

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**Montana State University-Northern**  
**Foundation**  
Havre, MT

*June 30, 2015 and 2014*

# Montana State University-Northern Foundation

*For the years ended June 30, 2015 and 2014*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Montana State University-Northern Foundation  
P.O. Box 1691  
Havre, MT 59501

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of Montana State University-Northern Foundation (a nonprofit organization) as of June 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

The financial statements of Montana State University-Northern Foundation for the year ended June 30, 2014, were audited by Galusha, Higgins & Galusha, PC, which combined its practice with Wipfli LLP as of December 31, 2014, whose report dated September 25, 2014, expressed an unmodified opinion.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Northern Foundation as of June 30, 2015 and 2014, and the changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wipfli LLP

Wipfli LLP  
Billings, Montana  
November 12, 2015

**Montana State University-Northern Foundation**

**STATEMENTS OF FINANCIAL POSITION**

*as of June 30,*

**ASSETS**

	<b>2015</b>	2014 (as restated)
Cash & equivalents	<u>214,883</u>	<u>0</u>
Cash & equivalents, held for donor restricted purposes	2,231,660	290,200
Accrued interest receivable	1,896	1,217
Accrued interest receivable, held for donor restricted purposes	46,625	57,162
Pledges receivable, net of allowance for uncollectible accounts, held for donor restricted purposes	981,514	28,041
Notes receivable, unrestricted	42,503	50,669
Notes receivable, held for donor restricted purposes	1,691,048	1,927,275
Investments	70,471	73,468
Investments, held for donor restricted purposes	4,781,932	4,072,493
Other assets	10,000	12,271
Property and equipment, net of accumulated depreciation	2,733	3,594
Art	<u>53,895</u>	<u>53,895</u>
 Total assets	 <u><u>10,129,160</u></u>	 <u><u>6,570,285</u></u>

**INTERFUND TRANSACTIONS**

	<b>2015</b>	2014 (As restated)
Interfund receivable, held for donor restricted purposes	<u>454,329</u>	<u>893,144</u>
Interfund payables	<u>(454,329)</u>	<u>(893,144)</u>
 Total interfund transactions	 <u><u>0</u></u>	 <u><u>0</u></u>

The accompanying notes are an integral part of these financial statements.

Montana State University-Northern Foundation

STATEMENTS OF FINANCIAL POSITION

as of June 30,

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	<b>2015</b>	2014 (as restated)
<b>LIABILITIES</b>		
Accrued expenses	<b>6</b>	0
Liability to other beneficiaries	<b>62,927</b>	173,574
Assets held for others	<b>100,911</b>	100,911
Liability under trust agreements	<b>1,033,539</b>	1,085,780
Gift annuity obligations	<b>285,667</b>	294,422
Total liabilities	<b>1,483,050</b>	1,654,687
<b>NET ASSETS</b>		
Unrestricted net assets	<b>(343,619)</b>	(989,968)
Temporarily restricted net assets	<b>4,770,264</b>	2,008,836
Permanently restricted net assets	<b>4,219,465</b>	3,896,730
Total net assets	<b>8,646,110</b>	4,915,598
Total liabilities and net assets	<b>10,129,160</b>	6,570,285

The accompanying notes are an integral part of these financial statements.

**Montana State University-Northern Foundation**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
*for the year ended June 30, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Pledges & contributions	587,308	3,547,760	324,536	4,459,604
Other income	4,416	7,900	0	12,316
Interest & dividends	19,185	229,154	3,938	252,277
Contract revenue	170,204	0	0	170,204
Change in value of split interest agreements	(10,323)	(102,715)	0	(113,038)
Realized and unrealized gains and losses on investments	(5,579)	(6,735)	0	(12,314)
Released from restriction	927,743	(927,743)	0	0
Change in restriction	(8,068)	13,807	(5,739)	0
Total revenues, gains and other support	1,684,886	2,761,428	322,735	4,769,049
<b>EXPENSES</b>				
Program expenses				
Scholarships	393,709	0	0	393,709
Athletic programs	257,659	0	0	257,659
Faculty development	1,049	0	0	1,049
Fine arts	2,524	0	0	2,524
Alumni	21,735	0	0	21,735
Special projects	78,567	0	0	78,567
Total program expenses	755,243	0	0	755,243
Fundraising expenses	51,783	0	0	51,783
General and administration expenses	231,511	0	0	231,511
Total expenses	1,038,537	0	0	1,038,537
Increase (decrease) in net assets	646,349	2,761,428	322,735	3,730,512
Net assets, beginning of year	(989,968)	2,008,836	3,896,730	4,915,598
Net assets, end of year	(343,619)	4,770,264	4,219,465	8,646,110

The accompanying notes are an integral part of these financial statements.

