



**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
FINANCIAL STATEMENTS  
JUNE 30, 2016 and 2015**

**KEVIN T. KING & COMPANY, P.C.**  
  
CERTIFIED PUBLIC ACCOUNTANT

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**

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# KEVIN T. KING & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Montana State University Billings Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Montana State University Billings Foundation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University Billings Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

The financial statements of Montana State University Billings Foundation as of June 30, 2015, were audited by other auditors whose report dated September 25, 2015, expressed an unmodified opinion on those statements.

*Kevin T. King & Company, P.C.*

Kevin T. King & Company, P.C.  
Billings, Montana  
September 26, 2016

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

ASSETS		
	2016	2015
Assets		
Cash and cash equivalents	1,610,386	1,965,842
Contributions receivable, net	741,484	871,500
Accrued investment income	41,711	56,376
Investment in marketable equity securities	15,501,540	15,880,746
Investment in marketable debt securities	8,173,519	8,199,865
Investment in alternative securities	1,075,184	761,315
Other	146,507	155,636
Property and equipment, net	1,103,784	1,142,176
Total Assets	\$ 28,394,115	\$ 29,033,456

LIABILITIES AND NET ASSETS		
	2016	2015
Liabilities		
Accounts payable and accrued expenses	\$ 6,182	\$ 10,388
Accrued leave	22,012	17,318
Student scholarships payable	1,017,469	806,754
Liability on annuity contracts and trusts	374,234	344,462
Assets held in trust	1,592,804	1,672,775
Total Liabilities	3,012,701	2,851,697
Net Assets		
Unrestricted		
Undesignated	2,136,304	2,381,625
Board designated	2,331,221	2,464,977
	4,467,525	4,846,602
Temporarily restricted	7,102,060	7,927,464
Permanently restricted	13,811,829	13,407,693
	25,381,414	26,181,759
Total Liabilities and Net Assets	\$ 28,394,115	\$ 29,033,456

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Changes in Unrestricted Net Assets		
Revenues, gains and other support		
Contributions	\$ 207,728	\$ 297,893
In-kind contributions	36,000	36,000
Interest and dividend income	132,993	124,193
Rental revenue - net of rental expenses	458,985	469,919
Other revenues	71,924	16,320
Unrealized and realized net gain (loss) on investments	<u>(140,960)</u>	<u>47,426</u>
Total Support, Revenue and Reclassifications	766,670	991,751
Changes in net assets subject to restrictions		
Donor changes in restrictions	(11,998)	(39,154)
Expiration of time and purpose restrictions	<u>2,324,959</u>	<u>2,228,993</u>
Total unrestricted revenues, gains and other support	3,079,631	3,181,590
Programs		
Student scholarships	1,877,334	1,603,230
Academic programs	231,584	204,822
Campus projects	203,980	237,074
Campus and community outreach	410,847	455,040
Alumni relations	<u>102,625</u>	<u>117,338</u>
Total Program	2,826,370	2,617,504
Expenses		
General and administrative	160,777	194,690
Investment management and audit	146,193	151,220
Facilities and maintenance	36,000	36,000
Fund raising	173,432	197,399
Cultivation and stewardship	<u>115,936</u>	<u>135,830</u>
Total Expenses	<u>632,338</u>	<u>715,139</u>
Total Program and Expenses	<u>3,458,708</u>	<u>3,332,643</u>
Increase (decrease) in unrestricted net assets	\$ (379,077)	\$ (151,053)

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Changes in Temporarily Restricted Net Assets		
Revenues, gains and other support		
Contributions	\$ 1,606,170	\$ 1,606,206
In-kind contributions	76,919	36,274
Interest and dividend income	380,628	418,046
Other revenues	62,781	100,294
Unrealized and realized net gain (loss) on investments	<u>(639,441)</u>	<u>285,282</u>
Total Temporarily Restricted Support, Revenue and Reclassifications	1,487,057	2,446,102
Changes in net assets subject to restrictions		
Donor changes in restrictions	12,498	39,154
Expiration of time and purpose restrictions	<u>(2,324,959)</u>	<u>(2,228,993)</u>
Increase (decrease) in temporarily restricted net assets	(825,404)	256,263
Changes in Permanently Restricted Net Assets		
Revenues, gains and other support		
Contributions	419,268	241,580
Other revenues	8,364	21,815
Unrealized and realized net gain (loss) on investments	(22,996)	(10,006)
Changes in net assets subject to restrictions		
Donor change in restrictions	<u>(500)</u>	<u>-</u>
Increase (decrease) in permanently restricted net assets	<u>404,136</u>	<u>253,389</u>
Increase (decrease) in net assets	(800,345)	358,599
Net assets, beginning of year	<u>26,181,759</u>	<u>25,823,160</u>
Net assets, end of year	<u>\$ 25,381,414</u>	<u>\$ 26,181,759</u>

