



Consolidated Financial Statements
June 30, 2023 and 2022

Mankato Area Foundation and Subsidiaries

Mankato Area Foundation and Subsidiaries

Table of Contents

June 30, 2023 and 2022

Independent Auditor’s Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9



Independent Auditor's Report

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

Report on the Audit of the Consolidated 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, 2023 and 2022, 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, 2023 and 2022, 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 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; 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 Consolidated 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
October 31, 2023

Mankato Area Foundation and Subsidiaries
Consolidated Statements of Financial Position
Years Ended June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 787,905	\$ 1,195,266
Restricted cash - replacement reserve	23,738	49,388
Operating investments	23,675,495	21,186,446
Receivables	33,967	48,608
Prepaid expenses	5,516	6,325
Property held for investment	195,000	195,000
Property and equipment, net	2,699,289	1,975,305
Endowment investments	2,605,038	2,395,373
	<u>\$ 30,025,948</u>	<u>\$ 27,051,711</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 34,419	\$ 20,944
Funds held for others	3,984,385	4,026,320
Grants payable	41,925	-
Payroll liabilities	26,271	12,757
	<u>4,087,000</u>	<u>4,060,021</u>
Net Assets		
Without donor restrictions		
Undesignated	3,236,690	2,190,795
Board designated - operating reserve	316,122	245,000
Board designated - property held for investment	195,000	195,000
Board designated - donor advised funds and scholarship granting	19,586,098	17,965,522
	<u>23,333,910</u>	<u>20,596,317</u>
With donor restrictions		
Accumulated investment gains on endowment	534,227	324,562
Perpetual in nature	2,070,811	2,070,811
	<u>2,605,038</u>	<u>2,395,373</u>
	<u>25,938,948</u>	<u>22,991,690</u>
	<u>\$ 30,025,948</u>	<u>\$ 27,051,711</u>

Mankato Area Foundation and Subsidiaries
Consolidated Statements of Activities
Year Ended June 30, 2023

	Without Donor Restrictions			With Donor Restrictions		Total
	Undesignated and Board Designated Operating 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	\$ 184,499	\$ 3,867,321	\$ 4,051,820	\$ -	\$ -	\$ 4,051,820
Contributions of nonfinancial assets	750,000	430,000	1,180,000	-	-	1,180,000
Grant revenue	123,000	-	123,000	-	-	123,000
Net investment return	11,134	1,610,994	1,622,128	271,641	-	1,893,769
Other income	6,382	-	6,382	-	-	6,382
Supporting fee revenue	46,432	-	46,432	-	-	46,432
Subtotal	1,121,447	5,908,315	7,029,762	271,641	-	7,301,403
Net assets released from restrictions pursuant to endowment distribution policy	61,976	-	61,976	(61,976)	-	-
Net assets distributed from board designation	4,287,739	(4,287,739)	-	-	-	-
Total Revenue, Support and Gains	5,471,162	1,620,576	7,091,738	209,665	-	7,301,403
Expenses						
Program services expense	3,863,388	-	3,863,388	-	-	3,863,388
Management and general	298,160	-	298,160	-	-	298,160
Fundraising and development	192,597	-	192,597	-	-	192,597
Total Expenses	4,354,145	-	4,354,145	-	-	4,354,145
Change in Net Assets	1,117,017	1,620,576	2,737,593	209,665	-	2,947,258
Net Assets, Beginning of Year	2,435,795	18,160,522	20,596,317	324,562	2,070,811	22,991,690
Net Assets, End of Year	\$ 3,552,812	\$ 19,781,098	\$ 23,333,910	\$ 534,227	\$ 2,070,811	\$ 25,938,948

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 Operating 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	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 Functional Expenses
Year Ended June 30, 2023