**Montana State University-Northern Foundation**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
*for the year ended June 30, 2014, as restated*

	Unrestricted	Temporarily Restricted (as restated)	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Pledges & contributions	53,893	629,589	229,487	912,969
Other income	96,188	1,656	0	97,844
Interest & dividends	10,800	243,140	0	253,940
Contract revenue	170,203	0	0	170,203
Change in value of split interest agreements	(10,408)	(115,570)		(125,978)
Realized and unrealized gains and losses on investments	13,732	337,363	0	351,095
Released from restriction	646,378	(646,378)	0	0
Change in restriction	4,181	(31,771)	27,590	0
Total revenues, gains and other support	<u>984,967</u>	<u>418,029</u>	<u>257,077</u>	<u>1,660,073</u>
<b>EXPENSES</b>				
<b>Program expenses</b>				
Scholarships	337,252	0	0	337,252
Athletic programs	208,222	0	0	208,222
Faculty development	475	0	0	475
Fine arts	1,574	0	0	1,574
Alumni	43,598	0	0	43,598
Special projects	69,451	0	0	69,451
Total program expenses	<u>660,572</u>	<u>0</u>	<u>0</u>	<u>660,572</u>
Fundraising expenses	41,159	0	0	41,159
General and administration expenses	290,021	0	0	290,021
Uncollectible pledges expense	15,820	0	0	15,820
Total expenses	<u>1,007,572</u>	<u>0</u>	<u>0</u>	<u>1,007,572</u>
Asset transferred at donor's request	0	0	(5,000)	(5,000)
Increase (decrease) in net assets	(22,605)	418,029	252,077	647,501
Net assets, beginning of year as previously reported	(967,363)	1,597,411	3,644,653	4,274,701
Prior period adjustment	0	(6,604)	0	(6,604)
Net assets, beginning of year	<u>(967,363)</u>	<u>1,590,807</u>	<u>3,644,653</u>	<u>4,268,097</u>
Net assets, end of year	<u>(989,968)</u>	<u>2,008,836</u>	<u>3,896,730</u>	<u>4,915,598</u>

The accompanying notes are an integral part of these financial statements.

**Montana State University-Northern Foundation**

**STATEMENTS OF CASH FLOWS**

*for the years ended June 30,*

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	<b>3,730,512</b>	647,501
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	<b>861</b>	861
Net realized and unrealized losses (gains) on investments	<b>12,314</b>	(351,095)
Noncash and endowment contributions	<b>(324,536)</b>	(229,487)
Noncash change in carrying value of trusts and annuities	<b>4,616</b>	277,867
Change in operating assets and liabilities		
Pledges receivable	<b>(953,473)</b>	43,193
Accrued interest receivable	<b>9,858</b>	6,014
Other assets	<b>2,271</b>	4,800
Accrued expenses	<b>6</b>	0
Net cash provided by operating activities	<b>2,482,429</b>	399,654
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment purchases and sales	<b>(666,800)</b>	(324,471)
Payment of management fee	<b>(51,956)</b>	(41,823)
Payments received on notes receivable	<b>244,393</b>	158,522
Net cash used for investing activities	<b>(474,363)</b>	(207,772)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in endowment	<b>324,536</b>	229,487
Payment of trust and annuity obligations	<b>(176,259)</b>	(326,827)
Net cash used for financing activities	<b>148,277</b>	(97,340)
 Net increase (decrease) in cash and cash equivalents	<b>2,156,343</b>	94,542
 Cash and cash equivalents, beginning of year	<b>290,200</b>	195,658
 Cash and cash equivalents, end of year	<b>2,446,543</b>	290,200
 Supplemental disclosures:		
Cash paid for interest	<b>13,630</b>	25,908

The accompanying notes are an integral part of these financial statements.

