MONTANA STATE UNIVERSITY
BILLINGS FOUNDATION
Audited Financial Statements
June 30, 2015 and 2014

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MONTANA STATE UNIVERSITY BILLINGS FOUNDATION
Audited Financial Statements
June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Montana State University Billings Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Montana State University Billings Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Summers, McNea & Company, P.C.

Summers, McNea & Company, P.C.
September 25, 2015

STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 1,965,842	$ 1,163,162
Contributions receivable, net	871,500	801,000
Accrued investment income	56,376	47,666
Investment in marketable equity securities	15,880,746	17,032,233
Investment in marketable debt securities	8,199,865	8,174,449
Investment in alternative securities	761,315	-
Investment in life insurance policies	45,442	125,178
Other	110,194	117,751
Property and equipment, net	1,142,176	1,209,479
Total Assets	$ 29,033,456	$ 28,670,918
Liabilities		
Accounts payable and accrued expenses	$ 10,388	$ 15,443
Accrued leave	17,318	26,400
Student scholarships payable	806,754	766,578
Liability on annuity contracts and trusts	344,462	375,790
Assets held in trust	1,672,775	1,663,547
Total Liabilities	$ 2,851,697	$ 2,847,758
Net Assets		
Unrestricted		
Undesignated	$ 2,381,625	$ 2,646,002
Board designated	2,464,977	2,351,653
	$ 4,846,602	$ 4,997,655
Temporarily restricted	7,927,464	7,671,201
Permanently restricted	13,407,693	13,154,304
Total Net Assets	$ 26,181,759	$ 25,823,160
Total Liabilities and Net Assets	$ 29,033,456	$ 28,670,918

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

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2015 and 2014

	2015	2014
Changes in Unrestricted Net Assets		
Revenues, gains and other support		
Contributions	$ 297,893	$ 304,420
In-kind contributions	36,000	-
Interest and dividend income	124,193	100,955
Rental revenue - net of rental expenses	469,919	538,466
Other revenues	16,320	203,241
Unrealized and realized net gain (loss) on investments	47,426	426,297
	$ 991,751	$ 1,573,379
Changes in net assets subject to restrictions		
Donor changes in restrictions	(39,154)	(19,916)
Expiration of time and purpose restrictions	2,228,993	2,158,582
Total unrestricted revenues, gains and other support	$ 3,181,590	$ 3,712,045
Programs		
Student scholarships	$ 1,603,230	$ 1,474,233
Academic programs	204,822	179,188
Campus projects	237,074	277,165
Campus and community outreach	455,040	453,017
Alumni relations	117,338	109,834
Total Programs	$ 2,617,504	$ 2,493,437
Expenses		
General and administrative	$ 194,690	$ 197,331
Investments management and audit	151,220	141,774
Facilities and maintenance	36,000	36,000
Fund raising	197,399	232,377
Cultivation and stewardship	135,830	140,092
Total Expenses	$ 715,139	$ 747,574
Total Programs and Expenses	$ 3,332,643	$ 3,241,011
Increase (decrease) in unrestricted net assets	$ (151,053)	$ 471,034

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

STATEMENTS OF ACTIVITIES (Continued)
For the Years Ended June 30, 2015 and 2014

	2015	2014
Changes in Temporarily Restricted Net Assets		
Revenues, gains and other support		
Contributions	$ 1,606,206	$ 2,105,648
In-kind contributions	36,274	65,494
Interest and dividend income	418,046	349,149
Other revenues	100,294	68,515
Unrealized and realized net gain (loss) on investments	285,282	2,347,837
Changes in net assets subject to restrictions		
Donor changes in restrictions	39,154	11,301
Expiration of time and purpose restrictions	(2,228,993)	(2,158,582)
Increase (decrease) in temporarily restricted net assets	$ 256,263	$ 2,789,362
Changes in Permanently Restricted Net Assets		
Revenues, gains and other support		
Contributions	$ 241,580	$ 377,048
In-kind contributions	-	-
Other Revenues	21,815	23,874
Unrealized and realized net gain (loss) on investments	(10,006)	12,703
Changes in net assets subject to restrictions		
Donor changes in restrictions	-	8,615
Increase (decrease) in permanently restricted net assets	$ 253,389	$ 422,240
Increase (decrease) in net assets	$ 358,599	$ 3,682,636
Net assets, beginning of year	25,823,160	22,140,524
Net assets, end of year	$ 26,181,759	$ 25,823,160

