



Consolidated Financial Statements
June 30, 2022 and 2021

Mankato Area Foundation and Subsidiaries

Mankato Area Foundation and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Mankato Area Foundation and Subsidiaries
Mankato, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Mankato Area Foundation and Subsidiaries (collectively, the Foundation), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities of the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Eide Sully LLP

Mankato, Minnesota
November 1, 2022

Mankato Area Foundation and Subsidiaries
Consolidated Statements of Financial Position
Years Ended June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 1,195,266	\$ 871,266
Assets limited as to use - replacement reserve	49,388	-
Operating investments	21,186,446	21,291,263
Receivables	48,608	17,078
Prepaid expenses	6,325	6,576
Property held for investment	195,000	532,500
Property and equipment, net	1,975,305	2,004,776
Endowment investments	2,395,373	2,827,447
Total Assets	\$ 27,051,711	\$ 27,550,906
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 20,944	\$ 26,443
Funds held for others	4,026,320	3,839,858
Grants payable	-	9,500
Payroll liabilities	12,757	12,049
Other liabilities	-	58,320
Total Liabilities	4,060,021	3,946,170
Net Assets		
Without donor restrictions		
Undesignated	2,190,795	2,291,762
Board designated - operating reserve	245,000	245,000
Board designated - property held for investment	195,000	532,500
Board designated - donor advised funds and scholarship granting	17,965,522	17,708,027
	20,596,317	20,777,289
With donor restrictions		
Accumulated investment gains on endowment Perpetual in nature	324,562	787,136
	2,070,811	2,040,311
	2,395,373	2,827,447
Total Net Assets	22,991,690	23,604,736
Total Liabilities and Net Assets	\$ 27,051,711	\$ 27,550,906

Mankato Area Foundation and Subsidiaries
Consolidated Statements of Activities
Year Ended June 30, 2022

	Without Donor Restrictions			With Donor Restrictions		Total
	Undesignated and Board Designated Granting Reserve	Board Designated Property Held For Investment, Donor Advised Funds and Scholarship Granting	Sub total Without Donor Restrictions	Accumulated Investment Gains on Endowment	Perpetual in Nature	
Revenue, Support, and Gains						
Contributions of cash and other financial assets	\$ 1,997	\$ 4,955,558	\$ 4,957,555	\$ -	\$ 30,500	\$ 4,988,055
Contributions of nonfinancial assets	-	35,000	35,000	-	-	35,000
Grant revenue	25,000	-	25,000	-	-	25,000
Net investment return	(14,815)	(2,127,504)	(2,142,319)	(363,210)	-	(2,505,529)
Other income	2,751	-	2,751	-	-	2,751
Supporting fee revenue	65,773	-	65,773	-	-	65,773
Subtotal	80,706	2,863,054	2,943,760	(363,210)	30,500	2,611,050
Net assets released from restrictions pursuant to endowment distribution policy	99,364	-	99,364	(99,364)	-	-
Net assets distributed from board designation and other	2,943,059	(2,943,059)	-	-	-	-
Total Revenue, Support and Gains	3,123,129	(80,005)	3,043,124	(462,574)	30,500	2,611,050
Expenses						
Program services expense	2,831,786	-	2,831,786	-	-	2,831,786
Management and general	242,198	-	242,198	-	-	242,198
Fundraising and development	150,112	-	150,112	-	-	150,112
Total Expenses	3,224,096	-	3,224,096	-	-	3,224,096
Change in Net Assets	(100,967)	(80,005)	(180,972)	(462,574)	30,500	(613,046)
Net Assets, Beginning of Year	2,536,762	18,240,527	20,777,289	787,136	2,040,311	23,604,736
Net Assets, End of Year	\$ 2,435,795	\$ 18,160,522	\$ 20,596,317	\$ 324,562	\$ 2,070,811	\$ 22,991,690

Mankato Area Foundation and Subsidiaries
Consolidated Statements of Activities
Year Ended June 30, 2021

