

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

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

**MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
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YEAR ENDED JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota State University, Mankato Foundation, Inc.
and Subsidiary
Mankato, Minnesota

We have audited the accompanying consolidated financial statements of Minnesota State University, Mankato Foundation, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Minnesota State University, Mankato Foundation, Inc.
and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State University, Mankato Foundation, Inc. and Subsidiary as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Correction of an Error

As discussed in Note 9 to the consolidated financial statements, the Minnesota State University, Mankato Foundation, Inc. and Subsidiary has restated its net assets as of July 1, 2018 to properly reflect net asset balances by donor restrictions and without donor restrictions. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 18, 2019

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Cash and Cash Equivalents	\$	148,291
Promises to Give, Net		4,227,593
Other Assets		51,672
Investments		60,779,324
Split-Interest Agreements:		
Assets Held in Charitable Trusts		1,092,156
Beneficial Interest in Trusts		280,561
Property Held for Investment		1,003,934
		1,003,934
Total Assets	\$	67,583,531

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$	238,057
Liabilities under Split-Interest Agreements		683,893
Total Liabilities		921,950

NET ASSETS

Without Donor Restrictions:		
Undesignated		2,369,612
Board-Designated Endowment		2,501,057
Total Without Donor Restrictions		4,870,669
With Donor Restrictions		61,790,912
Total Net Assets		66,661,581
Total Liabilities and Net Assets	\$	67,583,531

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Contributions	\$ 1,337,012	\$ 1,362,284	\$ 2,699,296
Gifts In-Kind	1,598,990	-	1,598,990
Noncash Support from the University	1,706,661	-	1,706,661
Investment Income, Net	168,916	2,296,869	2,465,785
Change in Carrying Value of Split-Interest Agreements	-	327,464	327,464
Support Services Income	10,480	-	10,480
Miscellaneous Revenue	71,728	-	71,728
	4,893,787	3,986,617	8,880,404
Net Assets Released from Restriction Pursuant to Endowment Spending-Rate Distribution Formula	1,738,868	(1,738,868)	-
Net Assets Released from Restrictions	2,241,474	(2,241,474)	-
Total Revenue, Support, and Gains	8,874,129	6,275	8,880,404
EXPENSES			
Program Services Expense:			
Distribution for Educational Services	6,142,135	-	6,142,135
Supporting Services Expense:			
Fundraising - Promotion and Development	1,738,602	-	1,738,602
General and Administrative	1,004,008	-	1,004,008
Total Supporting Services Expenses	2,742,610	-	2,742,610
Total Expenses	8,884,745	-	8,884,745
CHANGE IN NET ASSETS	(10,616)	6,275	(4,341)
Net Assets - Beginning of Year, as Previously Stated	3,632,503	63,033,419	66,665,922
Prior Period Restatement, Note 9	1,248,782	(1,248,782)	-
Net Assets - Beginning of Year, as Restated	4,881,285	61,784,637	66,665,922
NET ASSETS - END OF YEAR	\$ 4,870,669	\$ 61,790,912	\$ 66,661,581

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Fundraising	Total
Grants - Distributions for Educational Services	\$ 3,026,345	\$ -	\$ -	\$ 3,026,345
Donated Goods and Services for University Use	1,460,667	-	-	1,460,667
Salaries and Benefits	737,576	151,489	1,241,142	2,130,207
Professional Fees and Contract Services	-	35,550	-	35,550
Supplies and Office Expenses	318,401	269,181	-	587,582
Travel, Conferences, and Meetings	340,562	113,148	185,177	638,887
Occupancy	2,240	10,106	67,024	79,370
Information Technology	7,417	81,032	114,042	202,491
Insurance	-	13,683	-	13,683
Marketing and Promotion	10,130	-	8,959	19,089
Bad Debt Expense	-	149,898	-	149,898
Memberships	18,373	4,443	-	22,816
Other	220,424	175,478	122,258	518,160
Total Expenses	<u>\$ 6,142,135</u>	<u>\$ 1,004,008</u>	<u>\$ 1,738,602</u>	<u>\$ 8,884,745</u>