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

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ 358,599	$ 3,682,636
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	67,303	78,064
Unrealized and realized net (gain) loss on investments	(322,702)	(2,786,837)
Gain realized on sale of property	-	(188,601)
Change in contributions receivable	(70,500)	240,100
Change in accrued investment income	(8,710)	9,462
Change in other assets	7,557	(21,028)
Change in accounts payable and accrued expenses	(5,055)	(3,642)
Change in accrued leave	(9,082)	(3,980)
Change in student scholarships payable	40,176	18,189
Change in annuity obligations	(31,328)	(24,538)
Contributions restricted for long-term investment	(241,580)	(377,048)
Other revenue restricted for long-term investment	(21,815)	(23,874)
Net cash provided by (used in) operating activities	$ (237,137)	$ 598,903
Cash Flows from Investing Activities		
Change in cash surrender value of life insurance	$ 79,736	$ (4,544)
Proceeds from sales of investments	5,900,441	5,983,753
Purchase of investments	(5,212,983)	(7,884,332)
Proceeds from sale of property	-	702,458
Change in assets held in trust	9,228	239,874
Net cash provided by (used) in investing activities	$ 776,422	$ (962,791)
Cash Flows from Financing Activities		
Contributions and other revenue restricted for investment in endowment	$ 263,395	$ 400,922
Net cash provided by financing activities	$ 263,395	$ 400,922
Net increase (decrease) in cash and cash equivalents	$ 802,680	$ 37,034
Cash and cash equivalents, beginning of year	1,163,162	1,126,128
Cash and cash equivalents, end of year	$ 1,965,842	$ 1,163,162
Supplemental Cash Flow Information		
Interest paid	$ -	$ -

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

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

Restricted Net Assets: Temporarily restricted net assets are the result of public support and revenues whose use by the Foundation is limited by donor imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those donor-imposed stipulations.

Permanently restricted net assets are the result of public support and revenues whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

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

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 donor stipulations regarding how long the donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired 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.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 2. Summary of Significant Accounting Policies (Continued)

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: Unconditional 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% at June 30, 2015 and 2014. 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 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 original maturities of three months or less to be cash equivalents. The Foundation's cash equivalents were $1,965,842 and $1,163,162 at June 30, 2015 and 2014 respectively.

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.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 2. Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued): 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 and investment managers. At June 30, 2015 and 2014, the Foundation's investment in marketable equity securities included investments in corporations primarily in the financial, capital goods, energy and utility industries as well as some mutual funds. The Foundation's investments in marketable debt securities included bonds issued by domestic corporations and the United States Treasury as well as some mutual funds.

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.

Investments: Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the balance sheet with the annual change in fair value being recorded as unrealized gains (losses) in current revenue and support for the year.

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 five to thirty-nine years. Depreciation expense was $67,303 and $78,064 for the years ended June 30, 2015 and 2014, respectively.

Income Tax Matters: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is deemed not to be a private foundation. Management asserts that no uncertain tax liabilities or positions exist for the years ending June 30, 2015 and 2014. The years of June 30, 2012 through June 30, 2015 remain open and subject to examination by federal and state taxing authorities.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

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.

Note 3. Contributions Receivable

Unconditional promises to give as of June 30, 2015 and 2014 are as follows:

	2015	2014
Receivable in less than one year	$ 324,771	$ 264,424
Receivable in one to five years	362,978	358,176
Receivable in more than five years	591,000	600,000
Total unconditional promises to give	$ 1,278,749	$ 1,222,600
Less – discounts to net present value	(389,289)	(401,300)
Less – allowance for uncollectible promises receivable	(17,960)	(20,300)
Net unconditional promises to give	$ 871,500	$ 801,000

Promises to give in more than one year are discounted at 4.25% in 2015 and 2014.

Note 4. Other Assets

Other assets at June 30, 2015 and 2014 consist of the following:

	2015	2014
Inventory	$ 3,000	$ 4,000
Prepaid Expenses	-	37,500
Rent Receivable	45,319	-
Works of art	61,875	76,251
Total	$ 110,194	$ 117,751

Inventory consists of cookbooks and wine valued at cost to be utilized in fund raising activities.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 4. Other Assets (Continued)

The Organization capitalizes its works of art collection. 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.