	Without Donor Restriction			With Donor Restriction		Total
	Undesignated and Board Designated Granting Reserve	Board Designated Property Held For Investment, Donor Advised Funds and Scholarship Granting	Sub total Without Donor Restrictions	Accumulated Investment Gains on Endowment	Perpetual in Nature	
Revenue, Support, and Gains						
Contributions of cash and other financial assets	\$ 56,114	\$ 3,266,420	\$ 3,322,534	\$ -	\$ 43,050	\$ 3,365,584
Grant revenue	97,145	-	97,145	-	-	97,145
Net investment return	6,369	3,123,600	3,129,969	612,841	-	3,742,810
Other income	11,029	-	11,029	-	-	11,029
Supporting fee revenue	43,783	-	43,783	-	-	43,783
Subtotal	214,440	6,390,020	6,604,460	612,841	43,050	7,260,351
Net assets released from restrictions pursuant to endowment distribution policy	233,324	-	233,324	(233,324)	-	-
Net assets distributed from board designation and other	2,472,497	(2,472,497)	-	-	-	-
Total Revenue, Support and Gains	2,920,261	3,917,523	6,837,784	379,517	43,050	7,260,351
Expenses						
Program services expense	2,278,049	-	2,278,049	-	-	2,278,049
Management and general	213,560	-	213,560	-	-	213,560
Fundraising and development	149,958	-	149,958	-	-	149,958
Total Expenses	2,641,567	-	2,641,567	-	-	2,641,567
Change in Net Assets	278,694	3,917,523	4,196,217	379,517	43,050	4,618,784
Net Assets, Beginning of Year	2,258,068	14,323,004	16,581,072	407,619	1,997,261	18,985,952
Net Assets, End of Year	\$ 2,536,762	\$ 18,240,527	\$ 20,777,289	\$ 787,136	\$ 2,040,311	\$ 23,604,736

Mankato Area Foundation and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Management and General	Fundraising and Development	Total
Grants	\$ 2,263,815	\$ -	\$ -	\$ 2,263,815
Wages	173,600	109,444	94,348	377,392
Specific funds expense	278,903	-	-	278,903
Depreciation	-	62,547	-	62,547
Health insurance	19,853	12,516	10,790	43,159
Payroll taxes	12,566	7,922	6,829	27,317
Marketing expense	4,905	9,964	9,973	24,842
Designated gift expense	19,104	-	-	19,104
Mowing and other land expenses	18,401	-	-	18,401
Technology expenses	772	8,346	7,195	16,313
Audit	-	15,450	-	15,450
Real estate taxes	15,169	-	-	15,169
Development expense	-	-	10,386	10,386
Retirement expense	4,569	2,881	2,483	9,933
Insurance	-	7,287	-	7,287
Memberships	2,054	2,396	2,396	6,846
Office expense	3,067	1,934	1,667	6,668
Grant operating expenses	5,778	-	-	5,778
Director's expense	3,836	-	-	3,836
Development events	-	-	3,174	3,174
Credit card fees	2,921	-	-	2,921
Miscellaneous	1,529	916	358	2,803
Professional development	944	595	513	2,052
Total expense included in the expense section on the Consolidated Statement of Activities	\$ 2,831,786	\$ 242,198	\$ 150,112	\$ 3,224,096

Mankato Area Foundation and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Management and General	Fundraising and Development	Total
Grants	\$ 1,824,738	\$ -	\$ -	\$ 1,824,738
Wages	168,541	96,822	93,236	358,599
Specific funds expense	77,485	-	-	77,485
Depreciation	-	59,325	-	59,325
Health insurance	7,843	4,505	4,338	16,686
Payroll taxes	11,169	6,416	6,178	23,763
Marketing expense	4,384	8,361	8,354	21,099
Designated gift expense	19,104	-	-	19,104
Mowing and other land expenses	1,607	-	-	1,607
Technology expenses	6,895	4,985	4,799	16,679
Audit	-	14,675	-	14,675
Real estate taxes	22,671	-	-	22,671
Development expense	-	-	23,457	23,457
Retirement expense	4,288	2,463	2,372	9,123
Insurance	-	6,673	-	6,673
Memberships	734	856	857	2,447
Office expense	2,902	1,667	1,606	6,175
Grant operating expenses	5,650	-	-	5,650
Development events	-	-	1,743	1,743
Credit card fees	1,518	-	-	1,518
Miscellaneous	3,440	1,409	313	5,162
Professional development	1,813	1,041	1,004	3,858
Impairment loss	95,327	-	-	95,327
Repairs and maintenance	9,731	-	-	9,731
Telephone and internet	3,075	1,767	1,701	6,543
Utilities	3,961	-	-	3,961
Janitorial	-	1,574	-	1,574
Building Supplies	1,173	-	-	1,173
Bank charges	-	1,021	-	1,021
Total expense included in the expense section on the Consolidated Statement of Activities	<u>\$ 2,278,049</u>	<u>\$ 213,560</u>	<u>\$ 149,958</u>	<u>\$ 2,641,567</u>