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (4,341)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Realized and Unrealized Gains on Investments	(1,175,671)
Changes in Carrying Value of Split-Interest Agreements	(224,661)
Contributions Restricted for Long-Term Investment	(750,657)
Changes in Operating Assets and Liabilities:	
Promises to Give	721,362
Other Assets	(24,489)
Accounts Payable	93,773
Net Cash Used by Operating Activities	(1,364,684)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Investments	(3,179,374)
Proceeds from Sale of Investments	2,829,191
Net Cash Used by Investing Activities	(350,183)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Contributions Restricted for Long-Term Investment	1,776,641
Payments to Beneficiaries of Split-Interest Agreements	(80,873)
Net Cash Provided by Financing Activities	1,695,768

NET CHANGE IN CASH AND CASH EQUIVALENTS

(19,099)

Cash and Cash Equivalents - Beginning of Year

167,390

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 148,291

See accompanying Notes to Consolidated Financial Statements.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The purpose of Minnesota State University, Mankato Foundation, Inc. and Subsidiary (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).

Principles of Consolidation

The consolidated financial statements include the accounts of the Minnesota State University, Mankato Foundation, Inc. and its 100%-owned subsidiary, Maverick Philanthropic Properties, LLC. All significant intercompany accounts and transactions would be eliminated in consolidation. There were no intercompany accounts or transactions during the years ended June 30, 2019 and 2018. Unless otherwise noted, these consolidated entities are hereinafter referred to as "the Foundation."

Maverick Philanthropic Properties, LLC (LLC) was formed during the year ended June 30, 2014. The LLC currently does not hold any assets. Going forward any donations or purchases of property, plant, and equipment will be transacted through the LLC.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents. At times, cash and cash equivalents at financial institutions may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

Promises to Give

Contributions, including unconditional promises to give, are recognized as revenues on an accrual basis. 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 rates of 5.5% based on when the contribution was made. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At June 30, 2019, the allowance was \$321,348.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Held for Investment

Property held for investment by the Foundation has been designated to be held for long-term investment purposes. Property held for investment consisted of land as of June 30, 2019.

The Foundation reviews the carrying values of property held for investment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2019.

Split-Interest Agreements

Assets Held in Charitable Trusts

The Foundation has entered into trust agreements as trustee 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 the assets held in these trusts at fair value and the corresponding liability at the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amount is recorded as contribution revenue at the time the trust is established. In subsequent periods, the liability under charitable trust agreements is adjusted and changes therein are reported as a component of the Change in Carrying Value of Split-Interest Agreements in the consolidated statement of activities. Upon termination of the income obligation, the assets of the trust are held 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 the assets received at fair value and a corresponding liability is recorded for the actuarially determined present value of payments to be made to the designated beneficiaries, with the residual amount recorded as contribution revenue. Upon the death of the beneficiaries, the assets of the gift annuity fund are held by the Foundation in accordance with the agreements.

Beneficial Interest in Trusts

The Foundation has beneficial interests in charitable remainder trusts that are held by other entities such as banks or charitable organizations. The Foundation records its interest in these trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust. Because of the complex issues related to collecting the data for these transactions, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the Foundation's rights and the determination of the valuation of future payments.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value. The fair value of publicly traded securities is based upon quoted market prices and net asset values. For other securities, for which no such quotations or valuations are readily available, fair value is estimated using values provided by external investment managers based upon their valuation policies and methodologies. Realized and unrealized gains and losses are recognized in the period in which they occur and are recorded in the statement of activities. Due to market volatility with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future statements of activities.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Foundation has elected to measure all investments at fair value. The Foundation may elect to measure newly acquired financial instruments at fair value in the future.

Net Asset Classification

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. Funds paid from the board-designated endowment are subject to approval by the board.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions are reclassified to net assets without donor restriction upon expiration of the restriction. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. Unconditional promises to give are recorded as received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Donated property is recorded at fair value on the date of the donation.