	Program Services	Management and General	Fundraising and Development	Total
Grants	\$ 3,258,533	\$ -	\$ -	\$ 3,258,533
Wages	211,029	135,996	121,928	468,953
Specific funds expense	236,966	-	-	236,966
Depreciation	-	70,320	-	70,320
Health insurance	25,373	16,352	14,660	56,385
Payroll taxes	15,285	9,850	8,831	33,966
Marketing expense	5,701	11,252	11,244	28,197
Technology expenses	10,194	7,881	7,066	25,141
Audit	-	25,000	-	25,000
Loss on sale of assets	19,566	-	-	19,566
Designated gift expense	19,104	-	-	19,104
Development expense	-	-	18,526	18,526
Real estate taxes	16,913	-	-	16,913
Mowing and other land expenses	11,405	-	-	11,405
Retirement expense	5,026	3,239	2,904	11,169
Insurance	-	9,183	-	9,183
Office expense	3,766	2,427	2,176	8,369
Grant operating expenses	6,163	-	-	6,163
Miscellaneous	1,731	3,714	389	5,834
Utilities	5,255	-	-	5,255
Credit card fees	4,243	-	-	4,243
Telephone and internet	1,807	1,164	1,044	4,015
Memberships	1,196	1,396	1,396	3,988
Director's expense	3,534	-	-	3,534
Development events	-	-	2,087	2,087
Travel expense	598	386	346	1,330
Total expense included in the expense section on the Consolidated Statement of Activities	\$ 3,863,388	\$ 298,160	\$ 192,597	\$ 4,354,145

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
Technology expenses	772	8,346	7,195	16,313
Audit	-	15,450	-	15,450
Designated gift expense	19,104	-	-	19,104
Development expense	-	-	10,386	10,386
Real estate taxes	15,169	-	-	15,169
Mowing and other land expenses	18,401	-	-	18,401
Retirement expense	4,569	2,881	2,483	9,933
Insurance	-	7,287	-	7,287
Office expense	3,067	1,934	1,667	6,668
Grant operating expenses	5,778	-	-	5,778
Miscellaneous	1,529	916	358	2,803
Credit card fees	2,921	-	-	2,921
Memberships	2,054	2,396	2,396	6,846
Director's expense	3,836	-	-	3,836
Development events	-	-	3,174	3,174
Professional development	944	595	513	2,052
Total expense included in the expense section on the Consolidated Statement of Activities	<u>\$ 2,831,786</u>	<u>\$ 242,198</u>	<u>\$ 150,112</u>	<u>\$ 3,224,096</u>

Mankato Area Foundation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 2,947,258	\$ (613,046)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	70,320	62,547
Net realized and unrealized (gains) losses on investments	(1,356,897)	2,902,683
Contributions restricted to endowment	-	(30,500)
Loss on sale of assets	19,566	-
Contribution of property held for investment	(430,000)	-
Contribution of property and equipment	(750,000)	(35,000)
Changes in operating assets and liabilities		
Receivables	14,641	(31,530)
Prepaid expenses	809	251
Accounts payable	13,475	(5,499)
Funds held for others	(41,935)	186,462
Grants payable	41,925	(9,500)
Payroll liabilities	13,514	708
Other liabilities	-	(58,320)
Net Cash from Operating Activities	542,676	2,369,256
Cash Flows from Investing Activities		
Purchase of property and equipment	(44,304)	(33,076)
Purchases of investments	(3,003,741)	(3,898,225)
Proceeds from sale of property held for investment	410,434	372,500
Proceeds from the sale of investments	1,661,924	1,532,433
Net Cash used for Investing Activities	(975,687)	(2,026,368)
Cash Flows from Financing Activities		
Collections of contributions restricted to endowment	-	30,500
Net Cash from Financing Activities	-	30,500
Net Change in Cash, Cash Equivalents, and Restricted Cash	(433,011)	373,388
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	1,244,654	871,266
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 811,643	\$ 1,244,654
Cash and cash equivalents	\$ 787,905	\$ 1,195,266
Restricted cash - replacement reserve	23,738	49,388
Total cash, cash equivalents, and restricted cash	\$ 811,643	\$ 1,244,654
Supplemental Disclosure of Cash Flow Information		
Contributions of nonfinancial assets	\$ 1,180,000	\$ 35,000

See Notes to Consolidated Financial Statements

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; MAF Holdings V, LLC; and MAF Holdings VI, LLC (collectively "MAF Holdings") hold and manage non-cash assets contributed to MAF.

Principles of Consolidation

The consolidated financial statements include Mankato Area Foundation and its wholly owned subsidiaries, MAF Holdings, LLC, MAF Holdings II, LLC, MAF Holdings III, LLC, MAF Holdings IV, LLC, MAF Holdings V, LLC, and MAF Holdings VI, 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

Receivables 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 receivables are written off when deemed uncollectable. At June 30, 2023 and 2022, the allowance was \$0.