Note 5. Property and Equipment

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

	2015	2014
Buildings and land	$ 1,891,735	$ 1,891,735
Pianos	206,700	206,700
Computer equipment and software	41,587	41,587
	$ 2,140,022	$ 2,140,022
Less accumulated depreciation	(997,846)	(930,543)
Property and equipment	$ 1,142,176	$ 1,209,479

During the year ended June 30, 2014, the Foundation sold a building owned in downtown Billings, Montana for $750,000 and recognized a gain of $188,601 that is included in unrestricted other revenues in the accompanying statement of activities.

Note 6. Investments

The Foundation's investments are valued at their current market value based on the values determined by published sources. Investments are comprised of the following:

	June 30, 2015		June 30, 2014	
	Cost	Fair Value	Cost	Fair Value
Marketable equity securities	$11,999,632	$ 15,880,746	$ 12,302,305	$17,032,233
Marketable debt securities	$ 8,308,366	$ 8,199,865	$ 8,042,650	$ 8,174,449
Alternative securities	$ 811,655	$ 761,315	$ -	$ -

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 6. Investments (Continued)

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.

For the years ended June 30, 2015 and 2014, investment income consisted of the following:

	2015	2014
Interest and dividend income	$ 542,239	$ 450,104
Net realized and unrealized gains (losses)	322,702	2,786,837
Total investment income (losses)	$ 864,941	$ 3,236,941

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 ($344,462 and $375,790 at June 30, 2015 and 2014, respectively) is calculated using the American Council of Gift Annuities discount rate, which was 2.2% for both of the years ending June 30, 2015 and 2014, and applicable mortality tables. The liability relating to gift annuity contributions for the years ending June 30, 2015 and 2014, respectively is $16,636 and $30,496. 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, 2015 and 2014, respectively is $3,421 and $6,777.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 8. Assets Held in Trust

The Foundation recognizes the assets held in trust for the Montana Center for Inclusive Education as a liability. The Foundation and its Board of Trustees have no decision-making authority over these assets. The Foundation serves as the administrator of these assets.

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, 2015 and 2014, respectively, are as follows:

	2015	2014
Campus projects	$ 4,591	$ 15,486
Academic projects	28,500	39,279
Campus and community outreach	-	5,542
Cultivation and stewardship	3,183	5,187
Facilities and maintenance	36,000	-
	$ 72,274	$ 65,494

As disclosed in Note 19, the Foundation's facilities lease with Montana State University Billings was terminated effective for the year ended June 30, 2015 and the facilities were provided to the Foundation in-kind. The facilities and maintenance in-kind expense in the amount of $36,000 for the year ending June 30, 2015 noted above was attributable to the fair value of the leased facilities.

Note 10. Board of Trustees Designated Assets

The Foundation's Board of Trustees periodically designates net assets that are otherwise unrestricted. Designations have been made to funds for current use as well as to permanent endowments. The June 30th amount of Board of Trustees designated assets are as follows:

	2015	2014
Academic programs	$ 205,522	$ 203,775
Campus projects	218,146	248,363
Campus and community outreach	255,437	89,815
Student scholarships	181,791	206,151
KBMY Trust	1,511,619	1,511,619
Other	92,462	91,930
	$ 2,464,977	$ 2,351,653

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 10. Board of Trustees Designated Assets (Continued)

In May 1985, the Foundation's Board established the KBMY Trust from the proceeds of the sale of the 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 initiatives.

Note 11. Investment Expenses

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to $127,528 and $117,295 for the years ended June 30, 2015 and 2014, respectively, and are included in investment management and audit expenses.

Note 12. Life Insurance Policies

The Foundation received gifts of life insurance policies from individual donors with face values ranging from $10,000 to $285,000. The total face amount of life insurance policies to which the Foundation was beneficiary was $400,000 at June 30, 2014. During the year ended June 30, 2015, two policies with cash values totaling $80,232 were cancelled and the proceeds received by the Foundation. Remaining policies as of June 30, 2015 have face values ranging from $10,000 to $50,000 and total face values of $90,000. The cash values of the policies as of June 30, 2015 and 2014 were $45,442 and $125,178, respectively.

