



Financial Statements  
June 30, 2016 and 2015

# Montana State University-Northern Foundation

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## Independent Auditor's Report

The Board of Trustees  
Montana State University-Northern Foundation  
Havre, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of Montana State University-Northern Foundation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year 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-Northern Foundation as of June 30, 2016, and the results of its changes in 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 Matter**

The financial statements of Montana State University-Northern Foundation as of June 30, 2015, were audited by other auditors, whose report dated November 12, 2015, expressed an unmodified opinion on those statements.

*Eide Sallee LLP*

Billings, Montana  
November 1, 2016

Montana State University-Northern Foundation  
Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 154,128	\$ 214,883
Promises to give, net	973,947	981,514
Accrued interest receivable	1,470	1,896
Notes receivable	33,887	42,503
Investments	140,980	57,471
Property held for investment	-	13,000
Assets held for donor restricted purposes		
Cash and cash equivalents	3,003,327	2,231,660
Investments	4,507,552	4,622,799
Notes receivable	1,439,363	1,691,048
Property held for investment	159,133	159,133
Accrued interest receivable	37,356	46,625
Property and equipment, net of accumulated depreciation of \$7,095 in 2016 and \$5,873 in 2015	5,244	2,733
Artwork	65,395	53,895
Other assets	10,000	10,000
	\$ 10,531,782	\$ 10,129,160
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ -	\$ 6
Assets held in custody for others	100,911	100,911
Liabilities under split-interest agreements	1,309,069	1,382,133
	1,409,980	1,483,050
<b>Net Assets</b>		
Unrestricted (deficit)	(319,907)	(343,619)
Temporarily restricted	5,119,552	4,770,264
Permanently restricted	4,322,157	4,219,465
	9,121,802	8,646,110
Total net assets	9,121,802	8,646,110
	\$ 10,531,782	\$ 10,129,160
Total liabilities and net assets	\$ 10,531,782	\$ 10,129,160

Montana State University-Northern Foundation

Statement of Activities  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Support, and Gains</b>				
Contributions	\$ 49,909	\$ 1,295,356	\$ 53,315	\$ 1,398,580
Management service revenue	182,579	-	-	182,579
Net investment return	21,120	114,930	-	136,050
Change in value of split-interest agreements	(20,415)	(93,538)	-	(113,953)
Other income and support	8,311	11,452	-	19,763
Reclassification of donor intent	753	(50,130)	49,377	-
Net assets released from restrictions	928,782	(928,782)	-	-
Total revenue, support, and gains	<u>1,171,039</u>	<u>349,288</u>	<u>102,692</u>	<u>1,623,019</u>
<b>Expenses and Losses</b>				
Program expenses				
Scholarships	365,833	-	-	365,833
Athletic programs	328,173	-	-	328,173
Special projects	77,347	-	-	77,347
Alumni	19,029	-	-	19,029
Other programs	21,003	-	-	21,003
Total program expenses	<u>811,385</u>	<u>-</u>	<u>-</u>	<u>811,385</u>
Supporting services expense				
Management and general	278,342	-	-	278,342
Fundraising and development	44,600	-	-	44,600
Total supporting services expenses	<u>322,942</u>	<u>-</u>	<u>-</u>	<u>322,942</u>
Impairment of property held for investment	13,000	-	-	13,000
Total expenses and losses	<u>1,147,327</u>	<u>-</u>	<u>-</u>	<u>1,147,327</u>
Change in Net Assets	23,712	349,288	102,692	475,692
Net Assets (Deficit), Beginning of Year	<u>(343,619)</u>	<u>4,770,264</u>	<u>4,219,465</u>	<u>8,646,110</u>
Net Assets (Deficit), End of Year	<u>\$ (319,907)</u>	<u>\$ 5,119,552</u>	<u>\$ 4,322,157</u>	<u>\$ 9,121,802</u>

