



Consolidated Financial Statements
June 30, 2015 and 2014

**Minnesota State University, Mankato
Foundation, Inc. and Subsidiary**

Minnesota State University, Mankato Foundation, Inc. and Subsidiary

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June 30, 2015 and 2014

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Minnesota State University, Mankato Foundation, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota
September 17, 2015

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
 Statements of Financial Position
 June 30, 2015 and 2014

| | 2015 | 2014 |
|-----------------------------------|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,146,603 | \$ 1,938,361 |
| Promises to give, net | 1,743,555 | 1,872,689 |
| Investment interest receivable | 83,455 | 84,757 |
| Asset held for sale | - | 287,906 |
| Other assets | 87,176 | 81,778 |
| Investments, at fair value | 49,005,758 | 49,935,129 |
| Property and equipment, net | 1,003,934 | 1,003,934 |
| Total assets | \$ 54,070,481 | \$ 55,204,554 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 110,393 | \$ 110,577 |
| Annuities payable | 863,321 | 945,006 |
| Total liabilities | 973,714 | 1,055,583 |
| Net Assets | | |
| Unrestricted | 1,520,035 | 371,589 |
| Temporarily restricted | 16,059,172 | 19,361,802 |
| Permanently restricted | 35,517,560 | 34,415,580 |
| Total net assets | 53,096,767 | 54,148,971 |
| Total liabilities and net assets | \$ 54,070,481 | \$ 55,204,554 |

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
Statements of Activities
Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------|
| Revenue, Support, and Gains | | | | |
| Contributions | \$ 2,792,782 | \$ 56,314 | \$ 856,813 | \$ 3,705,909 |
| Gifts in-kind | 246,209 | - | - | 246,209 |
| Noncash support from the University | 1,589,989 | - | - | 1,589,989 |
| Investment income | 258 | 1,132,167 | - | 1,132,425 |
| Net realized and unrealized gains (losses) on investments | 51,348 | (1,285,358) | - | (1,234,010) |
| Change in carrying value of trusts and gift annuities | (20,665) | (25,061) | 45,560 | (166) |
| Support services revenue | 15,583 | - | - | 15,583 |
| Loss on sale of asset held for sale | (209,414) | - | - | (209,414) |
| Miscellaneous revenues | 28,056 | - | - | 28,056 |
| Total revenue, support, and gains | 4,494,146 | (121,938) | 902,373 | 5,274,581 |
| Net Assets Released from Restriction Pursuant to Endowment Spending-Rate Distribution Formula | 3,078,980 | (3,078,980) | - | - |
| Net Assets Released from Restriction | (97,895) | (101,712) | 199,607 | - |
| Total revenue, support, and gains | 7,475,231 | (3,302,630) | 1,101,980 | 5,274,581 |
| Expenses and Losses | | | | |
| Program services expense Distribution for educational services | 3,659,124 | - | - | 3,659,124 |
| Supporting services expense Fundraising - promotion and development | 2,087,129 | - | - | 2,087,129 |
| General and administrative expenses | 286,514 | - | - | 286,514 |
| Investment, trust, and management fees | 236,943 | - | - | 236,943 |
| Property and equipment expenses | 8,193 | - | - | 8,193 |
| Total supporting services expense | 2,618,779 | - | - | 2,618,779 |
| Loss on uncollectable promises to give | 48,882 | - | - | 48,882 |
| Total expenses and losses | 6,326,785 | - | - | 6,326,785 |
| Change in Net Assets | 1,148,446 | (3,302,630) | 1,101,980 | (1,052,204) |
| Net Assets, Beginning of Year | 371,589 | 19,361,802 | 34,415,580 | 54,148,971 |
| Net Assets, End of Year | \$ 1,520,035 | \$ 16,059,172 | \$ 35,517,560 | \$ 53,096,767 |