## Montana State University-Northern Foundation

### NOTES TO THE FINANCIAL STATEMENTS

*for the years ended June 30, 2015 and 2014*

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Montana State University-Northern Foundation, (the Foundation) is a Montana not-for-profit corporation, composed of alumni and friends of Montana State University-Northern (MSUN) who are organized to promote and develop the University through fund raising activities. The Foundation's purpose is to accumulate funds to be used to develop, foster, and encourage excellence at Montana State University-Northern and to provide public awareness of the educational opportunities and activities of the University. The purposes of the Foundation are carried out by a board of trustees elected from the Foundation's membership.

##### Significant Accounting Policies:

1. Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
2. Cash and cash equivalents. Cash and cash equivalents includes savings and checking accounts, which are fully insured or collateralized. All highly liquid investments with a maturity of three months or less are considered to be cash equivalents.
3. Pledges receivable. Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions that are expected to be collected in more than one year are reported net of an allowance for uncollectable receivables. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises.
4. Notes receivable. The recorded value of notes receivable approximate their fair value as current interest rates approximate market rates. Interest income is accrued as earned. Management has not recorded an allowance for loan loss as of June 30, 2015 and 2014 as all notes are current with payment terms.
5. Investments. Investments in marketable equity and debt securities are recorded at fair market value using public market quotations. Investments in land are recorded at the fair market value at the date of donation. Realized and unrealized gains and losses are recognized in the statement of activities as a component of investment income (expense). For management efficiency, investments of the unrestricted and restricted net assets are pooled except for certain net assets that either the board of trustees or donors have designated to be segregated and maintained separately.
6. Assets limited as to use. Assets limited as to use consists of assets designated by the board for future capital improvements and as endowed assets for future earning to sustain continued operations and assets held for specific uses as designated by donors.
7. Furniture and equipment. Office equipment and furnishings purchased by the Foundation are recorded at cost net of accumulated depreciation. Donated property used by the Foundation is recorded at fair market value on the date contributed. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is provided by the straight-line method over the estimated useful lives of the assets which range from 5 to 10 years.

## Montana State University-Northern Foundation

### NOTES TO THE FINANCIAL STATEMENTS

*for the years ended June 30, 2015 and 2014*

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8. Basis of presentation. The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board. The financial statements of the Foundation have been prepared using the accrual basis of accounting. The Foundation classifies net assets, revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed restrictions that may be or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that the assets be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for specific or general purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

9. Contributions. Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation determines an allowance for uncollectible accounts based upon management's judgment about such factors as prior collection history, type of contribution, and nature of fundraising activity.
10. Donated property. The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless restricted by the donor. Donated property is recorded at fair value at the date of donation. Assets donated with explicit restrictions regarding their use are reported as restricted contributions.
11. Unitrust, annuity trust, and gift annuity agreements. The Foundation has entered into unitrust and annuity trust agreements that provide, among other matters, that the trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. The Foundation records its interest in these trusts at the current market value of the related assets and a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries with the residual amount recorded for the purposes designated when the gift is received. Upon termination of the income obligation, property in the trust is held by the Foundation in accordance with the donor's trust agreement.

## Montana State University-Northern Foundation

### NOTES TO THE FINANCIAL STATEMENTS

for the years ended June 30, 2015 and 2014

The Foundation has entered into gift annuity agreements that provide that the Foundation shall pay to the designated beneficiaries an annual amount for a designated length of time or until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. The Foundation records these gift annuities at market value and a corresponding liability is recorded for the actuarially determined present value of payments to be made to the designated beneficiaries, with the residual amount recorded for the purposes designated when the gift is received. At the end of the designated time period or upon the death of the designated beneficiaries, property in the gift annuity fund is held by the Foundation in accordance with the agreements.