Mankato Area Foundation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (613,046)	\$ 4,618,784
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	62,547	59,324
Net realized and unrealized (gains) losses on investments	2,902,683	(3,416,485)
Contributions restricted to endowment	(30,500)	(43,050)
Impairment on property held for investment	-	95,327
Changes in operating assets and liabilities		
Assets limited as to use - replacement reserve	(49,388)	-
Receivables	(31,530)	6,323
Prepaid expenses	251	(2,846)
Accounts payable	(5,499)	(1,390)
Funds held for others	186,462	520,688
Grants payable	(9,500)	(28,531)
Payroll liabilities	708	11,530
Other liabilities	(58,320)	6,838
Net Cash from Operating Activities	2,354,868	1,826,512
Cash Flows from Investing Activities		
Purchase of property and equipment	(33,076)	(211,566)
Purchases of investments	(3,898,225)	(4,036,920)
Proceeds from sale of property held for investment	337,500	-
Proceeds from the sale of investments	1,532,433	2,462,542
Net Cash used for Investing Activities	(2,061,368)	(1,785,944)
Cash Flows from Financing Activities		
Collections of contributions restricted to endowment	30,500	43,050
Proceeds from long-term debt	-	150,000
Payments of long-term debt	-	(150,000)
Net Cash from Financing Activities	30,500	43,050
Net Change in Cash, Cash Equivalents, and Restricted Cash	324,000	83,618
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	871,266	787,648
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 1,195,266	\$ 871,266
Cash and cash equivalents	\$ 1,195,266	\$ 871,266
Cash restricted to replacement reserve	49,388	-
Total cash, cash equivalents, and restricted cash	\$ 1,244,654	\$ 871,266
Supplemental Disclosure of Cash Flow Information		
Noncash contributions	\$ 35,000	\$ -

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Nature of Activities

The purpose of the Mankato Area Foundation (MAF) is to promote activities that enhance and improve the quality of life primarily in the Mankato, Minnesota area. MAF provides an avenue of giving for individuals and groups interested in community enrichment. MAF Holdings, LLC; MAF Holdings II, LLC; MAF Holdings III, LLC; MAF Holdings IV, LLC; and MAF Holdings V, LLC (collectively "MAF Holdings") hold and manage non-cash assets contributed to MAF.

Principles of Consolidation

The consolidated financial statements include the accounts of the Mankato Area Foundation, its wholly owned subsidiary, MAF Holdings, LLC; and MAF Holdings, LLC's wholly owned subsidiaries MAF Holdings II, LLC, MAF Holdings III, LLC, MAF Holdings IV, LLC, and MAF Holdings V, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "the Foundation".

Cash, Cash Equivalents, and Restricted Cash

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 restricted to the replacement reserve is excluded from this definition.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due to the Foundation. The Foundation determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2022 and 2021, the allowance was zero.

Property and Equipment

Property and equipment additions in excess of \$2,500 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 the assets. 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 consolidated 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 years ended June 30, 2022 and 2021.

Property Held for Investment

The Foundation holds donated land that it intends to sell upon receipt of an acceptable offer. The Foundation reviews the carrying values of the land held for sale 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, 2022. The Foundation determined that certain long-lived assets were impaired during the year ended June 30, 2021, and recorded an impairment loss of \$95,327 at June 30, 2021.