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
 Statements of Activities
 Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|----------------------|
| Revenue, Support, and Gains | | | | |
| Contributions | \$ 2,422,467 | \$ 510,776 | \$ 908,308 | \$ 3,841,551 |
| Gifts in-kind | 885,552 | - | - | 885,552 |
| Noncash support from the University | 1,611,653 | - | - | 1,611,653 |
| Investment income | 926 | 1,139,179 | - | 1,140,105 |
| Net realized and unrealized gains on investments | 152,038 | 5,624,300 | - | 5,776,338 |
| Change in carrying value of trusts and gift annuities | (44,878) | 101,157 | 46,167 | 102,446 |
| Support services revenue | 12,370 | - | - | 12,370 |
| Miscellaneous revenues | 83,350 | - | - | 83,350 |
| Total revenue, support, and gains | <u>5,123,478</u> | <u>7,375,412</u> | <u>954,475</u> | <u>13,453,365</u> |
| Net Assets Released from Restriction Pursuant to Endowment Spending-Rate Distribution Formula | 1,516,960 | (1,516,960) | - | - |
| Net Assets Released from Restriction | <u>44,556</u> | <u>(267,981)</u> | <u>223,425</u> | <u>-</u> |
| Total revenue, support, and gains | <u>6,684,994</u> | <u>5,590,471</u> | <u>1,177,900</u> | <u>13,453,365</u> |
| Expenses and Losses | | | | |
| Program services expense | | | | |
| Distribution for educational services | <u>3,692,082</u> | <u>-</u> | <u>-</u> | <u>3,692,082</u> |
| Supporting services expense | | | | |
| Fundraising - promotion and development | 1,925,152 | - | - | 1,925,152 |
| General and administrative | 435,320 | - | - | 435,320 |
| Investment, trust, and management fees | 275,327 | - | - | 275,327 |
| Property and equipment expenses | 22,089 | - | - | 22,089 |
| Total supporting services expense | <u>2,657,888</u> | <u>-</u> | <u>-</u> | <u>2,657,888</u> |
| Loss on uncollectable promises to give | - | - | - | - |
| Total expenses and losses | <u>6,349,970</u> | <u>-</u> | <u>-</u> | <u>6,349,970</u> |
| Change in Net Assets | 335,024 | 5,590,471 | 1,177,900 | 7,103,395 |
| Net Assets, Beginning of Year | <u>36,565</u> | <u>13,771,331</u> | <u>33,237,680</u> | <u>47,045,576</u> |
| Net Assets, End of Year | <u>\$ 371,589</u> | <u>\$ 19,361,802</u> | <u>\$ 34,415,580</u> | <u>\$ 54,148,971</u> |

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|----------------|--------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (1,052,204) | \$ 7,103,395 |
| Adjustments to reconcile change in net assets to net cash (used for) from operating activities | | |
| Net realized and unrealized losses (gains) on investments | 1,234,010 | (5,776,338) |
| Changes in discounts to net present value and allowances for uncollectible accounts | 39,374 | (24,057) |
| Changes in carrying value of trusts and gift annuities | 166 | 51,873 |
| Contributions restricted to endowment | (856,813) | (908,308) |
| Changes in operating assets and liabilities | | |
| Promises to give | 269,593 | 50,186 |
| Asset held for sale | 287,906 | (287,906) |
| Other assets | (5,398) | (23,146) |
| Accounts payable | (184) | (47,775) |
| Annuities payable | (81,685) | (36,483) |
| | (165,235) | 101,441 |
| Net Cash (used for) from Operating Activities | | |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (14,557,803) | (18,280,565) |
| Proceeds from sale and maturity of investments | 14,252,998 | 16,916,813 |
| | (304,805) | (1,363,752) |
| Net Cash used for Investing Activities | | |
| Cash Flows from Financing Activities | | |
| Collections of contributions restricted to endowment | 678,282 | 944,849 |
| | 678,282 | 944,849 |
| Net Cash from Financing Activities | | |
| Net Change in Cash and Cash Equivalents | 208,242 | (317,462) |
| Cash and Cash Equivalents, Beginning of Year | 1,938,361 | 2,255,823 |
| Cash and Cash Equivalents, End of Year | \$ 2,146,603 | \$ 1,938,361 |
| Supplemental Disclosures of Cash Flow Information | | |
| Noncash contributions | \$ 1,836,198 | \$ 2,497,205 |