Montana State University-Northern Foundation

Statement of Activities  
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Support, and Gains</b>				
Contributions	\$ 587,308	\$ 3,547,760	\$ 324,536	\$ 4,459,604
Management service revenue	182,205	-	-	182,205
Net investment return	13,606	222,419	3,938	239,963
Change in value of split-interest agreements	(10,323)	(102,715)	-	(113,038)
Other income and support	4,416	7,900	-	12,316
Reclassification of donor intent	(8,068)	13,807	(5,739)	-
Net assets released from restrictions	927,743	(927,743)	-	-
<b>Total revenue, support, and gains</b>	<b>1,696,887</b>	<b>2,761,428</b>	<b>322,735</b>	<b>4,781,050</b>
<b>Expenses and Losses</b>				
<b>Program expenses</b>				
Scholarships	393,709	-	-	393,709
Athletic programs	257,659	-	-	257,659
Special projects	78,567	-	-	78,567
Alumni	21,735	-	-	21,735
Other programs	3,573	-	-	3,573
<b>Total program expenses</b>	<b>755,243</b>	<b>-</b>	<b>-</b>	<b>755,243</b>
<b>Supporting services expense</b>				
Management and general	243,512	-	-	243,512
Fundraising and development	51,783	-	-	51,783
<b>Total supporting services expenses</b>	<b>295,295</b>	<b>-</b>	<b>-</b>	<b>295,295</b>
<b>Total expenses and losses</b>	<b>1,050,538</b>	<b>-</b>	<b>-</b>	<b>1,050,538</b>
Change in Net Assets	646,349	2,761,428	322,735	3,730,512
Net Assets (Deficit), Beginning of Year	(989,968)	2,008,836	3,896,730	4,915,598
Net Assets (Deficit), End of Year	\$ (343,619)	\$ 4,770,264	\$ 4,219,465	\$ 8,646,110

Montana State University-Northern Foundation

Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 475,692	\$ 3,730,512
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,222	861
Impairment of property held for investment	13,000	-
Realized and unrealized (gain) loss on investments	20,687	(39,642)
Change in present value of discount on promises to give	-	38,116
Change in allowance for uncollectible promises to give	-	(14,968)
Contributions restricted to endowment	(53,315)	(324,536)
Contributions of artwork	(11,500)	-
Change in value of liabilities under split-interest agreements	113,953	113,038
Changes in operating assets and liabilities		
Promises to give	7,567	(976,621)
Accrued interest receivable	9,695	9,858
Other assets	-	2,271
Accounts payable and accrued liabilities	(6)	6
Net Cash from Operating Activities	<u>576,995</u>	<u>2,538,895</u>
Cash Flows from Investing Activities		
Purchases of investments	(795,194)	(3,343,321)
Proceeds from sales of investments	806,245	2,676,521
Purchases of property and equipment	(3,733)	-
Receipts on notes receivable	260,301	244,393
Net Cash used for Investing Activities	<u>267,619</u>	<u>(422,407)</u>
Cash Flows from Financing Activities		
Collections of contributions restricted to endowment	53,315	324,536
Payments to beneficiaries of split-interest agreements	(187,017)	(284,681)
Net Cash from Financing Activities	<u>(133,702)</u>	<u>39,855</u>
Net Change in Cash and Cash Equivalents	710,912	2,156,343
Cash and Cash Equivalents, Beginning of Year	<u>2,446,543</u>	<u>290,200</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,157,455</u>	<u>\$ 2,446,543</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure of Non-Cash Transactions		
Artwork received as gifts	<u>\$ 11,500</u>	<u>\$ -</u>



## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Montana State University-Northern Foundation, (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 MSUN through fund raising activities. The Foundation's purpose is to accumulate funds to be used to develop, foster, and encourage excellence at MSUN and to provide public awareness of the educational opportunities and activities of MSUN. The purposes of the Foundation are carried out by a board of trustees elected from the Foundation's membership.

