

**MINNESOTA STATE UNIVERSITY,
MANKATO FOUNDATION, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

**MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
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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. (the Foundation) as of June 30, 2007, and the related statements of activities, 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. The financial statements of the Foundation as of June 30, 2006, were audited by Peterson & Company, P.A., whose practice became a part of LarsonAllen, LLP effective January 1, 2007), whose report dated August 17, 2006, expressed an unqualified opinion on those statements.

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, 2007, 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.


LarsonAllen LLP

Austin, Minnesota
September 27, 2007

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash	\$ 100,858	\$ 155,512
Investments, at Fair Value	24,358,354	20,982,034
Pledges Receivable, Net	9,334,514	2,755,141
Other Receivables	63,134	30,388
On Deposit with Minnesota State University, Mankato	3,514	1,185
Equipment, Net of Depreciation	86,231	110,867
Total Assets	\$ 33,946,605	\$ 24,035,127
LIABILITIES AND NET ASSETS		
LIABILITIES		
Annuities Payable	\$ 1,602,379	\$ 1,557,563
Accounts Payable	121,755	145,203
Bonds Payable	2,032,000	2,474,000
Total Liabilities	3,756,134	4,176,766
NET ASSETS		
Unrestricted	9,625,196	7,665,407
Temporarily Restricted	1,436,176	1,343,507
Permanently Restricted	19,129,099	10,849,447
Total Net Assets	30,190,471	19,858,361
Total Liabilities and Net Assets	\$ 33,946,605	\$ 24,035,127

See accompanying Notes to Financial Statements.

**MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007			2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Contributions	\$ 2,203,196	\$ 182,922	\$ 8,046,822	\$ 10,432,940	\$ 2,114,341	\$ 246,574	\$ 727,957	\$ 3,088,872
Gifts In-Kind	509,628	-	22,000	531,628	196,328	-	-	196,328
Noncash Support from MSU	1,266,041	-	-	1,266,041	1,178,939	-	-	1,178,939
Investment Income	623,290	-	-	623,290	378,395	-	-	378,395
Net Realized and Unrealized Gains on Investments	2,310,621	-	-	2,310,621	1,140,657	-	-	1,140,657
Change in Carrying Value of Trusts and Gift Annuities	-	53,139	60,830	113,969	-	17,943	21,337	39,280
Support Services Revenue	108,368	65,673	-	174,041	48,744	71,173	-	119,917
Miscellaneous Revenues	43,400	-	-	43,400	20,078	9,000	-	29,078
Total Revenues and Other Support	<u>7,064,544</u>	<u>301,734</u>	<u>8,129,652</u>	<u>15,495,930</u>	<u>5,077,482</u>	<u>344,690</u>	<u>749,294</u>	<u>6,171,466</u>
Net Assets Released from Restriction and Reclassification	59,065	(209,065)	150,000	-	269,261	(269,699)	438	-
Total Revenues and Other Support	7,123,609	92,669	8,279,652	15,495,930	5,346,743	74,991	749,732	6,171,466
EXPENSES								
Program Services:								
Distributions for Educational Purposes	2,936,281	-	-	2,936,281	2,419,934	-	-	2,419,934
Support Services:								
Fundraising - Promotion and Development	1,661,131	-	-	1,661,131	1,503,167	-	-	1,503,167
General and Administrative Expenses	294,656	-	-	294,656	299,458	-	-	299,458
Legal, Audit and Accounting Fees	25,940	-	-	25,940	18,722	-	-	18,722
Investment Trust and Management Fees	102,136	-	-	102,136	77,405	-	-	77,405
Marketing Expenses for University	-	-	-	-	50,418	-	-	50,418
Property and Equipment Expenses	5,072	-	-	5,072	451	-	-	451
Property and Equipment Depreciation	24,636	-	-	24,636	24,636	-	-	24,636
Interest Expense	113,968	-	-	113,968	137,097	-	-	137,097
Total Support Services	<u>2,227,539</u>	<u>-</u>	<u>-</u>	<u>2,227,539</u>	<u>2,111,354</u>	<u>-</u>	<u>-</u>	<u>2,111,354</u>
Total Expenses	5,163,820	-	-	5,163,820	4,531,288	-	-	4,531,288
INCREASE IN NET ASSETS	1,959,789	92,669	8,279,652	10,332,110	815,455	74,991	749,732	1,640,178
Net Assets - Beginning	7,665,407	1,343,507	10,849,447	19,858,361	6,849,952	1,268,516	10,099,715	18,218,183
NET ASSETS - ENDING	<u>\$ 9,625,196</u>	<u>\$ 1,436,176</u>	<u>\$ 19,129,099</u>	<u>\$ 30,190,471</u>	<u>\$ 7,665,407</u>	<u>\$ 1,343,507</u>	<u>\$ 10,849,447</u>	<u>\$ 19,858,361</u>