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Nature of Activities

The purpose of Minnesota State University, Mankato Foundation, Inc. and Subsidiary, 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 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 year ended June 30, 2015 and 2014. 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. All of the property and equipment of Minnesota State University, Mankato Foundation was transferred to the LLC at that time (see Note 4). Going forward any donations or purchases of property, plant and equipment will be transacted through the LLC. There was property donated during the year ended June 30, 2014 that was being held for sale. The asset held for sale is included in the statement of financial position and was \$287,906 for the year ended June 30, 2014. The asset held for sale was sold during the year ended June 30, 2015.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building project, permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2015 and 2014, the allowance was \$109,623 and \$113,028, respectively.

Property and Equipment

Property and equipment additions are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of ten years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment 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 year ended June 30, 2015.

Beneficial Interest in 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 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.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted Board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition Contributions

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

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 generally accepted accounting principles. 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. See Note 7 for noncash support from the University. The Foundation had gifts in-kind of \$246,209 and \$885,552 for the years ended June 30, 2015 and 2014, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Minnesota State University, Mankato Foundation (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 has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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 generally accepted accounting principles 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.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Subsequent Events

The Foundation has evaluated subsequent events through September 17, 2015, the date the consolidated financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

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 some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundations' assessment of the quality, risk or liquidity profile of the asset.

A portion of the Foundation's investment assets are classified within Level 1 because they are comprised of money market mutual funds, open-end mutual funds, and common stock with readily determinable fair values based on daily redemption values. A significant portion of the Foundation's investment assets comprise of common stock and fixed income investments that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. Investments in life insurance contracts are valued at cash surrender value which is determined by the contract items which provide for a guaranteed return on a portion of premiums paid, less any surrender charges, as determined by the insurance companies for the respective policies, and are classified within Level 2. We use Net Asset Value (NAV) per share, or its equivalent, such as member units or ownership interest in partners' capital, to estimate the fair values of the feeder fund and private equity fund which do not have readily determinable fair values and are classified within Level 3.

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2015 and 2014

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2015:

| | Total | Fair Value Measurements at June 30, 2015 | | |
|--------------------------|----------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Common stock | | | | |
| Emerging markets region | \$ 3,341,093 | \$ - | \$ 3,341,093 | \$ - |
| International region | 7,882,073 | 67,056 | 7,815,017 | - |
| Domestic | 16,799,113 | 2,782,730 | 14,016,383 | - |
| Other | 53,547 | 53,547 | - | - |
| Total common stock | <u>28,075,826</u> | <u>2,903,333</u> | <u>25,172,493</u> | <u>-</u> |
| Mutual funds | | | | |
| Equity | 560,368 | 560,368 | - | - |
| Fixed income | 117,947 | 117,947 | - | - |
| Money market | 33,825 | 33,825 | - | - |
| Real estate | 274,621 | 274,621 | - | - |
| Other | 116,894 | 116,894 | - | - |
| Total mutual funds | <u>1,103,655</u> | <u>1,103,655</u> | <u>-</u> | <u>-</u> |
| Fixed income | | | | |
| Government agencies | 5,057,395 | 2,374,007 | 2,683,388 | - |
| Corporate bond | 4,351,039 | 4,351,039 | - | - |
| Other fixed income | 1,049,487 | - | 1,049,487 | - |
| Total fixed income | <u>10,457,921</u> | <u>6,725,046</u> | <u>3,732,875</u> | <u>-</u> |
| Exchange traded fund | | | | |
| Global region | 2,503,709 | 2,503,709 | - | - |
| Feeder fund | 4,733,449 | 104,337 | - | 4,629,112 |
| Life insurance contracts | 134,309 | - | 134,309 | - |
| Real estate | 1,921,449 | 1,921,449 | - | - |
| Private equity fund | 75,440 | - | - | 75,440 |
| | <u>\$ 49,005,758</u> | <u>\$ 15,261,529</u> | <u>\$ 29,039,677</u> | <u>\$ 4,704,552</u> |