### **Cash and Cash Equivalents**

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

### **Notes Receivable**

Notes receivable represent amounts from uncollateralized obligations due under extended payments terms exceeding one year. The notes carry interest rates varying from 5.4% - 6.0%, with payments applied first to unpaid interest balances and any remainder to the principal balance. The Foundation evaluates the collectability of the balances based upon historical experience and the specific circumstances of individual notes, with an allowance for uncollectible amounts being provided, if necessary.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment management and custodial fees.

For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain assets that the Board of Trustees or the donors have designated to be segregated and maintained separately.

**Property Held for Investment**

Property held for investment consists of land and buildings. Property held for investment is recorded at cost or if donated, the fair value of the property as of the date of the donation. Property held for investment is periodically reviewed for impairment. For the years ended June 30, 2016 and 2015, \$13,000 and \$-0- impairment charge has been recorded, respectively. All of the assets included in property held for investment will eventually be used to support MSU-Northern.

**Property and Equipment**

Property and equipment additions are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 10 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2016 and 2015.

**Artwork**

Artwork consists of principally of donated paintings, photographs and sculptures is recorded at the fair value of the artwork as of the date of the donation. The artwork is periodically reviewed for impairment. For the years ended June 30, 2016 and 2015, no impairment charge has been recorded.

**Assets Held and Liabilities under Split-Interest Agreements***Charitable Trusts*

The Foundation acts as trustee for various revocable and irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace the Foundation as the beneficiary of the trust, the Foundation records the assets placed in trust at fair value, with an equal and offsetting liability until such time the Foundation receives distributions from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a temporarily or permanently restricted contribution until such amount is received via trust distribution and/or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any, at which time temporarily restricted net assets are released to unrestricted net assets and permanently restricted net assets are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the trust, the remaining liability, if any, is removed and recognized as income.

### *Charitable Gift Annuities*

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability.

The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

### **Assets Held by 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, 2016 and 2015 was \$100,911.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Trustees for operating reserve and quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Trustees.

The Foundation reports contributions as temporarily restricted support 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.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

### **Reclassification of Donor Intent**

At times, the Foundation receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests are reviewed by the Foundation for approval, and if approved, may result in the reclassification of net assets between unrestricted, temporarily restricted, or permanently restricted net assets. These reclassifications are reflected in the statements of activities for the years ended June 30, 2016 and 2015 as reclassification of donor intent.

**Revenue and Revenue Recognition**

Revenue from exchange transactions, investment activities, management fees, other fees and charges, and non-contribution related revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Donated Services and In-Kind Contributions**

Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received. The financial statements do not reflect the value of any donated services, as they do not meet the recognition criteria prescribed by generally accepted accounting principles.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes**

The Foundation is organized as a Montana nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). Accordingly, contributions to it qualify for the charitable contribution deduction under section 170(b)(1)(A). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any income tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**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 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 and those differences could be material.

**Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash and investments with financial institutions and investment brokerage firms believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds held at financial institutions. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts and notes receivable and promises to give is considered to be limited due to high historical collection rates.

Investments are made by an investment manager whose performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

**Subsequent Events**

The Foundation has evaluated subsequent events through November 1, 2016, the date the financial statements were available to be issued.

**Reclassifications**

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

**Note 2 - Fair Value of Assets and Liabilities**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of equity securities with readily determinable fair values based on daily market prices or redemption values. Corporate and government bonds that are not held in mutual funds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions. These are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at June 30, 2016 and 2015:

		<u>Fair Value Measurements at Report Date Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Total</u>				
2016				
Investments				
Equity securities	\$ 3,444,564	\$ 3,444,564	\$ -	\$ -
Corporate bonds	657,270	-	657,270	-
Government bonds	546,698	-	546,698	-
	<u>\$ 4,648,532</u>	<u>\$ 3,444,564</u>	<u>\$ 1,203,968</u>	<u>\$ -</u>
2015				
Investments				
Equity securities	\$ 3,518,038	\$ 3,518,038	\$ -	\$ -
Corporate bonds	676,206	-	676,206	-
Government bonds	486,026	-	486,026	-
	<u>\$ 4,680,270</u>	<u>\$ 3,518,038</u>	<u>\$ 1,162,232</u>	<u>\$ -</u>