Funds Held for Others

The Foundation maintains investments from funds accepted on deposit from other non-profit organizations and sponsored organizations. While the Foundation maintains legal ownership of these funds, the organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation, upon reasonable notice as defined in their agreements with the Foundation. Accordingly, the organizations' share of investments is reported as a liability in the accompanying consolidated statements of financial position.

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 consolidated statements of financial position. Donated investments are reflected in the financial statements at their fair value on the date of donation. Net investment return is reported in the statements of activities and consists of interest and dividend income, and realized and unrealized gains/losses less external investment expenses.

Grants Payable

Grants payable consist of grants approved by the Foundation during each respective fiscal year to be distributed subsequent to year-end.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed or grantor 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 (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, property held for investment, and donor advised funds and scholarship granting.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. 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.

Revenue Recognition

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, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. At June 30, 2022 and 2021, the Foundation did not have any conditional promises to give.

A supporting fee is assessed against board designated funds and net assets with donor restrictions to support the Foundation's operational costs. The amount of the assessment against these funds is periodically reclassified to net assets without donor restrictions, undesignated. A supporting fee is also assessed against funds held for others and results in a reduction of individual fund balances. Fees pertaining to funds held for others is recognized as supporting fee revenue.

Reimbursed Costs

In January 2015, the Foundation acquired its facility, including land and a building, in Mankato, Minnesota and shares the use of that facility with other area nonprofit organizations. In June 2019, the Foundation acquired an adjacent building, for an expanded facility. The buildings are operated under the name 'Shared Spaces, A Center for Nonprofit Collaboration' and are owned and managed as a noncash asset by the Foundation's subsidiary, MAF Holdings, LLC. Each occupant of Shared Spaces is contractually obligated to pay its proportional share of all operational expenses of the facility based upon percentages of space occupied. As of June 30, 2022 and 2021, there was approximately \$101,000 and \$107,000, respectively, of reimbursed costs received from the occupants and netted with program expense on the consolidated statements of activities.

Income Taxes

MAF 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(c)(3) of the Internal Revenue Code. MAF Holdings, LLC; MAF Holdings II, LLC; MAF Holdings III, LLC, MAF Holdings IV, LLC, and MAF Holdings V, LLC maintain exempt status under the Foundation's exemption since the Foundation is the sole member of MAF Holdings, LLC; and MAF Holdings, LLC is the sole member of MAF Holdings II, LLC, MAF Holdings III, LLC, MAF Holdings IV, LLC, and MAF Holdings V, 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. MAF files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

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.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to 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. Donated materials are recorded at the respective fair values of the materials received (Note 8).

The Foundation's policy is to sell contributed assets immediately upon receipt unless the asset is restricted for use in a specific program by the donor.

Functional Expense Allocation

The costs of program and supporting services and fundraising activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services expenses. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, payroll taxes, marketing expenses, health insurance, technology expense, retirement expense, telephone and internet, memberships, office expense, professional development, and miscellaneous, which are allocated on the basis of estimates of time and effort.

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

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Foundation to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced 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 the Foundation 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, the Foundation and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Change in Accounting Policy

As of July 1, 2021, the Organization adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis, because it provides increased and more transparent disclosure around contributed nonfinancial assets. There were no changes to the June 30, 2021 financial statements as a result of this adoption.

Note 2 - Liquidity and Availability

The Foundation receives 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 fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 50% of annual program funding needs, with the remainder funded by investment income without donor restrictions, grants from other foundations and appropriated earnings from gifts with donor restrictions.

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation established an operating reserve as a source of revenue for general operations in the event of a revenue shortfall due to market downturns, unexpected events, or unanticipated expenditures. The reserve is overseen by the Finance Committee who approve all transfers out of the reserve.