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2015 and 2014

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2014:

| | Fair Value Measurements at June 30, 2014 | | | |
|--------------------------|--|---|---|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Common stock | | | | |
| Domestic | \$ 16,676,067 | \$ 3,378,831 | \$ 13,297,236 | \$ - |
| Emerging markets region | 3,107,732 | - | 3,107,732 | - |
| International region | 9,521,536 | 65,231 | 9,456,305 | - |
| Other | 3,172 | 3,172 | - | - |
| Total common stock | <u>29,308,507</u> | <u>3,447,234</u> | <u>25,861,273</u> | <u>-</u> |
| Mutual funds | | | | |
| Equity | 547,716 | 547,716 | - | - |
| Government bond | 333,312 | 333,312 | - | - |
| Money market | 41,762 | 41,762 | - | - |
| Real estate | 121,680 | 121,680 | - | - |
| Other | 136,533 | 136,533 | - | - |
| Total mutual funds | <u>1,181,003</u> | <u>1,181,003</u> | <u>-</u> | <u>-</u> |
| Fixed income | | | | |
| Government bond | 969,117 | 969,117 | - | - |
| Government agencies | 4,776,186 | 2,851,893 | 1,924,293 | - |
| Corporate bond | 4,346,623 | 4,346,623 | - | - |
| Total fixed income | <u>10,091,926</u> | <u>8,167,633</u> | <u>1,924,293</u> | <u>-</u> |
| Exchange traded fund | | | | |
| Global region | 2,888,839 | 2,888,839 | - | - |
| Feeder fund | 4,361,555 | 102,716 | - | 4,258,839 |
| Life insurance contracts | 134,309 | - | 134,309 | - |
| Real estate | 1,968,990 | 1,968,990 | - | - |
| | <u>\$ 49,935,129</u> | <u>\$ 17,756,415</u> | <u>\$ 27,919,875</u> | <u>\$ 4,258,839</u> |

Minnesota State University, Mankato Foundation, Inc. and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2015 and 2014

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2015 and 2014:

| | Significant Unobservable Inputs (Level 3) | |
|--|---|-----------------|
| | Private Equity Fund | Feeder Funds |
| Year ended June 30, 2015 | | |
| Balance at June 30, 2014 | \$ - | \$ 4,258,839 |
| Purchases/contributions of investments | 75,440 | - |
| Net realized and unrealized gain | - | 370,273 |
| | \$ 75,440 | \$ 4,629,112 |
| Unrealized gain included in net investment return in the statement of activities relating to assets still held at June 30, 2015 | \$ - | \$ 370,273 |
| Year ended June 30, 2014 | | |
| Balance at June 30, 2013 | \$ - | \$ 58,839 |
| Purchases/contributions of investments | - | 4,200,000 |
| Balance at June 30, 2014 | \$ - | \$ 4,258,839 |

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Investments in certain entities that calculate NAV per share are as follows at June 30, 2015 and 2014:

| | <u>Number of Investments</u> | <u>Fair value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|----------------------|----------------------------------|---------------------|---------------------------------|---------------------------------|-------------------------------------|
| <u>June 30, 2015</u> | | | | | |
| Private equity fund | 1 | \$ 75,440 | \$ - | (1) | (1) |
| Feeder fund | 1 | 4,629,112 | - | Quarterly | 60 days |
| | | <u>\$ 4,704,552</u> | <u>\$ -</u> | | |
| <u>June 30, 2014</u> | | | | | |
| Feeder fund | 1 | \$ 4,258,839 | \$ - | Quarterly | 60 days |
| | | <u>\$ 4,258,839</u> | <u>\$ -</u> | | |

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

Private equity fund – Fund that seeks capital appreciation by making equity and equity-related investments in conjunction with privately negotiated transactions.