12. Income tax status. The organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for Federal income taxes in the accompanying financial statements. In addition, the organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

As a matter of law, the organization is subject to examination by federal and state taxing authorities. Although management believes that the amounts reflected in their information returns substantially comply with the applicable federal and state tax regulations, both the IRS and the various state taxing authorities can take positions contrary to management's position based on their interpretation of the law. The organization has determined that they are subject to examination of their federal information return filings in the United States for the 2012 – 2014 tax years. A tax position that is challenged by a taxing authority could result in penalties and interest being assessed to the organization. If this occurred, the organization would record these as interest expense.

13. Functional allocation of expenses. The costs of the Foundation's various programs and activities have been summarized on the functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.
14. Reclassifications. Certain line items in the financial statements for the year ended June 30, 2014 have been reclassified, with no effect on the net income, to be consistent with the classifications adopted for the current year.

#### NOTE B PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Capital campaign for capital improvements on MSU-Northern campus	5,632	41,037
Diesel center campaign	1,012,985	840
Other pledges	2,013	2,132
Net present value discount	(38,116)	0
Allowance for uncollectible accounts	(1,000)	(15,968)
Total	<u>981,514</u>	<u>28,041</u>

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the years ended June 30, 2015 and 2014*

Pledges are expected to be collected in:

	<b>2015</b>	2014
Less than one year	<b>258,500</b>	19,421
One to five years	<b>723,014</b>	8,620
Total	<b>981,514</b>	28,041

**NOTE C NOTES RECEIVABLE**

Notes receivable consisted of the following at June 30:

	<b>2015</b>	2014
Note receivable from Montana State University-Northern; annual payments ranging from \$220,000 in 2015 to \$205,169 in 2019; interest of 6% per annum; unsecured.	<b>1,085,169</b>	1,305,169
Installment contract receivable, monthly payments of \$344 including interest at 5.5%, final payment due 2028, secured by property.	<b>40,336</b>	40,590
Installment contract receivable, monthly payments of \$679 including interest at 6.5%, final payment due 2017, secured by property.	<b>15,484</b>	22,385
Installment contract receivable, monthly payments of \$2,962 including interest at 6.0%, final payment due 2032, secured by property.	<b>382,118</b>	394,331
Installment contract receivable, monthly payments of \$1,375 including interest at 5.4%, final payment due 2037, secured by property.	<b>210,444</b>	215,469
	<b>1,733,551</b>	1,977,944
Current portion of notes receivable	<b>251,817</b>	<b>244,197</b>

	<b>2015</b>	2014
Unrestricted	<b>42,503</b>	50,669
Endowments	<b>736,265</b>	928,975
Trusts	<b>954,783</b>	998,300
	<b>1,733,551</b>	1,977,944

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**  
*for the years ended June 30, 2015 and 2014*

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**NOTE D FAIR VALUE MEASUREMENTS**

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Commercial/Government bonds and corporate stock:* Valued at the closing price reported on the active market on which the individual securities are traded.

The Foundation's assets at fair value (identified by level within the fair value hierarchy) as of June 30, 2015 were as follows:

	Total	Level 1	Level 2	Level 3
Real estate	172,133	0	0	172,133
Equity securities	3,518,038	3,518,038	0	0
Debt securities	676,206	676,206	0	0
Government securities	486,026	486,026	0	0
Total	4,852,403	4,680,270	0	172,133

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the years ended June 30, 2015 and 2014*

The Foundation's assets at fair value (identified by level within the fair value hierarchy) as of June 30, 2014 were as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Real estate	300,833	0	0	300,833
Equity securities	2,731,910	2,731,910	0	0
Debt securities	724,828	724,828	0	0
Government securities	388,390	388,390	0	0
Total	<u>4,145,961</u>	<u>3,845,128</u>	<u>0</u>	<u>300,833</u>

The following reconciles Level 3 inputs for the years ended June 30, 2015 and 2014:

Balance of Level 3 inputs as of June 30, 2013	341,258
Change in value of investments	<u>(40,425)</u>
Balance of Level 3 inputs as of June 30, 2014	300,833
Change in value of investments	<u>(128,700)</u>
Balance of Level 3 inputs as of June 30, 2015	<u><b>172,133</b></u>

**NOTE E INVESTMENTS**

Investments consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Real property and real asset funds	172,133	300,833
Equity securities	3,518,038	2,731,910
Debt securities	676,206	724,828
Government securities	486,026	388,390
Total	<u>4,852,403</u>	<u>4,145,961</u>