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 long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents financial assets available for general expenditures within one year at June 30, 2022 and 2021:

	2022	2021
Financial assets at year end		
Cash and cash equivalents	\$ 1,195,266	\$ 871,266
Receivables	48,608	17,078
Investments	23,581,819	24,118,710
Total financial assets	24,825,693	25,007,054
Less amounts not available to be used within one year		
Operating reserve	(245,000)	(245,000)
Investments held for others	(4,026,320)	(3,839,858)
Investments held for endowments	(2,395,373)	(2,827,447)
Investments held for donor advised funds and scholarship granting	(17,965,522)	(17,708,027)
Financial assets not available to be used within one year	(24,632,215)	(24,620,332)
Financial assets available within one year	\$ 193,478	\$ 386,722

Note 3 - Fair Value Measurements and Disclosures

Investments 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 the 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 or liability.

A significant portion of investment assets are classified within Level 1 because they comprise exchange traded funds and open-end mutual funds with readily determinable fair values based on daily redemption values. The Organization invests in CDs traded in the financial markets. Those CDs and U.S. government obligations 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.

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table presents assets and liabilities measured at fair value on a recurring basis except those measured at cost, as identified below, at June 30, 2022:

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Operating investments				
Cash equivalents (at cost)				\$ 753,043
Certificate of deposits	\$ -	\$ 1,157,303	\$ -	1,157,303
Corporate bonds	-	3,833,220	-	3,833,220
Exchange traded fund	1,603,183	-	-	1,603,183
Mutual funds				
Developed markets equity	3,499	-	-	3,499
Diversified emerging markets	133,167	-	-	133,167
Emerging markets	13,337	-	-	13,337
Emerging markets bond	3,698	-	-	3,698
Foreign large blend	155,341	-	-	155,341
Foreign large growth	306,391	-	-	306,391
Foreign large value	29,764	-	-	29,764
High yield bond	5,271	-	-	5,271
Intermediate core bond	56,214	-	-	56,214
Intermediate core-plus bond	195,892	-	-	195,892
Intermediate government	122,675	-	-	122,675
Intermediate-term bond	5,969	-	-	5,969
Intl Equities	1,387,460	-	-	1,387,460
Large blend	1,597,065	-	-	1,597,065
Large growth	889,556	-	-	889,556
Large value	617,861	-	-	617,861
Mid-cap blend	42,518	-	-	42,518
Mid cap growth	6,035	-	-	6,035
Mid cap value	5,791	-	-	5,791
Multisector bond	979	-	-	979
Multistrategy	2,269	-	-	2,269
Real estate	542,837	-	-	542,837
Short-term bond	751,039	-	-	751,039
Short government	129,498	-	-	129,498
Small blend	11,112	-	-	11,112
Small cap value	39,776	-	-	39,776
Ultrashort bond	294,445	-	-	294,445
U.S. equity	6,362,554	-	-	6,362,554
U.S. Fund multialternative	6,336	-	-	6,336
U.S. listed real estate	1,055	-	-	1,055
World bond	3,889	-	-	3,889
World large-stock blend	114,842	-	-	114,842
Reinsurance	1,562	-	-	1,562
	<u>\$ 15,442,880</u>	<u>\$ 4,990,523</u>	<u>\$ -</u>	<u>\$ 21,186,446</u>

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Endowment investments				
Cash equivalents (at cost)				\$ 85,805
Bonds				
Corporate bonds	\$ -	\$ 757,779	\$ -	757,779
Mutual funds				
International equity	300,687	-	-	300,687
U.S. equity	1,251,102	-	-	1,251,102
	<u>\$ 1,551,789</u>	<u>\$ 757,779</u>	<u>\$ -</u>	<u>\$ 2,395,373</u>

The following table presents assets and liabilities measured at fair value on a recurring basis except those measured at cost, as identified below, at June 30, 2021:

