

FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
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INDEPENDENT AUDITOR'S REPORT

The 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, 2008, and the related statements of activities and 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 Minnesota State University, Mankato Foundation, Inc. as of June 30, 2007 were audited by other auditors whose report dated September 27, 2007, expressed an unqualified opinion on those financial 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Mankato, Minnesota
September 8, 2008

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MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 153,585	\$ 100,858
Investments, at fair value	35,739,464	24,358,354
Pledges receivable, net	4,349,389	9,334,514
On deposit with Minnesota State University, Mankato	9,154	3,514
Other assets	46,335	63,134
Property and equipment, net of accumulated depreciation	<u>836,233</u>	<u>86,231</u>
TOTAL ASSETS	<u>\$ 41,134,160</u>	<u>\$ 33,946,605</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 181,987	\$ 121,755
Annuities payable	1,520,525	1,602,379
Bonds payable	<u>1,590,000</u>	<u>2,032,000</u>
TOTAL LIABILITIES	<u>3,292,512</u>	<u>3,756,134</u>
 NET ASSETS		
Unrestricted	8,865,133	9,625,196
Temporarily restricted	1,513,423	1,436,176
Permanently restricted	<u>27,463,092</u>	<u>19,129,099</u>
TOTAL NET ASSETS	<u>37,841,648</u>	<u>30,190,471</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,134,160</u>	<u>\$ 33,946,605</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008		2007	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
REVENUES AND OTHER SUPPORT				
Contributions	\$ 3,071,970	\$ 300,335	\$ 11,830,815	\$ 2,203,196
Gifts in-kind	460,907	-	460,907	509,628
Noncash support from the University	1,547,962	-	1,547,962	1,266,041
Investment income	1,111,658	-	1,111,658	623,290
Net realized and unrealized (losses) / gains on investments	(1,659,075)	-	(1,659,075)	2,310,621
Change in carrying value of trusts and gift annuities	-	(56,476)	(180,993)	53,139
Support services revenue	79,596	73,523	153,119	65,673
Miscellaneous revenues	61,586	-	61,586	43,400
Total revenues and other support	4,674,604	317,382	13,325,979	7,064,544
Net assets released from restriction and reclassification	240,135	(240,135)	-	59,065
TOTAL REVENUES AND OTHER SUPPORT	4,914,739	77,247	13,325,979	7,123,609
EXPENSES				
Program services:				
Distribution for educational services	3,217,942	-	3,217,942	2,936,281
Support services:				
Fundraising - promotion and development	1,785,335	-	1,785,335	1,661,131
General and administrative expenses	401,858	-	401,858	294,656
Legal, audit and accounting fees	30,460	-	30,460	25,940
Investment, trust and management fees	88,978	-	88,978	102,136
Property and equipment expenses	34,356	-	34,356	5,072
Property and equipment depreciation	24,646	-	24,646	24,636
Interest expense	91,227	-	91,227	113,968
TOTAL SUPPORT SERVICES	2,456,860	-	2,456,860	2,227,539
TOTAL EXPENSES	5,674,802	-	5,674,802	5,163,820
CHANGE IN NET ASSETS	(760,063)	77,247	7,651,177	1,959,789
NET ASSETS, BEGINNING OF YEAR	9,625,196	1,436,176	30,190,471	7,665,407
NET ASSETS, END OF YEAR	\$ 8,865,133	\$ 1,513,423	\$ 37,841,648	\$ 9,625,196
	\$ 8,865,133	\$ 1,513,423	\$ 37,841,648	\$ 9,625,196
	\$ 19,129,099	\$ 1,436,176	\$ 30,190,471	\$ 1,436,176
	\$ 19,858,361	\$ 10,849,447	\$ 19,858,361	\$ 1,343,507
	\$ 10,332,110	\$ 8,279,652	\$ 10,332,110	\$ 92,669
	\$ 5,163,820	\$ -	\$ 5,163,820	\$ -
	\$ 2,227,539	\$ -	\$ 2,227,539	\$ -
	\$ 113,968	\$ -	\$ 113,968	\$ -
	\$ 24,636	\$ -	\$ 24,636	\$ -
	\$ 5,072	\$ -	\$ 5,072	\$ -
	\$ 102,136	\$ -	\$ 102,136	\$ -
	\$ 25,940	\$ -	\$ 25,940	\$ -
	\$ 294,656	\$ -	\$ 294,656	\$ -
	\$ 1,661,131	\$ -	\$ 1,661,131	\$ -
	\$ 2,936,281	\$ -	\$ 2,936,281	\$ -
	\$ 15,495,930	\$ 8,129,652	\$ 15,495,930	\$ 92,669
	\$ -	\$ 150,000	\$ -	\$ (209,065)
	\$ 15,495,930	\$ 8,129,652	\$ 15,495,930	\$ 301,734
	\$ 43,400	\$ -	\$ 43,400	\$ -
	\$ 113,969	\$ 60,830	\$ 113,969	\$ 65,673
	\$ 174,041	\$ -	\$ 174,041	\$ -
	\$ 2,310,621	\$ -	\$ 2,310,621	\$ -
	\$ 623,290	\$ -	\$ 623,290	\$ -
	\$ 1,266,041	\$ -	\$ 1,266,041	\$ -
	\$ 531,628	\$ 22,000	\$ 531,628	\$ -
	\$ 10,432,940	\$ 8,046,822	\$ 10,432,940	\$ 182,922
Total				