**Note 3 - Net Investment Return**

Net investment return consists of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 213,389	\$ 252,277
Net realized and unrealized gain (loss)	(20,687)	39,642
Less investment management and custodial fees	(56,652)	(51,956)
	\$ 136,050	\$ 239,963

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at June 30, 2016 and 2015:

	2016	2015
Within one year	\$ 297,663	\$ 267,630
In one to five years	715,400	753,000
	1,013,063	1,020,630
Less discount to present value 2%	(38,116)	(38,116)
Less allowance for uncollectible promises to give	(1,000)	(1,000)
	\$ 973,947	\$ 981,514

At June 30, 2016, two donors accounted for approximately 80% of gross promises to give.

**Note 5 - Notes Receivable**

Notes receivable consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
6% note receivable from Montana State University-Northern, due in annual principal installments of \$220,000, to October 1, 2018 and \$205,169 on October 1, 2019, plus interest, unsecured	\$ 865,169	\$ 1,085,169
6% contract receivable, due in monthly payments of \$2,962, including interest, to June 2025, secured by property	369,151	382,118
5.4% contract receivable, due in monthly payments of \$1,375, including interest, to May 2037, secured by property	205,190	210,444
5.5% contract receivable, due in monthly payments of \$344, including interest, to January 2027, secured by property	33,740	40,336
6.5% contract receivable	<u>-</u>	<u>15,484</u>
	<u>\$ 1,473,250</u>	<u>\$ 1,733,551</u>

Notes receivable are included in the statements of financial position as of June 30, 2016 and 2015 as follows:

Notes receivable, held for donor restricted purposes	\$ 1,439,363	\$ 1,691,048
Notes receivable	<u>33,887</u>	<u>42,503</u>
	<u>\$ 1,473,250</u>	<u>\$ 1,733,551</u>

**Note 6 - Endowments**

The Foundation's endowment (the Endowment) consists of approximately 120 individual funds established by donors to provide annual funding for specific activities and general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Trustees 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, unless there are explicit donor stipulations to the contrary. At June 30, 2016 and 2015, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.



The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by 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 organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources and the investment policies of the organization

The Foundation had the following endowment net asset composition by type of fund as of June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2016				
Donor-restricted for permanent endowment	<u>\$ -</u>	<u>\$ 253,660</u>	<u>\$ 4,322,157</u>	<u>\$ 4,575,817</u>
June 30, 2015				
Donor-restricted for permanent endowment	<u>\$ -</u>	<u>\$ 373,263</u>	<u>\$ 4,219,465</u>	<u>\$ 4,592,728</u>

### Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Under the Foundation's endowment spending policy a variable percentage (set annually by the Board of Trustees) of the prior year ending endowment value is budgeted for scholarship expenditures. The Board of Trustees 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, 2016 and 2015, 3.25% was appropriated for scholarship expenditures and 2.75% was earmarked for management fees.

Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

With the exception of certain permanently restricted contributions that the donor requires to be separately invested, all permanently restricted contributions are consolidated in an investment pool. Appreciation, depreciation, income, and expense relative to the pooled endowment investments are allocated to each endowment based upon the ratio of that endowment's investment balance to the total investment pool and are shown as a change in temporarily restricted net assets.