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Operating investments				
Cash equivalents (at cost)				\$ 736,225
Certificate of deposits	\$ -	\$ 996,655	\$ -	996,655
Corporate bonds	-	3,701,441	-	3,701,441
Exchange traded fund	624,529	-	-	624,529
Mutual funds				
Developed markets equity	5,325	-	-	5,325
Diversified emerging market	144,960	-	-	144,960
Emerging markets	12,073	-	-	12,073
Emerging markets bond	4,736	-	-	4,736
Foreign large blend	118,789	-	-	118,789
Foreign large growth	326,002	-	-	326,002
Foreign large value	36,391	-	-	36,391
High yield bond	6,310	-	-	6,310
Inflation protected bond	52,875	-	-	52,875
Intermediate core bond	57,628	-	-	57,628
Intermediate core-plus bond	224,658	-	-	224,658
Intermediate government	68,145	-	-	68,145
Intermediate-term bond	6,574	-	-	6,574
International equity	1,810,711	-	-	1,810,711
Large blend	1,225,812	-	-	1,225,812
Large growth	903,059	-	-	903,059
Large value	344,576	-	-	344,576
Mid cap blend	2,516	-	-	2,516
Mid cap growth	19,698	-	-	19,698
Mid cap value	19,966	-	-	19,966
Multisector bond	1,062	-	-	1,062
Multistrategy	2,455	-	-	2,455
Protected bond	1,075	-	-	1,075
Real estate	439,283	-	-	439,283
Short-term bond	609,418	-	-	609,418
Short government	124,529	-	-	124,529
Small blend	11,823	-	-	11,823
Small cap value	6,783	-	-	6,783

Mankato Area Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Operating investments (continued)				
Mutual funds (continued)				
Ultrashort bond	\$ 275,047	\$ -	\$ -	\$ 275,047
U.S. equity	8,360,161	-	-	8,360,161
U.S. Fund multialternative	6,487	-	-	6,487
U.S. listed real estate	1,786	-	-	1,786
World bond	1,103	-	-	1,103
World large-stock blend	597	-	-	597
	<u>\$ 15,856,942</u>	<u>\$ 4,698,096</u>	<u>\$ -</u>	<u>\$ 21,291,263</u>
Endowment investments				
Cash equivalents (at cost)				\$ 97,704
Bonds				
Corporate bonds	\$ -	\$ 734,297	\$ -	734,297
Mutual funds				
International equity	395,526	-	-	395,526
U.S. equity	1,599,920	-	-	1,599,920
	<u>\$ 1,995,446</u>	<u>\$ 734,297</u>	<u>\$ -</u>	<u>\$ 2,827,447</u>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2022 and 2021:

	2022	2021
Land	\$ 220,000	\$ 220,000
Building	1,992,073	1,963,365
Furniture	20,892	20,892
Equipment	70,547	68,086
	<u>2,303,512</u>	<u>2,272,343</u>
Less accumulated depreciation	<u>(328,207)</u>	<u>(267,567)</u>
	<u>\$ 1,975,305</u>	<u>\$ 2,004,776</u>

Depreciation expense, calculated on a straight-line method with lives ranging from three to thirty-nine years, was \$62,547 and \$59,325 for the years ended June 30, 2022 and 2021, respectively.

Note 5 - Board-Designated Net Assets

The Board of the Foundation has designated certain assets of the Foundation to function as donor-advised funds and scholarship funds to maintain the grant-making capacity of the Foundation with a balance of \$17,965,522 and \$17,708,027 at June 30, 2022 and 2021, respectively. The Board of the Foundation has designated property to be held for investment with a balance of \$195,000 and \$532,500 as of June 30, 2022 and 2021, respectively. In addition, the Board has designated certain assets of the Foundation to function as an operating reserve and a granting reserve. Total funds designated for the operating reserve was \$245,000 as of June 30, 2022 and 2021, respectively.

Note 6 - Endowments

The Foundation's endowment (the Endowment) consists of donor-restricted endowment funds. Net assets associated with endowment funds 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, 2022 and 2021, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered 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
- The investment policies of the Foundation

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

As of June 30, 2022 and 2021, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
<u>June 30, 2022</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,070,811	\$ 2,070,811
Accumulated investment gains	-	324,562	324,562
	\$ -	\$ 2,395,373	\$ 2,395,373
	Without Donor Restriction	With Donor Restriction	Total
<u>June 30, 2021</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,040,311	\$ 2,040,311
Accumulated investment gains	-	787,136	787,136
	\$ -	\$ 2,827,447	\$ 2,827,447

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. Under this policy, as approved by the Board of Directors, the endowment assets were invested in the Bankers Trust Company and the Foundation relies on their investing policies. The investment company adopted an investment strategy that invests in equities, fixed income, international equities, mutual fund equities, and international mutual funds. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return.