Note 13. 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 $32,862 and $32,303 for the years ended June 30, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Academic projects	$ 1,329,556	$ 1,327,779
Alumni relations	45,210	55,734
Campus and community outreach	236,419	209,935
Campus projects	1,491,613	1,294,541
Student scholarships	4,824,666	4,783,212
	$ 7,927,464	$ 7,671,201

Permanently restricted net assets are restricted to:

	2015	2014
Academic projects	$ 1,925,613	$ 1,922,668
Campus projects	1,500,243	1,483,428
Student scholarships	9,766,376	9,532,890
General and administrative	215,461	215,318
	$ 13,407,693	$ 13,154,304

Note 15. Permanently Restricted Net Assets

The Foundation has adopted the provisions of FASB ASC 958-250-45, *Not-for Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act.* The provision provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). The State of Montana enacted a version of UPMIFA in 2007.

The Foundation's endowment consists of approximately 235 individual funds established for a variety of purposes noted above. Its endowment includes both donor-restricted and board-designated endowment funds and funds to be held for more than one year which are subject to the investment policy. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 15. Permanently Restricted Net Assets (Continued)

Interpretation of Relevant Law **–** The Foundation's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Montana 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 (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 the donor-restricted endowment fund (primarily realized and unrealized gains and losses and investment income) is classified as temporarily restricted net assets or unrestricted net assets (based on the endowment's purpose) until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation 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

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

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 15. Permanently Restricted Net Assets (Continued)

Endowment net asset composition by type of fund consists of the following as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 37,680	$ 6,546,367	$13,154,304	$ 19,738,351
Board-designated endowment funds	2,009,426	-	-	2,009,426
Total endowment net assets	$ 2,047,106	$ 6,546,367	$13,154,304	$ 21,747,777

Changes in endowment net assets for the year ending June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	30,841	285,282	(10,006)	306,117
Total investment return	$ 48,677	$ 703,328	$ (10,006)	$ 741,999
Additions	$ 1,425	$ 3,091	$ 263,395	$ 267,911
Appropriation of endowment assets for expenditures	$ (87,147)	$ (749,929)	$ -	$ (837,076)
Endowment net assets, June 30, 2015	$2,010,061	$ 6,502,857	$13,407,693	$ 21,920,611

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 15. Permanently Restricted Net Assets (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2013	$1,825,342	$ 3,829,933	$12,732,064	$ 18,387,339
Investment return:				
Interest and dividends	$ 43,020	$ 349,149	$ -	$ 392,169
Net realized and unrealized gains	281,004	2,347,837	12,703	2,641,544
Total investment return	$ 324,024	$ 2,696,986	$ 12,703	$ 3,033,713
Additions	$ 90	$ 722,279	$ 409,537	$ 1,131,906
Appropriation of endowment assets for expenditures	$(102,350)	$ (702,831)	$ -	$ (805,181)
Endowment net assets, June 30, 2014	$2,047,106	$ 6,546,367	$13,154,304	$ 21,747,777

Return Objectives and Risk Parameters – 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 endowments while seeking to maintain the value of the endowment assets on an inflation adjusted basis. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

The Foundation has a policy for appropriating for distribution each year 4.5% of its endowment funds' average fair market value over a three year rolling average. When establishing the annual distribution percentage, the Foundation considers the long-term expected return on its endowment along with the factors on pages 14 and 15 for making a determination to appropriate or accumulate donor-restricted endowment funds. The Foundation seeks to earn a long-term total rate of return sufficient to produce growth of endowment assets net of a 4.5% distribution rate, inflation, and investment expenses. Actual returns in any year may vary from this amount. In the event endowments fall below historical cost, the policy provides for reduced distributions.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 16. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Passage of time or purpose restrictions accomplished resulted in the following reclassification between temporarily restricted net assets and unrestricted net assets:

	2015	2014
Academic projects	$ 196,688	$ 180,882
Alumni relations	13,470	9,062
Campus and community outreach	35,860	63,716
Campus projects	223,475	262,296
Student scholarships	1,742,832	1,620,206
Cultivation and stewardship	16,668	22,420
	$ 2,228,993	$ 2,158,582

An administrative allowance is charged to certain of the temporarily restricted funds' programs to offset expenses incurred by the unrestricted fund.

During the years ended June 30, 2015 and 2014, net assets that had previously been unrestricted were changed by the donors such that $39,154 and $19,916 as of June 30, 2015 and 2014, respectively, that had previously been unrestricted were changed by the donors such that $39,154 and $0 and $11,301 and $8,615 was reclassified to temporarily and permanently restricted net assets for the years ended June 30, 2015 and 2014, respectively.