See Independent Auditor's Report and Notes to Financial Statements

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,651,177	\$ 10,332,110
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses / (gains) on investments	1,659,075	(2,310,621)
Changes in discounts to net present value and allowances for uncollectible accounts	(36,223)	(108,547)
Changes in carrying value of trusts and gift annuities	180,993	(113,969)
Depreciation	24,646	24,636
Contributions restricted for long-term investment	(8,458,510)	(8,024,822)
Changes in assets and liabilities		
Pledges receivable	(511,045)	499,884
Other assets	16,799	(32,746)
On deposit with Minnesota State University, Mankato	(5,640)	(2,329)
Accounts payable	60,232	(23,448)
Annuities payable	(81,854)	44,816
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>499,650</u>	<u>284,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(774,648)	-
Purchases of investments	(37,762,932)	(22,731,486)
Proceeds from sale and maturity of investments	24,541,754	21,779,756
NET CASH USED IN INVESTING ACTIVITIES	<u>(13,995,826)</u>	<u>(951,730)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable	(442,000)	(442,000)
Proceeds from contributions restricted for long-term investments	13,990,903	1,054,112
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>13,548,903</u>	<u>612,112</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	52,727	(54,654)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>100,858</u>	<u>155,512</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 153,585</u>	<u>\$ 100,858</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 104,445</u>	<u>\$ 127,164</u>
Noncash contributions	<u>\$ 2,008,869</u>	<u>\$ 1,797,669</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The purpose of Minnesota State University, Mankato Foundation, Inc. (the Foundation), a nonprofit organization, is to receive contributions 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 (the University).

Basis of Presentation

Nets 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 may 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 in investments and other assets or liabilities are reported as increases and 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 fundraising activity.

NOTES TO FINANCIAL STATEMENTS

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 the other assets. 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 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, and certificates of deposits to be cash equivalents. Money market accounts with brokerage firms are considered investments. At times, the Foundation's demand, savings, and certificates of deposits with financial institutions exceed the FDIC's insurance limit of \$100,000.

Concentrations of Credit Risks

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 brokerage houses and various financial institutions and limits the amount of exposure to any one 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, 2008, unconditional pledges receivable include two donors' balances which approximated 62% of the total pledges receivable.

NOTES TO FINANCIAL STATEMENTS

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances as recorded in investments in the statements of financial position.

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.

Property and Equipment

The Foundation carries its property and 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. Property and equipment are depreciated over their estimated useful lives of 10 years using the straight-line method. Land is not subject to depreciation.

Income Taxes

The Foundation is a nonprofit organization, exempt for federal income taxes under the 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS

Investments consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Equity mutual funds	\$ 25,062,317	\$ 13,018,683
Fixed income mutual funds	4,209,848	5,980,133
Balanced investment mutual fund	3,392,278	2,015,383
Real estate share and units	1,802,594	1,853,881
Money market funds	980,170	967,624
Life insurance contracts	108,640	110,000
Other investments	89,658	41,409
Equity securities	81,614	160,400
Fixed income securities	12,345	210,841
	<u>\$ 35,739,464</u>	<u>\$ 24,358,354</u>
Total		

NOTE 3 - PLEDGES RECEIVABLE

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

Pledges receivable at June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 2,964,957	\$ 7,787,537
Receivable in one to five years	1,610,423	1,585,514
Receivable in more than five years	30,000	253,677
	<u>4,605,380</u>	<u>9,626,728</u>
Less discounts to net present value at 5.5%	(181,923)	(232,351)
Less allowance for uncollectible pledges	(74,068)	(59,863)
	<u>\$ 4,349,389</u>	<u>\$ 9,334,514</u>
Net pledges receivable		

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 774,648	\$ -
Equipment - signage and outdoor marquee	246,365	246,365
Less accumulated depreciation	<u>(184,780)</u>	<u>(160,134)</u>
Total	<u>\$ 836,233</u>	<u>\$ 86,231</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</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>\$ 1,590,000</u>	<u>\$ 2,032,000</u>

Future scheduled maturities of the above debt are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 442,000
2010	432,000
2011	244,667
2012	244,667
2013	<u>226,666</u>
	<u>\$ 1,590,000</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - RELATED PARTY TRANSACTIONS

The Foundation has an agreement with the University whereby the University has agreed to furnish space and provide services for the operations 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, 2008 and 2007, the following University expenditures on behalf of the Foundation were identified:

	<u>2008</u>	<u>2007</u>
Salaries, wages and fringe benefits	\$ 996,909	\$ 923,065
Space	56,547	54,000
Consultants, training and other costs	<u>494,506</u>	<u>288,976</u>
Total	<u>\$ 1,547,962</u>	<u>\$ 1,266,041</u>

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Educational	\$ 1,046,175	\$ 1,165,768
Buildings and improvements	<u>467,248</u>	<u>270,408</u>
Total	<u>\$ 1,513,423</u>	<u>\$ 1,436,176</u>

Permanently restricted net assets are available for the following purposes at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Endowment funds	\$ 27,270,140	\$ 18,879,873
Gift annuity and trust funds	<u>192,952</u>	<u>249,226</u>
Total	<u>\$ 27,463,092</u>	<u>\$ 19,129,099</u>