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 are computed using the straight-line method over the estimated useful lives of the assets ranging from 3-39 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 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, 2023 and 2022.

Property Held for Investment

The Foundation holds donated property that it intends to sell upon receipt of an acceptable offer. The Foundation reviews the carrying values of the property 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 years ended June 30, 2023 and 2022.

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, 2023 and 2022, 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

The Foundation owns a facility, including land, a building, and an adjacent expanded facility, in Mankato, Minnesota, and shares the use of that facility with other area nonprofit organizations. The building and expanded facility 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. In December 2022, the Foundation acquired another facility in Mankato, Minnesota that includes land and a building. The building operates under the name 'Shared Spaces at Emy Frenz' and is owned and managed as a noncash asset by MAF Holdings, LLC's subsidiary, MAF Holdings VI, LLC. Each occupant of the Shared Spaces facilities is contractually obligated to pay its proportional share of all operational expenses of the facilities based upon percentages of space occupied. As of June 30, 2023 and 2022, there was approximately \$101,000 of reimbursed costs received from the occupants and netted with program expense on the consolidated statements of activities.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$28,000 and \$25,000 during the years ended June 30, 2023 and 2022, respectively.

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, MAF Holdings V, LLC, and MAF Holdings VI, 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, MAF Holdings V, LLC, and MAF Holdings VI, 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, travel expense, 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 receivable 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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.

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.

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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, 2023 and 2022:

	2023	2022
Financial assets at year end		
Cash and cash equivalents	\$ 787,905	\$ 1,195,266
Receivables	33,967	48,608
Operating investments	23,675,495	21,186,446
Total financial assets	24,497,367	22,430,320
Less amounts not available to be used within one year		
Operating reserve	(316,122)	(245,000)
Investments held for others	(3,984,385)	(4,026,320)
Investments held for donor advised funds and scholarship granting	(19,586,098)	(17,965,522)
Financial assets not available to be used within one year	(23,886,605)	(22,236,842)
Financial assets available within one year	\$ 610,762	\$ 193,478

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 corporate bonds 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, 2023 and 2022

The following table presents assets measured at fair value on a recurring basis except those measured at cost, as identified below, at June 30, 2023:

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Operating investments				
Cash equivalents (at cost)				\$ 985,689
Certificate of deposits	\$ -	\$ 1,292,233	\$ -	1,292,233
Corporate bonds	-	3,678,091	-	3,678,091
Exchange traded fund	1,369,975	-	-	1,369,975
Mutual funds				
Bank loan	31,941	-	-	31,941
Corporate bond	9,000	-	-	9,000
Developed markets equity	5,176	-	-	5,176
Diversified emerging markets	164,399	-	-	164,399
Emerging markets	11,721	-	-	11,721
Emerging markets bond	4,113	-	-	4,113
Foreign large blend	166,582	-	-	166,582
Foreign large growth	325,308	-	-	325,308
Foreign large value	18,016	-	-	18,016
Health	20,042	-	-	20,042
High yield bond	8,696	-	-	8,696
Infrastructure	19,620	-	-	19,620
Inflation-Protected bond	2,730	-	-	2,730
Intermediate core bond	64,262	-	-	64,262
Intermediate core-plus bond	195,426	-	-	195,426
Intermediate government	203,903	-	-	203,903
Intermediate-term bond	5,500	-	-	5,500
Intl Equities	1,450,727	-	-	1,450,727
Large blend	1,779,365	-	-	1,779,365
Large growth	1,099,356	-	-	1,099,356
Large value	741,441	-	-	741,441
Mid cap blend	79,407	-	-	79,407
Mid cap growth	27,697	-	-	27,697
Mid cap value	5,924	-	-	5,924
Multisector bond	16,536	-	-	16,536
Multistrategy	2,353	-	-	2,353
Real estate	539,772	-	-	539,772
Reinsurance	1,562	-	-	1,562
Short government	139,183	-	-	139,183
Short-term bond	938,744	-	-	938,744
Small blend	6,257	-	-	6,257
Small cap blend	72,120	-	-	72,120
Small cap value	43,106	-	-	43,106
Small growth	16,824	-	-	16,824
U.S. equity	7,710,376	-	-	7,710,376
U.S. Fund multialternative	6,185	-	-	6,185
U.S. listed real estate	977	-	-	977
Ultrashort bond	223,569	-	-	223,569
World large-stock blend	191,591	-	-	191,591
	<u>\$ 17,719,482</u>	<u>\$ 4,970,324</u>	<u>\$ -</u>	<u>\$ 23,675,495</u>

