
2005	\$705,000
2006	442,000
2007	442,000
2008	442,000
2009	442,000
Thereafter	1,148,000

Included in temporarily restricted assets at June 30, 2004, are amounts of \$3,454,004 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, 2004, 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, 2004:

Funds available for educational purposes in future periods	<u>\$1,280,561</u>
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Permanently restricted net assets consisted of the following at June 30, 2004:

Endowment Funds	\$8,321,200
Gift Annuity Funds	<u>222,205</u>
	<u>\$8,543,405</u>

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

SCHEDULE OF ADMINISTRATIVE OPERATIONS
For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Budget vs Actual</u>
INCOME - Designated by Board of Directors			
Unrestricted gift income	\$100,000	\$333,521	\$233,521
Income from land proceeds	52,500	52,500	0
Bequest charge	5,000	15,951	10,951
Administrative charge on annual fund	110,000	97,769	(12,231)
Other income	30,000	33,860	3,860
	<u>297,500</u>	<u>533,601</u>	<u>236,101</u>
TOTAL INCOME			
EXPENDITURES			
Administrative and Overhead Expenses:			
Fund raising expense	127,400	114,862	12,538
Advancement consultants/search expenses	10,000	15,871	(5,871)
Campaign costs	25,000	9,384	15,616
Annual fund salary	45,000	43,586	1,414
Director of Development salaries	37,500	37,475	25
General administrative expenses	30,000	29,543	457
Insurance	4,300	4,151	149
President's administrative support	30,000	28,859	1,141
Scholarships/recruitment fund	5,000	2,858	2,142
Attorney fees	2,500	1,184	1,316
Professional fees-audit and accounting	15,000	15,175	(175)
	<u>331,700</u>	<u>302,948</u>	<u>28,752</u>
TOTAL EXPENDITURES			
	<u>(\$34,200)</u>	<u>\$230,653</u>	<u>\$207,349</u>