Gifts In-Kind and Noncash Support from the University

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States of America. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received. The Foundation had noncash support from the University of \$1,706,661 for the year ended June 30, 2019. See Note 8 for further detail on the noncash support from the University. The Foundation also had other gifts in-kind of \$1,598,990 for the year ended June 30, 2019. These gifts in-kind were primarily supplies used in program services expense – distribution for educational services.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis on the consolidated statement of functional expenses. Grants – distributions for educational services are considered to be program expense. Salaries and related benefits are allocated based on employee job descriptions. All other costs are allocated based on the best estimates of management.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Minnesota State University, Mankato Foundation, Inc. (the Foundation) is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). Maverick Philanthropic Properties, LLC maintains exempt status under the Foundation's exemption since the Foundation is the sole member of Maverick Philanthropic Properties, LLC. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purpose.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Change in Accounting Principle

FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Foundation has evaluated subsequent events through October 18, 2019, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to provide scholarships and fund programs. In addition, the Foundation receives support without donor restrictions, this support has historically represented approximately 60% of annual program funding needs.

The Foundation's Finance Committee meets quarterly to review the foundation's financial progress throughout the year. The Committee also approves the foundation budget on an annual basis. The Foundation strives to maintain financial assets available to meet general expenditures of the organization during the year, as well as the semi-annual payments for scholarships.

The Foundation considers the following to be available to meet cash needs for operation and scholarship expenditures:

- Investment income without donor restrictions
- Appropriated earnings from donor-restricted and board-designated (quasi) endowments
- Contributions without donor restrictions
- Contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents liquid financial assets available for operation and scholarship expenditures within one year at June 30, 2019:

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 148,291
Promises to Give, Net	4,227,593
Investments	60,779,324
Total Financial Assets	65,155,208
Less Amounts Not Available to be Used Within One Year:	
Promises to Give - for Restricted Gifts Due	
Within One Year	(483,341)
Promises to Give - Due After One Year, Net	(3,284,740)
Amounts Held for Donor-Restricted Endowment Funds	(54,861,283)
Financial Assets Not Available for Use	
Within One Year	(58,629,364)
Financial Assets Available to Meet General Expenditures Within One Year	\$ 6,525,844

NOTE 3 INVESTMENTS

Investments consist of the following:

Common Stock	\$ 29,613,125
Mutual Funds	4,812,974
Fixed Income	14,097,894
Exchange Traded Funds	4,995,257
Life Insurance Contracts	163,369
Investments Measured at NAV or its Equivalent	6,060,813
Cash and Short-Term Investments	1,035,892
Total	\$ 60,779,324