Note 17. Fair Value Measurements

Generally accepted accounting principles require disclosure of the fair value of financial instruments, whether or not recognized in the statements of financial position. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both imposes a contractual obligation on one entity to deliver cash or another financial instrument to a second entity. The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

Note 17. Fair Value Measurements (Continued)

Financial Assets: Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents approximates fair value. For all investments, the fair value is based upon quoted market prices. The fair value of accounts and interest receivable approximates book value as the Foundation expects contractual receipt in the near-term. The fair value of contributions receivable approximates book value as the Foundation records contributions receivable at their present value.

Financial Liabilities: For all assets held in trust, the fair value is based upon quoted market prices. The fair value of accounts payable and accrued expenses approximates book value due to contractual payment in the near-term.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Foundation's entire holdings of a particular instrument.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. A three-level hierarchy for fair value measurements is based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes 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, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 17. Fair Value Measurements (Continued)

Financial assets and liabilities measured at fair value on a recurring basis at June 30, 2015 consisted of the following:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Corporate stocks	$ 6,526,672	$ 6,652,672	$ -	$ -
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)	(1,483,155)	(180,392)	-

Financial assets and liabilities measured at fair value on a recurring basis at June 30, 2014 consisted of the following:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Corporate stocks	$ 7,230,577	$ 7,230,577	$ -	$ -
Corporate bonds	3,578,873	-	3,578,873	-
U.S. Government debt securities	798,800	798,800	-	-
Mutual funds	13,598,432	13,598,432	-	-
Assets held in trust	(1,663,547)	(1,483,155)	(180,392)	-

Note 18. 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.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

Note 19. 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.

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.

In December 2006, the Foundation purchased a building and land at 112 North 28th Street in Billings. Beginning on January 1, 2007, the Foundation entered into a five year lease agreement in which the University leased the entire building. In April 2010, the Foundation entered into a five year lease agreement, effective July 1, 2010, which supersedes the December 2006 agreement. As discussed in Note 5, during the year ended June 30, 2014, the property was sold.

With both leases, the University is/was responsible for ongoing items such as maintenance, janitorial, utilities and insurance, while the Foundation is/was responsible for capital improvements.

Minimum future lease revenue for the years ending June 30th is as follows

2016	$ 543,822
2017	543,822
2018	543,822
2019	562,575
2020	562,575
Thereafter	-
	$2,756,616

Note 19. Operating Leases (Continued)

The Foundation recognized Rental Revenue – net of rental expenses for the year ended June 30, 2015 and 2014 consists of the following:

	2015	2014
Rental revenue	$ 543,822	$ 622,154
Operating expenses	(14,785)	(13,900)
Property taxes	(2,150)	(2,059)
Depreciation	(56,968)	(67,729)
Net rental revenue	$ 469,919	$ 538,466

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. The lease required monthly rental payments of $3,000. The Foundation recognized $36,000 of rental expense related to the lease for the year ended June 30, 2014. 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 year ended June 30, 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.

Note 20. Other Matters

The Foundation was notified of an upcoming estate distribution to a donor advised fund which is to provide scholarships for specific MSU Billings students for the next 20 years. The distribution from the estate is estimated to be in the range of $2,500,000 to $3,000,000 and is expected to be made during the 2015-16 academic year. The funds are to flow through an independent, third party organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, the Morgan Stanley Global Impact Funding Trust, Inc. (MS GIFT). That organization is responsible for investing and administering the funds in accordance with the donor's guidelines. Although donors to MS GIFT have certain rights to make recommendations to MS GIFT, contributions to MS GIFT become the legal property of MS GIFT when the irrevocable contributions are made.

NOTES TO FINANCIAL STATEMENTS
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Note 20. Other Matters (Continued)

Assuming the University has enough students meeting the specific scholarship criteria outlined in the donor advised fund, we anticipate the donor advised fund will contribute between $140,000 and $190,000 to the foundation for student scholarships annually for the next 20 years. We anticipate the University will have enough students meeting specific scholarship criteria to utilize the funds.

Note 21. Subsequent Events

Management has evaluated subsequent events through September 25, 2015, the date on which the financial statements were available to be issued, and is unaware of any subsequent events required to be disclosed under generally accepted accounting principles.