Feeder fund – The Fund’s objective is to provide a vehicle through which eligible investors may indirectly invest in the Alpha Core Strategies Fund. The objective of the Alpha Core Strategies Fund is to seek attractive risk-adjusted rates of return through investment in a diversified portfolio of assets. The Fund seeks to provide investors with exposure to alternative investment strategies by investing in diversified markets and instruments.

Fair Value of Financial Instruments Not Required To Be Reported at Fair Value

The carrying amounts of cash and cash equivalents, interest receivable, other assets, accounts payable, accrued expenses, and other liabilities, approximate fair value due to the short-term nature of the items, and are considered to fall within Level 1 of the fair value hierarchy. The carrying amount of promises to give due in more than one year is based on the discounted net present value of the expected future cash receipts, and approximates fair value. The carrying amount of liabilities under split-interest agreements is included within annuities payable is based on the discounted net present value of the expected future cash payments, and approximates fair value.

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Note 3 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2015 and 2014:

| | 2015 | 2014 |
|--|--------------|--------------|
| Receivable in less than one year | \$ 495,536 | \$ 1,065,389 |
| Receivable in one to five years | 1,360,962 | 880,770 |
| Receivable in more than five years | 190,100 | 190,199 |
| | 2,046,598 | 2,136,358 |
| Less discounts applied | (193,420) | (150,641) |
| Less allowance for uncollectible pledges | (109,623) | (113,028) |
| Net promises to give | \$ 1,743,555 | \$ 1,872,689 |

At June 30, 2015 and 2014, unconditional promises to give include one donor's balance which approximated 19%, and three donors' balances which approximated 39% of the total pledges receivable for each of the respective years.

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|--------------|--------------|
| Land | \$ 1,003,934 | \$ 1,003,934 |
| Equipment - signage and outdoor marquee | 246,365 | 246,365 |
| Less accumulated depreciation | (246,365) | (246,365) |
| | \$ 1,003,934 | \$ 1,003,934 |

Note 5 - Endowments

The Foundation's endowment consists of approximately 300 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 generally accepted accounting principles, 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.

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, 2015 and 2014, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts), 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 is classified as temporarily restricted net assets 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

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As of June 30, 2015 and 2014, the Foundation had the following endowment net asset composition by type of fund:

| June 30, 2015 | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | \$ - | \$ 12,102,007 | \$ 35,517,560 | \$ 47,619,567 |
| Board-designated endowment funds | <u>606,638</u> | <u>-</u> | <u>-</u> | <u>606,638</u> |
| | <u>\$ 606,638</u> | <u>\$ 12,102,007</u> | <u>\$ 35,517,560</u> | <u>\$ 48,226,205</u> |
| | | | | |
| June 30, 2014 | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted endowment funds | \$ - | \$ 15,404,637 | \$ 34,415,580 | \$ 49,820,217 |
| Board-designated endowment funds | <u>704,533</u> | <u>-</u> | <u>-</u> | <u>704,533</u> |
| | <u>\$ 704,533</u> | <u>\$ 15,404,637</u> | <u>\$ 34,415,580</u> | <u>\$ 50,524,750</u> |

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. There were no such deficiencies as of June 30, 2015.