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 FAIR VALUE MEASUREMENTS

The Foundation allows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the Foundation's financial assets measured at fair value on a recurring basis at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets Held in Charitable Trusts:				
Common Stock:				
Other	\$ 26,105	\$ -	\$ -	\$ 26,105
Mutual Funds:				
Equity	547,451	-	-	547,451
Real Estate	41,180	-	-	41,180
Fixed Income	239,087	-	-	239,087
Money Market	96,771	-	-	96,771
Other	141,562	-	-	141,562
Total Mutual Funds	<u>1,066,051</u>	<u>-</u>	<u>-</u>	<u>1,066,051</u>
Total Assets Held in Charitable Trusts	1,092,156	-	-	1,092,156
Beneficial Interest in Trusts	<u>-</u>	<u>-</u>	<u>280,561</u>	<u>280,561</u>
Total Split-Interest Agreements	<u>\$ 1,092,156</u>	<u>\$ -</u>	<u>\$ 280,561</u>	<u>\$ 1,372,717</u>
Investments:				
Common Stock:				
Domestic	\$ 1,538,729	\$ 14,472,619	\$ -	\$ 16,011,348
Emerging Markets Region	4,308,755	-	-	4,308,755
International Region	-	9,293,022	-	9,293,022
Total Common Stock	<u>5,847,484</u>	<u>23,765,641</u>	<u>-</u>	<u>29,613,125</u>
Mutual Funds:				
Money Market	-	-	-	-
Real Estate	4,666,211	-	-	4,666,211
Other	146,763	-	-	146,763
Total Mutual Funds	<u>4,812,974</u>	<u>-</u>	<u>-</u>	<u>4,812,974</u>
Fixed Income:				
Government Agencies	5,306,439	4,242,147	-	9,548,586
Corporate Bond	4,549,308	-	-	4,549,308
Total Fixed Income	<u>9,855,747</u>	<u>4,242,147</u>	<u>-</u>	<u>14,097,894</u>
Exchange Traded Funds:				
Domestic	901,786	-	-	901,786
Global Region	4,093,471	-	-	4,093,471
Total Exchange Traded Funds:	<u>4,995,257</u>	<u>-</u>	<u>-</u>	<u>4,995,257</u>
Subtotal	<u>\$ 25,511,462</u>	<u>\$ 28,007,788</u>	<u>\$ -</u>	<u>53,519,250</u>
Life Insurance Contracts				163,369
Investments Measured at Net Asset Value or its Equivalent				6,060,813
Cash and Short-Term Investments				<u>1,035,892</u>
Total				<u>\$ 60,779,324</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The changes in investments measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows at June 30, 2019:

	Beginning Balance at July 1, 2018	Contributions	Change in Value ¹	Ending Balance at June 30, 2019
Beneficial Interest in Trusts	\$ 35,779	\$ 249,410	\$ (4,628)	\$ 280,561

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at June 30, 2019:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemptions Notice Period
Private Equity	\$ 1,884,701	\$ 2,308,724	(1)	(1)
Hedge Fund	4,176,112	-	Quarterly	60 Days
Total	<u>\$ 6,060,813</u>	<u>\$ 2,308,724</u>		

(1) Redemptions are not permitted and liquidity is available to the extent of distributable realized events.

Private Equity – This category seeks capital appreciation by making equity and equity-related investments in conjunction with privately negotiated transactions.

Hedge Fund – The Hedge Fund is a vehicle to indirectly invest in the Master Fund (a fund-of-funds) with the goal of achieving attractive risk-adjusted returns through investments in a diversified portfolio of assets. A fund-of-funds strategy is used to hedge or minimize the single manager risk and single strategy risk. The hedge funds only report the value of the investment monthly.

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at June 30, 2019:

Receivable in Less than One Year	\$ 942,853
Receivable in One to Five Years	2,284,111
Receivable in More than Five Years	<u>3,200,000</u>
Total	6,426,964
Less: Discount to Net Present Value at a Rate of 5.5%	1,878,023
Less: Allowance for Uncollectible Pledges	<u>321,348</u>
Net Promises to Give	<u><u>\$ 4,227,593</u></u>

At June 30, 2019, unconditional promises to give include one donor's balance which approximated 70% of the total promises to give for 2019.

NOTE 6 ENDOWMENTS

The Foundation's endowment consists of approximately 360 individual funds established for a variety of purposes. Those funds are organized in five separate funds, accumulated under the Minnesota State University Mankato Composite for management and record-keeping purposes, making up the endowment assets of the Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTE 6 ENDOWMENTS (CONTINUED)

The Foundation's Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions that are perpetual in nature as the following: (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment that is not perpetual in nature is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation and the University
- The investment policies of the Foundation

As of June 30, 2019, the Foundation had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 54,861,283	\$ 54,861,283
Board-Designated Endowment Funds	1,301,925	1,199,132	2,501,057
Total	<u>\$ 1,301,925</u>	<u>\$ 56,060,415</u>	<u>\$ 57,362,340</u>

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NOTE 6 ENDOWMENTS (CONTINUED)