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (800,345)	\$ 358,599
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	67,303	67,303
Unrealized and realized (gains) on investments	803,397	(322,702)
Change in contributions receivable	130,016	(70,500)
Change in accrued investment income	14,665	(8,710)
Change in other assets	9,129	87,293
Change in accounts payable and accrued expenses	(4,206)	(5,055)
Change in accrued leave	4,694	(9,082)
Change in student scholarships payable	210,715	40,176
Change in annuity obligations	29,772	(31,328)
Contributions restricted for long-term investment	(419,268)	(241,580)
Other revenue restricted for long-term investment	(8,364)	(21,815)
Net cash provided by (used in) operating activities	37,508	(157,401)
Cash Flows From Investing Activities		
Proceeds from the sale of investments	2,814,001	5,900,441
Purchase of investments	(3,525,715)	(5,212,983)
Purchase of property and equipment	(28,911)	-
Change in assets held in trust	(79,971)	9,228
Net cash provided by (used in) investing activities	(820,596)	696,686
Cash Flows From Financing Activities		
Contributions and other revenue restricted for investment in endowment	427,632	263,395
Net cash provided by (used in) financing activities	427,632	263,395
Net increase (decrease) in cash and cash equivalents	(355,456)	802,680
Cash and cash equivalents, beginning of the year	1,965,842	1,163,162
Cash and cash equivalents, end of year	\$ 1,610,386	\$ 1,965,842
Supplemental Information		
Cash paid during the year for interest	\$ -	\$ -



**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1. NATURE OF ORGANIZATION**

Montana State University Billings Foundation (the Foundation) is a publicly supported, non-profit corporation. Montana State University Billings Foundation advances the goals of Montana State University Billings through the solicitation, investment and stewardship of financial support for the university. The foundation promotes philanthropy, campus and community partnerships, and educational opportunities.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting:** The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Classification of Net Assets:** In order to report limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation and financial statement presentation are maintained in accordance with requirements of the Financial Accounting Standards Board. This requires the Foundation to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**Unrestricted net assets** – Resources that are not restricted by donor-imposed stipulations. Generally these assets represent the operating assets of the Foundation.

**Temporarily restricted net assets** – Resources that are limited by donor stipulations that expire with the passage of time or upon completion of charitable goals. This category consists of undistributed earnings on permanent endowment funds and funds held for a specific project.

**Permanently restricted net assets** – Resources from donors to permanent endowments. The value of contributions to permanent endowments is never spent. Generally, the earnings on permanent endowments are classified as temporarily restricted until appropriated for expenditure based upon the Foundation's payout policy or other terms of the gift agreement. In some cases, the terms of the gift agreement require appreciated earning to also be permanently restricted.

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

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions (Continued):** The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Foundation does not accept gifts of non-cash assets which are inconsistent and not in accordance with the University's educational mission unless such assets can be converted into a form which allows the Foundation to further the role of the University.

**Donated Materials and Services:** The Foundation recognizes the fair value of donated materials and services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Foundation's various programs. The value of this unpaid volunteer time is not reflected in the accompanying financial statements since the value of these services cannot be objectively determined.

**Promises to Give:** Conditional promises to give to the Foundation are recorded as receivable in the period the promises are made. If the promise is to be fulfilled in more than a one-year period, the amount promised is discounted and recorded at the present value. The discount rate, based on the prime interest rate, was 4.25% as of June 30, 2016 and 2015. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying amounts reported on the statement of financial position approximate their fair value due to their short term maturity and/or liquidity. The Foundation' cash and cash equivalents were \$1,610,386 and \$1,965,842 as of June 30, 2016 and 2015, respectively.