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 assets 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 7-10 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 7.3% to 8.5%. 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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Changes in Endowment net assets for the year ending June 30, 2015 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 704,533 | \$ 15,404,637 | \$ 34,415,580 | \$ 50,524,750 |
| Investment return | | | | |
| Investment income | - | 1,132,167 | - | 1,132,167 |
| Net realized and unrealized gain/loss | - | (1,285,358) | - | (1,285,358) |
| | <u>-</u> | <u>(153,191)</u> | <u>-</u> | <u>(153,191)</u> |
| Change in value of trusts | - | (25,061) | 45,560 | 20,499 |
| Contributions | - | 56,314 | 856,813 | 913,127 |
| Transfers and other | (97,895) | (101,712) | 199,607 | - |
| Appropriation of endowment assets pursuant to spending rate policy | | | | |
| Distribution for scholarships | - | (1,341,908) | - | (1,341,908) |
| Administrative expenses | - | (1,737,072) | - | (1,737,072) |
| | <u>-</u> | <u>(1,737,072)</u> | <u>-</u> | <u>(1,737,072)</u> |
| Endowment net assets, end of year | <u>\$ 606,638</u> | <u>\$ 12,102,007</u> | <u>\$ 35,517,560</u> | <u>\$ 48,226,205</u> |

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Changes in Endowment net assets for the year ending June 30, 2014 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 904,314 | \$ 10,261,562 | \$ 33,237,680 | \$ 44,403,556 |
| Investment return | | | | |
| Investment income | - | 1,029,936 | - | 1,029,936 |
| Net realized and unrealized gain/loss | - | 5,624,300 | - | 5,624,300 |
| | <u>-</u> | <u>6,654,236</u> | <u>-</u> | <u>6,654,236</u> |
| Change in value of trusts | - | - | 46,167 | 46,167 |
| Contributions | 10,412 | - | 908,308 | 918,720 |
| Transfers and other | (210,193) | 5,799 | 223,425 | 19,031 |
| Appropriation of endowment assets pursuant to spending rate policy | | | | |
| Distribution for scholarships | - | (1,265,820) | - | (1,265,820) |
| Administrative expenses | - | (251,140) | - | (251,140) |
| | <u>-</u> | <u>(1,516,960)</u> | <u>-</u> | <u>(1,516,960)</u> |
| Endowment net assets, end of year | <u>\$ 704,533</u> | <u>\$ 15,404,637</u> | <u>\$ 34,415,580</u> | <u>\$ 50,524,750</u> |

Note 6 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| Educational | \$ 428,311 | \$ 448,290 |
| Buildings and improvements - College of Business | 1,949,271 | 1,941,554 |
| Time restricted - other | 1,247,258 | 1,300,860 |
| Donor-restricted endowment < \$50,000 requirement for endowment | 332,325 | 266,461 |
| Unspent appreciation of endowment funds which must be appropriated for expenditure before use | <u>12,102,007</u> | <u>15,404,637</u> |
| | <u>\$ 16,059,172</u> | <u>\$ 19,361,802</u> |

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Net assets were released from restrictions as follows during the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|--|--------------|--------------|
| Educational | \$ - | \$ 100,000 |
| Buildings and improvements - College of Business | 55,121 | 143,073 |
| Other miscellaneous transfers | 46,591 | 24,908 |
| Restricted purpose spending rate | | |
| Distributions for scholarships | 1,341,908 | 1,265,820 |
| Administrative allocation | 1,737,072 | 251,140 |
| | \$ 3,180,692 | \$ 1,784,941 |

Permanently restricted net assets are available for the following purposes at June 30, 2015 and 2014:

| | 2015 | 2014 |
|------------------------------|---------------|---------------|
| Endowment funds | \$ 35,433,051 | \$ 34,354,467 |
| Gift annuity and trust funds | 84,509 | 61,113 |
| | \$ 35,517,560 | \$ 34,415,580 |

Note 7 - 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, 2015 and 2014, the following University expenditures on behalf of the Foundation were identified:

| | 2015 | 2014 |
|---|--------------|--------------|
| Salaries, wages, and fringe benefits | \$ 984,682 | \$ 993,251 |
| Space | 67,449 | 65,462 |
| Student worker and other non-salary costs | 537,858 | 552,940 |
| | \$ 1,589,989 | \$ 1,611,653 |

Note 8 - Commitments

The Foundation has committed to paying out approximately \$1.2 to \$1.5 million in scholarships in fiscal year 2016.