Investments consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Unrestricted investments	70,471	73,468
Endowment investments	3,913,963	3,190,112
Alumni investments	233,182	229,118
Trust investments	634,787	653,263
Total	<u>4,852,403</u>	<u>4,145,961</u>

Investment income for the years ended June 30 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	252,277	253,940
Realized and unrealized gains (losses) on investments carried at fair value	(12,314)	351,095
Total	<u>239,963</u>	<u>605,035</u>

Unrealized and realized gains are reported net of related expenses in the statement of activities. For the years ended June 30, 2015 and 2014 the related expenses were \$51,956 and \$41,823, respectively.

Montana State University-Northern Foundation

NOTES TO THE FINANCIAL STATEMENTS

for the years ended June 30, 2015 and 2014

**NOTE F FURNITURE AND EQUIPMENT**

Furniture and equipment, at cost, are summarized as follows at June 30:

	<u>2015</u>	<u>2014</u>
Office furniture	8,606	11,806
Computers, printers, and software	0	31,794
	<u>8,606</u>	<u>43,600</u>
Less accumulated depreciation	(5,873)	(40,006)
Total furniture and equipment	<u>2,733</u>	<u>3,594</u>

**NOTE G INTERFUND LOANS**

The Unrestricted fund of the Foundation has borrowed \$150,000 from the Foundation's endowment funds which it used to make a donation to MSU Northern for the purpose of reinstating a football program. The Unrestricted fund of the Foundation has borrowed \$304,329 from temporarily restricted contributions, which it used to make donations to MSU Northern for costs of the Applied Technology Center and costs for athletic programs. The Foundation's Unrestricted fund is paying annual interest only payments at the current market rate.

**NOTE H LIABILITY TO OTHER BENEFICIARIES**

Liabilities to other beneficiaries consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Borchert Trust - liability to others is 60% of the remaining trust balance upon maturity.	27,220	27,220
Ophus - Liability to others is 40% of remaining trust balance upon maturity.	33,207	30,524
Keene house liability to others upon maturity.	0	115,830
Miscellaneous small liabilities.	2,500	0
	<u>62,927</u>	<u>173,574</u>

**NOTE I ASSETS HELD FOR OTHERS**

Assets held for others is an endowment owned by Montana State University Northern that is invested by the Foundation. The balance at June 30, 2015 and 2014 was \$100,911.

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**  
*for the years ended June 30, 2015 and 2014*

**NOTE J LIABILITY UNDER TRUST AGREEMENTS**

Liabilities under trust agreements consisted of the following at June 30:

	2015	2014
Borchert Trust - Charitable Remainder Unitrust One - life 7.25% -Based upon present value using 2013 SSA life expectancy tables. Payments and liability are recalculated annually as determined by the investment balances at 12/31.	<b>14,551</b>	14,551
D Johnsrud - CRAT - \$54,020 annually paid in monthly installments at 7.3%. Based upon present value using 2013 SSA life expectancy tables.	<b>392,179</b>	406,987
Drummer Trust - Term of Years Remainder Annuity Trust - 5.75% Semi-annual payments of \$2,176 until December 2023.	<b>14,470</b>	15,758
Ophus Trust -Term of Years Unitrust - 20 year term matures December 2021. Payments and liability are recalculated annually as determined by the investment balances at 12/31.	<b>43,594</b>	49,451
Staudacher - CRAT - 7.25 %, payments \$33,950 annually, joint lives, based on present value using 2013 SSA life expectancy tables.	<b>275,498</b>	285,732
Worstell - CRAT - 7.25%, 20 year term matures December 2020, \$6,815 paid in quarterly payments of \$1,703.	<b>30,685</b>	35,075
C Johnsrud Trust - CRAT - 7.25%, Payments of \$5,705 annually, 20 year term matures 2020.	<b>24,342</b>	28,081
Watkins Trust - CRAT - 6.2%, payments of \$6,200 paid annually, joint lives based up on present value using 2013 SSA life expectancy tables.	<b>65,771</b>	67,496
Trust A Johnsrud - CRAT - 6.84%, 20 year term matures December 2026, \$7,828 paid in quarterly payments of \$1,957.	<b>60,173</b>	63,732
Trust B Johnsrud - CRAT - 6.84%, 20 year term matures December 2026, \$14,607 paid in quarterly payments of \$3,652.	<b>112,276</b>	118,917
Total liabilities under trust agreements	<b>1,033,539</b>	1,085,780
Current portion of liabilities under trust agreements	<b>57,203</b>	54,926
Long term liabilities under trust agreements	<b>976,336</b>	1,030,854
The five year payout for the trust obligations is:		
2016	57,203	
2017	59,532	
2018	62,240	
2019	60,274	
2020	72,798	
Thereafter	721,492	
	<b>1,033,539</b>	