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Concentrations of Credit Risk:** The Foundation's investment holdings are invested in accordance with the Foundation's investment policies. The policies require that equity and debt investments be diversified in order to provide reasonable assurance that investments in either a single security or single class of securities cannot have an excessive impact on the total investment portfolio.

The Foundation's investments are made in well-established, quality companies whose securities are readily marketable. The Foundation attempts to diversify its investment holdings across various industries as well as in various types of investment classes. At June 30, 2016 and 2015, the Foundation's investment in marketable equity securities included investments in corporations primarily in the financial, information technology, health care, consumer discretionary, and natural resources and energy industries. The Foundation's investments in marketable debt securities included bonds issued by domestic corporations, the United States Treasury, international governments and corporations and certificate of deposit.

Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

The Foundation's cash and cash equivalent balances are maintained in low-risk money market funds in bank and trust accounts. Periodically, cash balances are in excess of federally insured limits.

**Fair Value Measurements of Investments:** Investments are stated at fair value following applicable requirements of accounting policies generally accepted in the United States of America. Fair value is defined as the price the Foundation would receive upon selling an asset in an orderly transaction between market participants at the measurement date. Fair market values are determined by the most relevant available and observable inputs and are classified into three levels.

- |                |   |
|----------------|---|
| <b>Level 1</b> | Quoted prices in active markets for identical assets or liabilities. Example: listed securities.  |
| <b>Level 2</b> | Directly or indirectly observable inputs other than quoted prices included in Level 1. Example: thinly traded securities.                     |
| <b>Level 3</b> | Unobservable inputs that are not corroborated by market data and reflect the entity's assumptions for pricing. Example: private equity funds. |

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value Measurements of Investments (Continued):** Inputs are used in applying the valuation techniques and broadly refer to the assumptions that the Foundation uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, periodicals, newspapers, provisions with agreements with investment managers, and other factors. An investment's level within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

Investments in cash equivalents, mutual funds, debt securities, and certain domestic and international equities are valued based on quoted market prices, and are therefore, typically classified within Level 1.

Investment funds valued using net asset value per share (NAV) or its equivalent as reported by investment managers, which are audited AICPA guidelines and have trading activity and the quality to redeem at NAV on or near the reporting date, are included within Level 2.

Certain investments in hedge funds, private equity funds, or other private investments are valued utilizing unobservable inputs, and which have had not trading activity or cannot be redeemed at NAV or its equivalent on or near the reporting date and therefore, classified within Level 3. These assets are presented in the accompanying financial statements at fair value. the Foundation's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the Foundation's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the Foundation, through its monitoring activities, agrees with the fair market value as determined by the investment managers.

The general partners of the underlying investment partnerships generally value their investments at fair value and in accordance with accounting principles generally accepted in the United States of America. Investments with no readily available market are generally valued according to the market-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, and/or the investment, the amount the investment partnerships can reasonably expect to realize upon the sale of securities, and any other factors deemed relevant. An investment can be carried at acquisition price (cost) if little changed since the initial investment of the partnership and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value Measurements of Investments (Continued):** Although the Foundation uses its best judgment in determining fair value, the values presented herein are not necessarily indicative of the amount that the Foundation could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon redemption of the investments.

**Investments:** The Foundation pools its fund for the purposes of investing. The Investment Pool's assets are divided among cash, fixed income, equity, and alternative investments. Allocation among asset classes and investment managers is guided by the investment policy based upon an investment objective of growth and income. Earnings from the investment portfolios are prorated back to individual funds.

**Annuity Contracts and Trusts:** The Foundation is beneficiary of irrevocable planned gifts (split interest agreements) – gift annuities. The remainder amount of all planned gifts benefits funds that are permanently restricted and therefore planned gift assets are invest in the Investment Pool.

**Scholarships Payable:** Scholarships are recognized as liabilities at the time they are authorized for expenditure regardless of the year in which the scholarships are paid. Scholarship amounts are determined by the Foundation's payout policy or when a donor restriction supersedes the payout policy, according to the terms of the gift instrument.

