MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2006

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

CONTENTS

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, 2006, 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, 2006, 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 17, 2006

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

STATEMENT OF FINANCIAL POSITION
June 30, 2006
(With Comparative Totals for June 30, 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	2006	2005
ASSETS						
Cash	$138,904	$20,980	($4,372)		$155,512	$12,507
Investments - at market value	7,086,140	1,447,150	10,397,286		18,930,576	17,523,465
Unconditional promises to give	592,018	1,944,494	218,629		2,755,141	3,135,118
Other receivables	3,495				3,495	42,102
On deposit with MSU	1,185				1,185	
Due from unrestricted		85,415		$85,415	0	0
Interest in unitrusts and annuity trusts		281,390	171,610		453,000	406,897
Gift annuities		4,905	223,505		228,410	242,717
Property and equipment		110,867			110,867	135,503
TOTAL ASSETS	$7,821,742	$3,895,201	$11,006,658	$85,415	$22,638,186	$21,498,309
LIABILITIES AND NET ASSETS						
LIABILITIES						
Gift annuities payable		$3,411	$157,211		$160,622	$168,106
Accounts payable	$70,920	74,283			145,203	183,192
Due to temporarily restricted	85,415			$85,415	0	0
Due to Minnesota State University, Mankato					0	12,828
Bonds payable		2,474,000			2,474,000	2,916,000
TOTAL LIABILITIES	156,335	2,551,694	157,211		2,779,825	3,280,126
NET ASSETS	7,665,407	1,343,507	10,849,447		19,858,361	18,218,183
TOTAL LIABILITIES AND NET ASSETS	$7,821,742	$3,895,201	$11,006,658	$85,415	$22,638,186	$21,498,309

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006	2005
REVENUES AND OTHER SUPPORT					
Contributions	$2,114,341	$246,574	$727,957	$3,088,872	$3,575,227
Gifts in kind	196,328			196,328	202,690
Non cash support from MSU	1,178,939			1,178,939	966,315
Investment income	378,395			378,395	226,507
Net realized and unrealized gains on investments, property and equipment	1,140,657			1,140,657	951,209
Change in carrying value of trusts and gift annuities		17,943	21,337	39,280	9,301
Support services revenue	48,744	71,173		119,917	127,647
Miscellaneous revenues	20,078	9,000		29,078	37,158
TOTAL REVENUES AND OTHER SUPPORT	5,077,482	344,690	749,294	6,171,466	6,096,054
Net assets released from restriction	269,261	(269,699)	438		
	5,346,743	74,991	749,732	6,171,466	6,096,054
EXPENSES					
Program services:					
Distributions for educational purposes	2,419,934			2,419,934	1,882,276
Total expenses for program services	2,419,934			2,419,934	1,882,276
Support services:					
Fund raising - promotion and development	1,503,167			1,503,167	1,088,512
General administrative expenses	299,458			299,458	248,113
Legal, audit, and accounting fees	18,722			18,722	19,773
Investment trust and management fees	77,405			77,405	55,590
Marketing expenses for university	50,418			50,418	49,311
Property and equipment expenses	451			451	1,246
Property and equipment depreciation	24,636			24,636	24,636
Interest expense	137,097			137,097	165,170
Total expenses for support services	2,111,354			2,111,354	1,652,351
TOTAL EXPENSES	4,531,288			4,531,288	3,534,627
INCREASE IN NET ASSETS	815,455	74,991	749,732	1,640,178	2,561,427
NET ASSETS, BEGINNING	6,849,952	1,268,516	10,099,715	18,218,183	15,656,756
NET ASSETS, END	$7,665,407	$1,343,507	$10,849,447	$19,858,361	$18,218,183