Montana State University-Northern Foundation  
Notes to Financial Statements  
June 30, 2016 and 2015

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Changes in Endowment net assets for the year ended June 30, 2016 and 2015 are as follows:

Change in Endowment Assets 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 373,263	\$ 4,219,465	\$ 4,592,728
Investment return				
Interest and dividend income	-	116,206	-	116,206
Net realized and unrealized gain (loss)	-	(85,402)	-	(85,402)
	-	30,804	-	30,804
Contributions	-	-	53,315	53,315
Reclassification of donor intent	-	-	49,377	49,377
Appropriation of endowment assets pursuant to spending-rate policy	-	(150,407)	-	(150,407)
Endowment net assets, end of year	\$ -	\$ 253,660	\$ 4,322,157	\$ 4,575,817

Change in Endowment Assets 2015

Endowment net assets, beginning of year	\$ -	\$ 393,761	\$ 3,896,730	\$ 4,290,491
Investment return				
Interest and dividend income	-	112,651	3,938	116,589
Net realized and unrealized gain (loss)	-	914	-	914
	-	113,565	3,938	117,503
Contributions	-	-	324,536	324,536
Reclassification of donor intent	-	-	(5,739)	(5,739)
Appropriation of endowment assets pursuant to spending-rate policy	-	(134,063)	-	(134,063)
Endowment net assets, end of year	\$ -	\$ 373,263	\$ 4,219,465	\$ 4,592,728

**Note 7 - Restricted Net Assets****Temporarily Restricted**

Temporarily restricted net assets at June 30, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
Diesel center	\$ 3,267,705	\$ 2,836,134
Scholarships	401,681	569,255
Restricted for trusts	495,736	500,863
Community projects	304,328	304,328
Alumni	266,664	241,018
Athletics	124,995	58,819
Other	258,443	259,847
	<u>\$ 5,119,552</u>	<u>\$ 4,770,264</u>

Net assets were released from restrictions as follows during the year ended June 30, 2016 and 2015:

Scholarships	\$ 365,833	\$ 372,419
Athletics	328,173	257,659
Restricted for trusts	70,325	77,744
Diesel center	12,956	43,761
Other	151,495	176,160
	<u>\$ 928,782</u>	<u>\$ 927,743</u>

**Permanently Restricted**

Permanently restricted net assets consist of charitable remainder trusts, charitable gift annuities, and endowment funds restricted by donors for investment in perpetuity. Earnings on endowment funds are available for the purposes specified by the donors, or in certain cases, for the unrestricted use of the Foundation. The permanently restricted net asset balances are as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 4,046,480	\$ 3,944,118
Other	275,677	275,347
	<u>\$ 4,322,157</u>	<u>\$ 4,219,465</u>

**Note 8 - Employee Benefit Plan**

The Foundation is the sponsor of a 403(b) retirement plan covering substantially all employees. Under this plan, the Foundation will match 100% of an employee's elective salary deferral up to 6% of the employee's compensation. For the years ended June 30, 2016 and 2015, the Foundation's contributions to the plan were \$8,748 and \$8,245, respectively.

**Note 9 - Related Party Transactions**

The Foundation received a management fee for fundraising and other services from Montana State University-Northern of \$182,579 and \$182,205 for the years ended June 30, 2016 and 2015, respectively. The Foundation also has a 6% note receivable from Montana State University-Northern of \$865,169 and \$1,085,169 as of June 30, 2016 and 2015, respectively.

**Note 10 - Interfund Loan**

The Foundation has transferred funds from the Foundation's endowment funds, which it used to make a donation to MSUN for the purpose of reinstating its football program. The Foundation has also transferred funds from temporarily restricted contributions, which it used to make donations to MSUN for costs of the Applied Technology Center and costs for athletic programs.

The funds are to be repaid to the endowment and temporarily restricted net assets plus interest at 3%. The balance outstanding to be repaid as of June 30, 2016 and 2015 is \$454,329.

**Note 11 - Charitable 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.

As of June 30, 2016 and 2015, the Foundation did not have sufficient reserves to issue new qualified charitable gift annuities. No new qualified charitable gift annuities were issued during the years ended June 30, 2016 and 2015.