**Property and Equipment:** The Foundation capitalizes all expenditures for property and equipment in excess of \$10,000. Property and equipment is recorded at historical cost if purchased or at fair market value at date of acquisition, if donated. Depreciation and amortization is provided using the straight-line method over estimated useful lives of the assets with such lives ranging from three to thirty-nine years. Depreciation expense is \$67,303 for the years ended June 30, 2016 and 2015.

**Income Tax Matters:** The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation complies with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such a derecognition, interest, penalties and disclosures required. As of June 30, 2016 and 2015, the Foundation had no uncertain tax positions requiring accrual.

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates:** The preparation of 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Subsequent Events:** Subsequent events are events or transactions that occur after year end but before the financial statements are issued. The Foundation recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about the conditions that did not exist at the date of the statement of financial position by arose after the statement of financial position date and before the financial statements were issued.

**NOTE 3. CONTRIBUTIONS RECEIVABLE**

Unconditional promises to give as of June 30, 2016 and 2015 are as follows:

	2016	2015
Receivable in less than one year	\$ 300,393	\$ 324,771
Receivable in one to five years	266,995	362,978
Receivable in more than five years	541,000	591,000
Unconditional promises to give	1,108,388	1,278,749
Less - discounts to net present value	(350,853)	(389,289)
Less - allowance for uncollectible promises receivable	(16,051)	(17,960)
Net unconditional promises to give	\$ 741,484	\$ 871,500

Promises to give in more than one year are discounted at 4.25% in 2016 and 2015.

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 4. OTHER ASSETS**

Other assets as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Inventory	\$ 2,000	\$ 3,000
Rent receivable	45,319	45,319
Investments in life insurance policies	45,063	45,442
Works of art	54,125	61,875
Total	\$ 146,507	\$ 155,636

The Foundation capitalizes its work of art collections. Accessions are capitalized at appraised or fair value at the date of accession. Gains and losses on deaccessions of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation.

The Foundation received gifts of life insurance policies from individual donors with face values ranging from \$10,000 to \$285,000.

The Foundation combined “investments in life insurance policies” with “other” assets due to its immaterial nature for reporting purposes as of June 30, 2016 and 2015. There is no impact on overall assets, the statement of financial position or net assets.

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment is carried at historical cost or donated value as disclosed in Note 2:

	2016	2015
Buildings and land	\$ 1,920,646	\$ 1,891,735
Pianos	206,700	206,700
Computer equipment and software	41,587	41,587
	2,168,933	2,140,022
Less accumulated depreciation	(1,065,149)	(997,846)
Property and equipment	\$ 1,103,784	\$ 1,142,176



**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments are carried at fair value and consist of the following at June 30:

	June 30, 2016			Total
	Level 1	Level 2	Level 3	
<b>Equity securities</b>				
Information technology industry	1,164,566			1,164,566
Financials	965,639			965,639
Health care industry	914,312			914,312
Consumer discretionary industry	455,643			455,643
Natural resources and energy	444,252			444,252
Other	1,457,974			1,457,974
Foreign entities	3,983,839			3,983,839
Mutual funds	6,115,315	-	-	6,115,315
<b>Total equity securities</b>	<b>15,501,540</b>	<b>-</b>	<b>-</b>	<b>15,501,540</b>
<b>Debt securities</b>				
Corporate bonds	6,356,499			6,356,499
US treasury notes	266,085			266,085
International bonds	606,296			606,296
Certificates of deposit	944,639			944,639
<b>Total debt securities</b>	<b>8,173,519</b>	<b>-</b>	<b>-</b>	<b>8,173,519</b>
<b>Alternative securities</b>				
Hedge fund investments		265,447		265,447
Private equity - global opportunities		602,249		602,249
Private equity - real estate			207,488	207,488
<b>Total alternative securities</b>	<b>-</b>	<b>867,696</b>	<b>207,488</b>	<b>1,075,184</b>
<b>Total Investments</b>	<b>\$ 23,675,059</b>	<b>\$ 867,696</b>	<b>\$ 207,488</b>	<b>\$ 24,750,243</b>



**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

	June 30, 2015			Total
	Level 1	Level 2	Level 3	
Corporate stocks	\$ 6,526,672	\$ -	\$ -	\$ 6,526,672
Corporate bonds	-	4,113,681	-	4,113,681
U.S. Government debt securities	427,537	-	-	427,537
Mutual funds	13,102,686	-	-	13,102,686
Other	671,350	-	-	671,350
Assets held in trust	(1,663,547)	(180,392)	-	(1,843,939)