To satisfy its long-term objectives, the Foundation relies on a balanced asset allocation model 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 to achieve its long-term return objectives within prudent risk constraints.

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The Foundation has a policy that reflects commitment to endowment growth by balancing the re-investment of annual earnings with the operating needs of the Foundation. Accordingly, over the long term, the Foundation expects the current policy to allow its endowment to grow at a rate of return that equals or exceeds the various benchmarks that are representative of the asset allocation model identified. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts, changes in inflation, and investment return.

Changes in endowment net assets for the years ended June 30, 2022 and 2021, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
<u>Year ended June 30, 2022</u>			
Endowment net assets, beginning of year	\$ -	\$ 2,827,447	\$ 2,827,447
Contributions	-	30,500	30,500
Investment income, net	-	(363,210)	(363,210)
Appropriation of donor-restricted endowment pursuant to distribution policy	-	(99,364)	(99,364)
	\$ -	\$ 2,395,373	\$ 2,395,373
Endowment net assets, end of year	\$ -	\$ 2,395,373	\$ 2,395,373
	Without Donor Restriction	With Donor Restriction	Total
<u>Year ended June 30, 2021</u>			
Endowment net assets, beginning of year	\$ -	\$ 2,404,880	\$ 2,404,880
Contributions	-	43,050	43,050
Investment income, net	-	612,841	612,841
Appropriation of donor-restricted endowment pursuant to distribution policy	-	(233,324)	(233,324)
	\$ -	\$ 2,827,447	\$ 2,827,447
Endowment net assets, end of year	\$ -	\$ 2,827,447	\$ 2,827,447

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022 and 2021, there was no underwater endowments.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2022 and 2021, consist of the following:

	2022	2021
Endowments		
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Scholarship and community enrichment	\$ 2,070,811	\$ 2,040,311
Subject to appropriation and expenditure when a specified event occurs		
Scholarship and community enrichment	324,562	787,136
	\$ 2,395,373	\$ 2,827,447

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Restricted-purpose spending-rate distributions and appropriations		
Scholarship and community enrichment	\$ 99,364	\$ 233,324
	\$ 99,364	\$ 233,324

Note 8 - Donated Professional Services and Materials

Donated professional materials for the years ended June 30, 2022 and 2021 was equipment in the amount of \$35,000 and \$0, respectively.

It is the Foundation's policy to sell all contributed equipment immediately upon receipt at auction or for salvage unless the equipment is restricted for use in a specific program by the donor. No equipment received during the period was restricted for use. All equipment was sold and valued according to cash proceeds on their disposition.

Note 9 - Cash Surrender Value of Life Insurance Policy

The Foundation is the beneficiary of a life insurance policy on the life of a certain donor. Premiums are paid by the Foundation and the cash surrender value of the life insurance policy is recorded as revenue to the Foundation. The face value of the policy is \$1,000,000 at June 30, 2022 and 2021. The policy has no cash value June 30, 2022 and 2021.

Note 10 - Contingency

During 2022 and 2021, the United States and global markets experienced significant market volatility in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Foundation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of this market volatility. The Foundation's consolidated financial statements do not include adjustments to fair value that have resulted from this market volatility.

Note 11 - Related Party Transactions

During the years ended June 30, 2022 and 2021, donor advised funds owned by a member of the Board of Directors totaled approximately \$18,000 and \$11,000.

Note 12 - Subsequent Events

Effective October 31, 2022, the Foundation has a signed purchase agreement in place to sell the property held under MAF Holdings V, LLC. The purchase agreement is in the amount of \$410,000 with a closing date of on or before November 30, 2022.

The Foundation has evaluated subsequent events through November 1, 2022, the date the consolidated financial statements were available to be issued.