See accompanying Notes to Financial Statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 10,332,110	\$ 1,640,178
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net Realized and Unrealized Gain on Investments	(2,310,621)	(1,140,657)
Changes in Discounts to Net Present Value and Allowance for Uncollectible Amounts	(108,547)	(97,111)
Changes in Carrying Value of Trusts and Gift Annuities	(113,969)	(168,697)
Depreciation	24,636	24,636
Contributions Restricted for Long-Term Investment	(8,024,822)	(727,957)
(Increase) Decrease in:		
Pledges Receivable	499,884	477,088
Due from Minnesota State University, Mankato	(2,329)	(1,185)
Other Receivables	(32,746)	27,866
Increase (Decrease) in:		
Annuities Payable	44,816	140,158
Accounts Payable	(23,448)	(37,989)
Due to Minnesota State University, Mankato	-	(12,828)
Net Cash Provided by Operating Activities	284,964	123,502
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(22,731,486)	(10,454,078)
Proceeds from Sale and Maturity of Investments	21,779,756	10,187,624
Net Cash Used by Investing Activities	(951,730)	(266,454)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Bonds	(442,000)	(442,000)
Proceeds from Contributions Restricted for Long-Term Investments	1,054,112	727,957
Net Cash Provided by Financing Activities	612,112	285,957
 NET INCREASE (DECREASE) IN CASH	(54,654)	143,005
 Cash - Beginning of Year	155,512	12,507
 CASH - END OF YEAR	\$ 100,858	\$ 155,512
 SUPPLEMENTAL INFORMATION		
Cash Payments for Interest	\$ 127,164	\$ 149,882
Noncash contributions	\$ 1,797,669	\$ 1,375,267

See accompanying Notes to Financial Statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

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 – 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 – Those resources 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 statements of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when the purpose restriction is accomplished.

Permanently Restricted – Those resources that 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 percent 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 fundraising activity.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trust Agreements

The Foundation has entered into various trust agreements that provide, among other matters, that the Foundation as trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. Upon termination of the trust the Foundation is to receive the remaining amounts held by the trust. Where the Foundation is the trustee the assets of the trust are included within investments at fair value and the present value of estimated future payments to beneficiaries are recorded as annuities payable in the statement of financial position. A contribution is recorded when the trust is established as either temporarily restricted or permanently restricted based on the intention of the donor.

The Foundation may also be a named beneficiary of a trust where the Foundation is not the Trustee. The Foundation has recorded the net present value of the future cash flows from these Trusts within other receivables. A contribution is recorded when the trust is established as either temporarily restricted or permanently restricted based on the intention of the donor.

Gift Annuity Agreements

The Foundation has entered into gift annuity agreements that provide that the Foundation shall pay to the designated beneficiaries a specified annual amount until the death of the designated beneficiaries. The Foundation records the assets received for gift annuities at fair 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. The Foundation records the present value of estimated future payments to annuitants in annuities payable in the statement of financial position. A contribution is recorded when the annuity agreement is established as unrestricted, temporarily restricted or permanently restricted based on the intention of the donor.