Investment returns for the years ended June 30:

	2016	2015
Interest and Dividends	\$ 513,621	\$ 542,239
Realized and unrealized gains and (losses)	(803,397)	322,702
	<u>\$ (289,776)</u>	<u>\$ 864,941</u>

During the fiscal year ended June 30, 2015, the Board of Trustees of the Foundation revised its Investment and Distribution Policy Statement to allow for “Alternative Investments”. Alternative investments are defined as investments that are not otherwise classified as equity or fixed income securities. Allowable investments within this class include real estate, other commodities, hedge funds, and private equity as long as they are held as part of a diversified daily traded mutual fund, exchange traded fund and/or limited liability partnership. No direct real estate or holding of physical commodities is permissible unless specifically directed to be held by the Board of Trustees.

Alternative investments are less liquid than the Foundation’s other investments. In order to achieve the Foundation’s investment objectives regarding return and risk, investment in the alternative investments is desirable.

Unrealized gains (losses) on investments all relate to assets still held as of June 30, 2016 and 2015, are included in the lines realized and unrealized gains and losses on investments in the statement of activities for the years ended June 30, 2016 and 2015.

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 7. ANNUITY CONTRACTS AND TRUSTS**

The Foundation has entered into gift annuity agreements with donors whereby in exchange for the gift from the donor, the Foundation is obligated to provide an annuity to the donor or other designated beneficiary for a specific period of time. The Montana Tax Credit for Endowed Philanthropy provides significant tax advantages for donors to structure their charitable gifts in charitable gift annuities or in other planned gift arrangements. The Foundation has also been named as a beneficiary in charitable trusts.

A liability is recognized for the estimated present value of the commitments. The present value of the estimated future payments (\$374,234 and \$344,462 as of June 30, 2016 and 2015) is calculated using the American Council of Gift Annuities discount rate of 1.80% and 2.2% as of June 30, 2016 and 2015, respectively, and applicable mortality tables. The liability relating to gift annuity contributions for the years ending June 30, 2016 and 2015, respectively is \$29,377 and \$16,636. Charitable gift annuity agreements from members of the Board of Trustees are considered to be related party transactions. The liability relating to gift annuity contributions from Foundation Trustees for the years ending June 30, 2016 and 2015, respectively is \$2,838 and \$3,421.

**NOTE 8. ASSETS HELD IN TRUST**

The Foundation recognizes the assets held in trust for the Montana Center on Disabilities and the American Council on Rural Special Education as a liability. The Foundation and its Board of Trustees have no decision-making authority on these assets. The Foundation serves as the administrator of these assets. The following is a reconciliation of assets held in trust during the year ended June 30, 2016:

	2016
Balance beginning of year	\$ 1,672,775
Miscellaneous revenue	93
Interest and dividends	38,941
Realized/unrealized gains, net	(79,523)
Total income	1,632,286
Distribution of earnings	
Administrative fees	16,337
Program fees	23,145
Total expenses	39,482
Balance end of year	\$ 1,592,804

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**NOTE 9. IN-KIND CONTRIBUTIONS**

The value of donated materials and services included in the financial statements which are included as expenses for the years ended June 30, 2016 and 2015, respectively, are as follows:

	<u>2016</u>	<u>2015</u>
Campus projects	\$ 8,169	\$ 4,591
Academic projects	65,052	28,500
Cultivation and stewardship	3,698	3,183
Facilities and maintenance	36,000	36,000
	<u>\$ 112,919</u>	<u>\$ 72,274</u>

**NOTE 10. BOARD OF TRUSTEES DESIGNATED ASSETS**

The Foundation's Board of Trustees periodically designates nets assets that are otherwise unrestricted. Such designations imposed by the Board of Trustees are as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Academic projects	\$ 203,868	\$ 205,522
Campus projects	436,060	218,146
Campus and community outreach	54,532	255,437
Student scholarships	153,228	181,791
KBMY Trust	1,369,978	1,511,619
Other	113,555	92,462
	<u>\$ 2,331,221</u>	<u>\$ 2,464,977</u>

In May 1985, the Foundation's Board established the KBMY Trust from the proceeds of the sale of KBMY radio station, which had been donated to the foundation in 1983. The trust created a permanent endowment fund which is managed in accordance with the Foundation's investment and distribution policy. Distributions are used to support the Foundation's programs and activities.