Funds with Deficiencies (Underwater Funds)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2019, funds with original gift values of \$1,427,845 and fair values of \$1,211,969, and deficiencies of \$216,149 were reported in net assets with donor restrictions. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations. The board of directors determined that continued appropriations during years ended June 30, 2019 was prudent.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds used for a particular purpose as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a blend of equity and fixed income in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The long-term objective of the Foundation is to earn a return sufficient to preserve the purchasing power of the Foundation for generations to come, as well as, to provide for current needs. As a result, the annualized return, over a 7- to 10-year investment horizon should at least equal the annual sum of the distributions, inflation, administrative costs, and management fees. Taking into account these factors the Foundation expects its endowment funds to have a long-term expected return of approximately 8.6%. Actual returns in any given year will vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments, blended with fixed assets, to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy states that, in part, the distribution of income will be used to support the donor's stated objectives for the endowment. A percentage of the overall endowment balance, which will be determined by the board annually, shall be distributed to accounts in the following manner: A trailing 12-quarter average of all endowments will be determined as of December 31 of each year. The percentage determined by the board will be applied to the 12-quarter average to determine the total amount to be distributed to the donor's objective for all endowments. That total amount will then be distributed to the individual endowment purposes proportionately, based on the average balance in each endowment for the last four quarters. Each year the Foundation Investment Committee shall present the recommended percentage of distribution to the Foundation Board for approval no later than February of each year. The Foundation expects the current spending policy to allow its endowment to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets while providing support for the programs, along with additional real growth through new gifts and investment return.

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NOTE 6 ENDOWMENTS (CONTINUED)

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 1,260,844	\$ 54,530,029	\$ 55,790,873
Investment Return:			
Net Investment Return	50,215	2,296,869	2,347,084
Contributions	20,704	1,778,009	1,798,713
Appropriation of Endowment Assets			
Pursuant to Spending Rate Policy	(20,704)	(1,738,868)	(1,759,572)
Appropriation for Admin Fees	(9,134)	(805,624)	(814,758)
Endowment Net Assets - End of Year	<u>\$ 1,301,925</u>	<u>\$ 56,060,415</u>	<u>\$ 57,362,340</u>

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenditure for Specified Purpose:	
Life Insurance Policies	\$ 163,369
Donor-Restricted Endowments Less than \$50,000 Requirement	650,711
Promises to Give, the Proceeds from Which have been Restricted by Donors for Various Educational Programs	<u>553,962</u>
Total	1,368,042
Subject to the Passage of Time:	
Assets Held in Charitable Trusts	208,816
Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due	<u>934,712</u>
Total	1,143,528
Endowments:	
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity	43,751,857
Restricted Board Designated Endowment Funds	1,199,132
Subject to NFP Endowment Spending Policy and Appropriation	<u>11,109,426</u>
Total Endowments	56,060,415
Not Subject to Spending Policy or Appropriation:	
Beneficial Interest in Trusts	280,561
Assets Held in Charitable Trusts	199,447
Promises to Give	<u>2,738,919</u>
Total	<u>3,218,927</u>
Total Net Assets with Donor Restrictions	<u>\$ 61,790,912</u>

MINNESOTA STATE UNIVERSITY, MANKATO FOUNDATION, INC. AND SUBSIDIARY
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NOTE 8 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 year ended June 30, 2019, the following University expenditures on behalf of the Foundation were identified:

Salaries and Benefits	\$ 1,294,679
Occupancy	75,906
Travel, Conferences, and Meetings	197,872
Other	138,204
Total	<u>\$ 1,706,661</u>

NOTE 9 RESTATEMENT

The Foundation restated its net assets as of July 1, 2018 to properly classify the net assets based on without and with donor restriction. The table below summarizes the restatement as of July 1, 2018.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets - Beginning of Year, as Previously Stated	\$ 3,632,503	\$ 63,033,419	\$ 66,665,922
Net Asset Reclassification	<u>1,248,782</u>	<u>(1,248,782)</u>	<u>-</u>
Net Assets - Beginning of Year, as Restated	<u>\$ 4,881,285</u>	<u>\$ 61,784,637</u>	<u>\$ 66,665,922</u>