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Endowment investments				
Cash equivalents (at cost)	\$ -	\$ -	\$ -	\$ 98,287
Bonds				
Corporate bonds	-	740,893	-	740,893
Mutual funds				
International equity	304,403	-	-	304,403
U.S. equity	1,461,455	-	-	1,461,455
	<u>\$ 1,765,858</u>	<u>\$ 740,893</u>	<u>\$ -</u>	<u>\$ 2,605,038</u>

The following table presents assets 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

Mankato Area Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Assets	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
Mutual funds (continued)				
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>
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>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2023 and 2022:

	2023	2022
Land	\$ 395,000	\$ 220,000
Building	2,608,876	1,992,073
Furniture	20,892	20,892
Equipment	73,048	70,547
	<u>3,097,816</u>	<u>2,303,512</u>
Less accumulated depreciation	<u>(398,527)</u>	<u>(328,207)</u>
	<u>\$ 2,699,289</u>	<u>\$ 1,975,305</u>

Depreciation expense, calculated on a straight-line method with lives ranging from three to thirty-nine years, was \$70,320 and \$62,547 for the years ended June 30, 2023 and 2022, 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 \$19,586,098 and \$17,965,522 at June 30, 2023 and 2022, respectively. The Board of the Foundation has designated property to be held for investment with a balance of \$195,000 as of June 30, 2023 and 2022, respectively. In addition, the Board has designated certain assets of the Foundation to function as an operating reserve. Total funds designated for the operating reserve was \$316,122 and \$245,000 as of June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022

As of June 30, 2023 and 2022, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
<u>June 30, 2023</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	-	534,227	534,227
	\$ -	\$ 2,605,038	\$ 2,605,038
	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

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, 2023 and 2022

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, 2023 and 2022, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
<u>Year ended June 30, 2023</u>			
Endowment net assets, beginning of year	\$ -	\$ 2,395,373	\$ 2,395,373
Investment income, net	-	271,641	271,641
Appropriation of donor-restricted endowment pursuant to distribution policy	-	(61,976)	(61,976)
	\$ -	\$ 2,605,038	\$ 2,605,038
Endowment net assets, end of year	\$ -	\$ 2,605,038	\$ 2,605,038
	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

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, 2023 and 2022, there was no underwater endowments.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022, consist of the following:

	2023	2022
Endowments		
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Scholarship and community enrichment	\$ 2,070,811	\$ 2,070,811
Subject to appropriation and expenditure when a specified event occurs		
Scholarship and community enrichment	534,227	324,562
	\$ 2,605,038	\$ 2,395,373

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, 2023 and 2022:

	2023	2022
Restricted-purpose spending-rate distributions and appropriations		
Scholarship and community enrichment	\$ 61,976	\$ 99,364

Note 8 - Donated Property and Equipment

Donated property and equipment for the years ended June 30, 2023 and 2022 was property and equipment in the amount of \$1,180,000 and \$35,000, 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.

The Foundation holds donated property that it intends to sell upon receipt of an acceptable offer unless the property is restricted for use in a specific program by the donor. No property received during the period was restricted for use. All property 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, 2023 and 2022. The policy has no cash value June 30, 2023 and 2022.

Note 10 - Related Party Transactions

During the years ended June 30, 2023 and 2022, donor advised funds owned by members of the Board of Directors totaled approximately \$37,000 and \$18,000.

Note 11 - Subsequent Events

Effective April 13, 2023, the Foundation has a signed purchase agreement in place to sell the land held under MAF Holdings II, LLC. The purchase agreement is in the amount of \$159,000 with a tentative date to close by the end of October 2023.

The Foundation has evaluated subsequent events through October 31, 2023, the date the consolidated financial statements were available to be issued.