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. The Foundation's demand deposits, savings, and certificate of deposits with financial institutions exceeded its FDIC insurance by \$22,114 at June 30, 2007; FDIC insurance adequately covered such deposits at June 30, 2006.

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 pledges receivable 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, 2007, unconditional pledges receivable include two donors' balances which approximated 86 percent of the total pledges receivable.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Fair values are determined by quoted market prices. 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 fair value of each account to the total fair value of all the accounts, as adjusted for additions to or deductions from those accounts.

Equipment

The Foundation carries its equipment at cost if purchased and at estimated fair value as of the date received if donated. The Foundation recognizes the receipt of donated property and equipment as a contribution. 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. Equipment is depreciated over its estimated useful life 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in 2006 have been reclassified for comparative purposes to conform with the presentation in 2007. The reclassifications have no effect on the previously reported net assets as of June 30, 2006, or net increase in assets for the year ended June 30, 2006.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 INVESTMENTS

Investments at fair value consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equity Mutual Funds	\$ 12,743,758	\$ 9,961,713
Fixed Income Mutual Funds	5,980,133	496,671
Balanced Investment Mutual Fund	2,290,308	262,591
Money Market Funds	967,624	697,945
Equity Securities	160,400	5,599,675
Fixed Income Securities	210,841	3,800,050
Real estate shares and units	1,853,881	53,418
Life Insurance Contracts	110,000	99,000
Other investments	41,409	10,971
Total	<u>\$ 24,358,354</u>	<u>\$ 20,982,034</u>

NOTE 3 PLEDGES RECEIVABLE

Unconditional pledges receivable, less an allowance for uncollectible amounts, are recognized as revenue in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met.

Pledges receivable at June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Total Pledges Receivable	\$ 9,626,729	\$ 3,155,903
Less: Discounts to Net Present Value at 5.5%	232,352	336,478
Less: Allowance for Uncollectible Amounts	59,863	64,284
Net Unconditoinal Pledges Recievable	<u>\$ 9,334,514</u>	<u>\$ 2,755,141</u>

Anticipated collection of pledges receivable as to June 30, 2007 is as follows:

Receivable in Less than One Year	\$ 7,787,538
Receivable in One to Five Years	1,585,514
Receivable in Six to Ten Years	253,677
Total Unconditional Promises to Give	<u>\$ 9,626,729</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 EQUIPMENT

Equipment consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equipment - Signage and Outdoor Marquee	\$ 246,365	\$ 246,365
Less: Accumulated Depreciation	160,134	135,498
Total	<u>\$ 86,231</u>	<u>\$ 110,867</u>

NOTE 5 BONDS PAYABLE

Bonds payable consist of the following at June 30, 2007 and 2006:

<u>Description</u>	<u>2007</u>	<u>2006</u>
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>\$ 2,032,000</u>	<u>\$ 2,474,000</u>

Future scheduled maturities of the above debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 442,000
2009	442,000
2010	432,000
2011	244,667
2012	244,667
Thereafter	226,666
Total	<u>\$ 2,032,000</u>

NOTE 6 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 years ended June 30, 2007 and 2006, the following University expenditures on behalf of the Foundation were identified:

	<u>2007</u>	<u>2006</u>
Salaries, Wages and Fringe Benefits	\$ 923,065	\$ 856,393
Space	54,000	52,472
Consultants, Training and Other Costs	288,976	270,074
Total	<u>\$ 1,266,041</u>	<u>\$ 1,178,939</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Funds Available for Educational Purposes in Future Periods	<u>\$ 1,436,176</u>	<u>\$ 1,343,507</u>

Permanently restricted net assets consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Endowment Funds	<u>\$ 18,879,874</u>	<u>\$ 10,611,543</u>
Gift Annuity Funds	<u>249,225</u>	<u>237,904</u>
Total	<u>\$ 19,129,099</u>	<u>\$ 10,849,447</u>