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the years ended June 30, 2015 and 2014*

**NOTE K GIFT ANNUITY OBLIGATIONS**

The gift annuity obligations consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Hanson Annuity - Charitable Gift Annuity - 7.4%, joint lives based upon present value using the 2013 SSA life expectancy tables, payments of \$29,400 per year, paid bi-annually.	<b>285,667</b>	294,422
Current portion of gift annuity obligations	<b>8,985</b>	8,755
Long term gift annuity obligations	<b><u>276,682</u></b>	<u>285,667</u>

The five year payout for the annuity is:

2016	8,985
2017	9,073
2018	9,288
2019	9,349
2020	15,333
Thereafter	<u>233,639</u>
Total gift annuity	<b><u>285,667</u></b>

**NOTE L EMPLOYEE BENEFIT PLAN**

The Foundation is the sponsor of a 403(b) retirement plan. Under this plan, the Foundation will match 100% of an employee's elective salary deferral up to 6%. The employee elective deferral is limited to the maximum IRS rate. For the years ended June 30, 2015 and 2014 the Foundation's contributions to the plan were \$8,245 and \$7,821, respectively.

**NOTE M UNRESTRICTED NET ASSETS**

At June 30, 2015 and 2014 the unrestricted fund had negative net assets due to an excess of expenditures over revenues. This was primarily due to the support provided to the Applied Technology Center at MSU Northern. The Foundation has borrowed to provide this support and will repay the funds and restore the net assets from future contributions. A primary source of these contributions is anticipated to be trust funds currently managed by the Foundation. As the trusts reach their maturity the remaining funds will become unrestricted and will be available to restore the net assets.

Montana State University-Northern Foundation

NOTES TO THE FINANCIAL STATEMENTS

for the years ended June 30, 2015 and 2014

**NOTE N TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Scholarships	569,255	645,854
Restricted for trusts	500,863	516,519
Alumni	241,018	231,315
Community Projects	304,328	304,328
Diesel Center	2,836,134	0
Other	318,666	310,820
Total temporarily restricted net assets	<u>4,770,264</u>	<u>2,008,836</u>

**NOTE O PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of June 30 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Other Projects	46,786	46,364
Scholarships	4,172,679	3,850,366
Total permanently restricted net assets	<u>4,219,465</u>	<u>3,896,730</u>

**NOTE P ENDOWMENTS**

The Board of Trustees of the foundation has interpreted the Montana 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation classifies as permanently restricted net assets (1) the original value of gifts donated to all donor-restricted permanent endowments, (2) the original value of any subsequent gifts to donor-restricted permanent endowments, and (3) any accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted permanent endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization.

UPMIFA permits the foundation to appropriate for expenditure or accumulate so much of a donor restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Under the Foundation's endowment spending policy a variable percentage (set annually by the board of directors) of the prior year ending endowment value is budgeted for scholarship expenditures. The board of directors also annually sets a percentage of endowment fund earnings to be used for reasonable management costs of the investments. For the years ended June 30, 2015 and 2014, 3.25% was appropriated for scholarship expenditures and 2.75% was earmarked for management fees.