**NOTE 11. INVESTMENT EXPENSES**

Expenses relating to investments revenues, including custodial fees and investment advisory fees, amount to \$122,856 and \$ 127,528 for the years ended June 30, 2016 and 2015, respectively, and are included in investment management and audit expenses.

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**NOTE 12. RETIREMENT PLAN**

The Foundation has a retirement plan covering all full-time employees. Under this plan, the Foundation will contribute to a retirement account selected by the employee. The amount of contribution is a percentage of the employee's base salary. This percentage is determined at the discretion of the Board of Trustees. The Foundation contributed \$29,072 and \$32,862 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 13. NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Academic projects	\$ 1,182,595	\$ 1,329,556
Alumni relations	44,188	45,210
Campus and community outreach	123,391	236,419
Campus projects	1,804,342	1,491,613
Student scholarships	3,947,544	4,824,666
	<u>\$ 7,102,060</u>	<u>\$ 7,927,464</u>

Permanently restricted net assets are restricted to:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Academic projects	\$ 1,931,724	\$ 1,925,613
Campus projects	1,500,243	1,500,243
Student scholarships	10,154,516	9,766,376
General and administrative	225,346	215,461
	<u>\$ 13,811,829</u>	<u>\$ 13,407,693</u>

**NOTE 14. INTERPRETATION OF RELEVANT LAWS**

**Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Montana Code Annotated [MCA] 72-30-101)** – The Board of Trustees in consultation with its legal counsel determined it holds net assets that meet the definition of endowment funds under UPMIFA. As a result, the Foundation classifies contributions made to endowment funds as permanently restricted net assets. The value is established on the date of the contribution. Earnings on endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Foundation unless required to be added to the corpus and then the earnings are classified as permanently restricted.

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**NOTE 14. INTERPRETATION OF RELEVANT LAWS (Continued)**

**Foundation's investment and payout policies – endowment funds** – The Foundation has adopted investment and spending policies for endowment assets that are designed and intended to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the Foundation's endowment assets. The Foundation's investment and payout policies work together to achieve these objectives. The investment policy attempts to establish an achievable return objective through diversification of and prescribed allocation amounts assets classes, restrictions on asset quality, and limitations on concentrations of holdings by sector and company. To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and income (interest and dividends). The Foundation's asset allocation places a greater emphasis on equity-based investments in order to achieve its long-term return objectives within prudent risk parameters.

The payout policy calculates the amount of money distributed annually from the Foundation's endowed funds. The payout policy was 4.5% of the three year daily average fund balance calculated each June 30 for the years reported. The payout policy is subject to annual review and modification by the Board of Trustees. Changes in the payout policy are guided by the standards described in UPMIFA.

**Qualified endowment credit (MCA 15-30-165)** – Montana law provides for a tax credit against Montana income tax liability for individuals and businesses in exchange from planned gifts made by an individual tax payer to a qualified endowment or a direct gift made by a business to a qualified endowment.

**Montana Charitable Gift Annuity Exemption Act (MCA 33-20-701)** – Montana law requires charitable organizations that offer charitable gift annuities to meet certain requirements set forth by the Montana Insurance Commissioner. Annual registration is required.

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**NOTE 15. ENDOWMENT FUNDS**

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 123,092	\$ 5,474,695	\$ 13,811,829	\$ 19,409,616
Board-designated endowment funds	<u>1,786,261</u>	<u>-</u>	<u>-</u>	<u>1,786,261</u>
Total endowment funds	<u>\$ 1,909,353</u>	<u>\$ 5,474,695</u>	<u>\$ 13,811,829</u>	<u>\$ 21,195,877</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 23,151	\$ 6,502,857	\$ 13,407,693	\$ 19,933,701
Board-designated endowment funds	<u>1,986,910</u>	<u>-</u>	<u>-</u>	<u>1,986,910</u>
Total endowment funds	<u>\$ 2,010,061</u>	<u>\$ 6,502,857</u>	<u>\$ 13,407,693</u>	<u>\$ 21,920,611</u>