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$1,640,178	$2,561,427
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) on investments	(1,140,657)	(951,209)
Changes in discounts to net present value and allowance for uncollectible amounts	(97,111)	(177,694)
Changes in carrying value of trusts and gift annuities	(39,280)	(9,301)
Depreciation	24,636	24,636
Contributions restricted for long-term investment	(727,957)	(1,533,757)
(Increase) decrease in:		
Unconditional promises to give	477,088	459,157
Due from Minnesota State University, Mankato	(1,185)	
Other receivables	38,607	(1,338)
Increase (decrease) in:		
Accounts payable	(37,989)	43,606
Due to Minnesota State University, Mankato	(12,828)	3,863
NET CASH PROVIDED BY OPERATING ACTIVITIES	123,502	419,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,454,078)	(5,559,465)
Proceeds from sale and maturity of investments	10,187,624	4,255,671
NET CASH USED FOR INVESTING ACTIVITIES	(266,454)	(1,303,794)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of bonds	(442,000)	(705,000)
Proceeds from contributions restricted for long-term investment	727,957	1,533,757
NET CASH PROVIDED BY FINANCING ACTIVITIES	285,957	828,757
NET INCREASE (DECREASE) IN CASH	143,005	(55,647)
CASH, BEGINNING OF YEAR	12,507	68,154
CASH, END OF YEAR	$155,512	$12,507

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid for interest was $149,882 for the year ended June 30, 2006.
Noncash contributions received were $1,375,267 for the year ended June 30, 2006.

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. Money market accounts with brokerage firms are considered investments.

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, 2006, unconditional promises to give include two donors' balances which approximated 86% 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, 2005, from which the summarized information was derived. Prior-year financial information has been restated to include the value of salaries, wages, fringe benefits, space, and other noncash benefits provided to the Foundation by the University.

3. Cash -

The Foundation's demand deposits, savings, and certificate of deposits with financial institutions are covered by FDIC insurance at June 30, 2006.

4. Investments -

Quoted market prices were used to value the investments, which consist of the following at June 30, 2006:

	Market Value	Cost
Equity mutual funds	$8,841,479	$7,049,227
Fixed income mutual funds	103,230	113,480
Money market funds	564,624	564,624
Common stock	5,600,394	5,039,036
Fixed income	3,721,851	3,854,762
Life insurance contracts	99,000	99,000
	$18,930,578	$16,720,129

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	$17,523,465	$15,681,073	$1,842,392
Balance at end of year	18,930,578	16,720,129	2,210,449
Increase in unrealized appreciation			368,057
Realized gain			772,600
Net gain on investments			$1,140,657

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, 2006, are as follows:

Receivable in less than one year	$888,044
Receivable in one to five years	1,982,184
Receivable in six to ten years	285,675
Total unconditional promises to give	3,155,903
Less discounts to net present value	336,478
Less allowance for uncollectible amounts	64,284
Net unconditional promises to give	$2,755,141

6. Property and equipment -

Property and equipment consist of the following:

Equipment - signage and outdoor marquee	$246,365
Accumulated depreciation	135,498
	$110,867

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	$2,474,000

Future scheduled maturities of the above debt are as follows:

Year ending June 30,	
2007	$442,000
2008	442,000
2009	442,000
2010	432,000
2011	244,667
Thereafter	471,333

Included in temporarily restricted assets at June 30, 2006, are amounts of $2,348,838 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 provide space and services for the operation of the Foundation. In return, the Foundation has agreed to expend its revenues exclusively for the benefit of the University.

For the year ended June 30, 2006, the following University expenditures on behalf of the Foundation were identified:

Salaries, wages, and fringe benefits	$856,393
Space	52,472
Consultants, training and other costs	270,074
	$1,178,939

9. Restricted net assets -

Temporarily restricted net assets consisted of the following at June 30, 2006:

Funds available for educational purposes in future periods	$1,343,507

Permanently restricted net assets consisted of the following at June 30, 2006:

Endowment Funds	$10,611,543
Gift Annuity Funds	237,904
	$10,849,447

10. Capital campaign -

Subsequent to June 30, 2006, the State of Minnesota Legislature granted final approval for the University to undertake a capital campaign to raise funds for a new building and other enhancements for Minnesota State University, Mankato.

The Foundation spent much of the fiscal year gearing up for the University's capital campaign, which is reflected in the unusually high costs for consultants and training, and in a substantial portion of the University's salary contributions for staffing for the fundraising efforts ahead. Campaign costs included an assessment of the Foundation and development team's readiness for the campaign, a full feasibility study working with major prospects, and extensive training for development officers, deans, and senior University administrators. Much of the work of the development team was focused on major gift prospect identification, research, cultivation, solicitation and stewardship. While all these activities are imperative to prepare for a campaign, it is anticipated that the benefits will last well past the conclusion of this campaign and on to the next one for Minnesota State University, Mankato.