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the years ended June 30, 2015 and 2014*

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

Changes in net asset composition by type of fund for the years ended June 30, 2015 and 2014 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2013	64,960	3,644,653	3,709,613
Investment return:			
Interest and dividends	119,555	0	119,555
Net gains (realized and unrealized)	326,190	0	326,190
Total investment return	445,745	0	445,745
Gifts	0	229,487	229,487
Donor restriction changes		22,590	22,590
Management fees	0		
Appropriation of endowment assets for expenditure-spending rate	(116,944)	0	0
Endowment net assets June 30, 2014	393,761	3,896,730	4,290,491
Investment return:			
Interest and dividends	112,651	3,938	116,589
Net gains (realized and unrealized)	914	0	914
Total investment return	113,565	3,938	117,503
Gifts	96,297	324,536	420,833
Donor restriction changes	0	(5,739)	(5,739)
Administration fees	(112,712)		(112,712)
Appropriation of endowment assets for expenditure-spending rate	(117,648)	0	(117,648)
Endowment net assets June 30, 2015	<b>373,263</b>	<b>4,219,465</b>	<b>4,592,728</b>

## Montana State University-Northern Foundation

### NOTES TO THE FINANCIAL STATEMENTS

*for the years ended June 30, 2015 and 2014*

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*Return Objectives and Risk Parameters* - The Foundation has adopted investment and spending policies for endowment assets to maintain principle value while seeking to maximize investment return within the risk parameters. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). The absolute objective is to seek an average total annual return that exceeds the spending/payout rate plus fees and inflation. This objective is measured annually; the intent of this objective is to preserve, over time, the principal value of the assets. The relative objective is to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results annually. The Foundation expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives* - The assets will be managed on a total return basis. While the Foundation recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the Foundation's best interest on a risk-adjusted basis. Risk management of the investment program is focused on understanding both the investment and operational risks to which the Foundation's investments are exposed. The objective is to minimize operational risks and require appropriate compensation for investment risks which the Foundation is willing to accept.

#### **NOTE Q GIFT ANNUITIES**

The Foundation is subject to certain provisions of the Montana Code Annotated which specify that a charitable organization may only issue a "qualified charitable gift annuity" if it meets the following statutory requirements on the date of the annuity agreement:

- Has a minimum of \$300,000 net worth or has a minimum of \$100,000 in unrestricted cash, cash equivalents, or publicly traded securities, exclusive of the assets funding the annuity agreement;
- Has been in continuous operation for at least three years or is a successor or affiliate of a charitable organization that has been in continuous operation for at least three years; and
- Maintains a separate annuity fund with at least one-half the value of the initial amount transferred for outstanding annuities.

For the year ended June 30, 2015 and 2014, the Foundation does not have sufficient reserves to issue new qualified charitable gift annuities.

#### **NOTE R CONCENTRATION OF RISK**

The Foundation maintains deposits in excess of federally insured limits. FASB Accounting Standards Codification 275, Risks of Uncertainties, identifies these items as a concentration of credit risk requiring disclosures, regardless of the degree of risk. As of June 30, 2015 and 2014 the Foundation's deposits in excess of federally insured limits were \$1,058,945 and \$0, respectively.

**Montana State University-Northern Foundation**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the years ended June 30, 2015 and 2014*

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**NOTE S RELATED PARTY TRANSACTIONS**

The Foundation received the following payments from Montana State University-Northern:

	<u>2015</u>	<u>2014</u>
Annual fee for fundraising, donations and other service	<u>182,205</u>	<u>173,204</u>

The Foundation also had notes receivable from Montana State University-Northern of \$1,085,169 and \$1,305,169 at June 30, 2015 and 2014 respectively.

Certain operating costs of the Foundation are paid directly by Montana State University-Northern. These include costs associated with the free use of administrative office facilities, IT support, utilities, and certain other operating costs attributed to the Foundation. These costs are not included in the accompanying financial statements due to the difficulty of accurately determining their value.

**NOTE T PRIOR PERIOD ADJUSTMENT**

The Foundation has restated its previously issued 2014 financial statements for matters related to the following previously reported items: Temporarily restricted net assets decreased by \$6,604 as it was determined an amount held by the Foundation was actually owed to the Montana State University-Northern. As such, the liability assets held for others was increased \$6,604.

**NOTE U SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through the date of the auditor's report, which is the date these financial statements were available to be issued. There were no events between July 1, 2015 and the date of the auditor's report November 12, 2015 that require recognition as of June 30, 2015.