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**NOTE 15. ENDOWMENT FUNDS (Continued)**

Change in donor restricted endowment net assets for the fiscal year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets June 30, 2015	\$ 2,010,061	\$ 6,502,857	\$ 13,407,693	\$ 21,920,611
Additions	-	10,421	427,132	\$ 437,553
Investment return:				
Interest and dividends	48,298	380,628	-	428,926
Net realized and unrealized gains	<u>(42,437)</u>	<u>(639,441)</u>	<u>(22,996)</u>	<u>(704,874)</u>
Total investment return	5,861	(258,813)	(22,996)	(275,948)
Appropriation of endowment assets	<u>(106,569)</u>	<u>(779,770)</u>	<u>-</u>	<u>(886,339)</u>
Endowment net assets, June 30, 2016	<u>\$ 1,909,353</u>	<u>\$ 5,474,695</u>	<u>\$ 13,811,829</u>	<u>\$ 21,195,877</u>

**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION  
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**NOTE 15. ENDOWMENT FUNDS (Continued)**

Change in donor restricted endowment net assets for the fiscal year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
June 30, 2014	\$ 2,047,106	\$ 6,546,367	\$ 13,154,304	\$ 21,747,777
Investment return:				
Interest and dividends	17,836	418,046	-	435,882
Net realized and unrealized gains	<u>30,841</u>	<u>285,282</u>	<u>(10,006)</u>	<u>306,117</u>
Total investment return	48,677	703,328	(10,006)	741,999
Additions	1,425	3,091	263,395	267,911
Appropriation of endowment assets	<u>(87,147)</u>	<u>(749,929)</u>	<u>-</u>	<u>(837,076)</u>
Endowment net assets, June 30, 2015	<u>\$ 2,010,061</u>	<u>\$ 6,502,857</u>	<u>\$ 13,407,693</u>	<u>\$ 21,920,611</u>

**NOTE 16. CONTRACT OF OPERATIONS**

The University and the Foundation have entered into a Contract of Operations, which provides that the Foundation will assist the University in accomplishing its educational goals. The University did not provide the Foundation with consideration with this agreement.

**NOTE 17. OPERATING LEASES**

In September 1996, the Foundation purchased an office building and land adjacent to the University campus. The Foundation assumed a number of commercial leases with the purchase. From the date of purchase to June 30, 2005, the building went through a transformation. The building was redesigned and renovated to fit the needs of the University. The construction was completed in stages, as office space became available and funds were secured. On June 30, 2005, the construction was complete and the entire building was available for University lease.



**MONTANA STATE UNIVERSITY BILLINGS FOUNDATION**  
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**NOTE 17. OPERATING LEASES (Continued)**

Beginning July 1, 2005, the Foundation and University entered into an agreement in which the University leases the entire building. The University is responsible for ongoing items such as maintenance, janitorial, utilities and insurance while the Foundation is responsible for capital improvements. Effective July 1, 2010 and again effective July 1, 2015, the Foundation and University entered into new five year leases with comparable terms.

Minimum future lease revenue is as follows:

<u>Year</u>	
2017	\$ 543,822
2018	543,822
2019	543,822
2020	543,822
Thereafter	-
Total	<u>\$ 2,175,288</u>

The Foundation recognized rental revenue – net of rental expenses for the year ended June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Rental revenue	\$ 543,822	\$ 543,822
Operating expenses	(25,646)	(14,785)
Property taxes	(2,223)	(2,150)
Depreciation	(56,968)	(56,968)
	<u>\$ 458,985</u>	<u>\$ 469,919</u>

In addition, the Foundation entered into a five year lease with the University commencing on July 1, 2010 and terminating on June 30, 2015 for its offices at 2615 Virginia Lane in Billings, Montana. The lease required monthly rental payments of \$3,000. Effective July 1, 2014 for the mutual benefit of the Foundation and the University, the parties agreed to terminate lease payments to the University and the facilities were provided to the Foundation as an in-kind contribution by the University during the years ended June 30, 2016 and 2015 at a value of \$36,000. The term of the new agreement is for one year and is renewable every year upon mutual agreement of the Foundation and the University. Accordingly, there are no future minimum lease payments required under the arrangement.