



Financial Statements
June 30, 2017 and 2016

Montana State University-Northern Foundation

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Independent Auditor's Report

To the Board of Trustees of
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 statements of financial position as of June 30, 2017 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Billings, Montana
September 27, 2017

Montana State University-Northern Foundation
 Statements of Financial Position
 June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 327,617	\$ 154,128
Promises to give, net	1,310,643	973,947
Accrued interest receivable	1,130	1,470
Notes receivable	25,270	33,887
Investments	361,244	140,980
Assets held for donor restricted purposes		
Cash and cash equivalents	1,345,993	3,003,327
Investments	5,608,094	4,507,552
Notes receivable	1,206,311	1,439,363
Property held for investment	159,133	159,133
Accrued interest receivable	27,717	37,356
Property and equipment, net of accumulated depreciation of \$9,311 in 2017 and \$7,094 in 2016	4,373	5,244
Artwork	65,395	65,395
Other assets	10,000	10,000
	\$ 10,452,920	\$ 10,531,782
Liabilities and Net Assets		
Assets held in custody for others	\$ 100,911	\$ 100,911
Liabilities under split-interest agreements	1,265,109	1,309,069
	1,366,020	1,409,980
Net Assets		
Unrestricted (deficit)	475,295	(319,907)
Temporarily restricted	2,735,034	5,119,552
Permanently restricted	5,876,571	4,322,157
	9,086,900	9,121,802
	\$ 10,452,920	\$ 10,531,782

Montana State University-Northern Foundation

Statement of Activities

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support, and Gains				
Contributions	\$ 299,279	\$ 1,168,154	\$ 1,426,689	\$ 2,894,122
Management service revenue	182,204	-	-	182,204
Net investment return	71,969	684,835	-	756,804
Change in value of split-interest agreements	(2,949)	(138,003)	-	(140,952)
Other income and support	4,900	880	-	5,780
Reclassification of donor intent	86,266	(213,991)	127,725	-
Net assets released from restrictions	3,886,393	(3,886,393)	-	-
Total revenue, support, and gains	<u>4,528,062</u>	<u>(2,384,518)</u>	<u>1,554,414</u>	<u>3,697,958</u>
Expenses and Losses				
Program expenses				
Scholarships	426,107	-	-	426,107
Athletic programs	329,125	-	-	329,125
Special projects	2,633,197	-	-	2,633,197
Alumni	10,510	-	-	10,510
Other programs	6,617	-	-	6,617
Total program expenses	<u>3,405,556</u>	<u>-</u>	<u>-</u>	<u>3,405,556</u>
Supporting services expense				
Management and general	278,304	-	-	278,304
Fundraising and development	49,000	-	-	49,000
Total supporting services expenses	<u>327,304</u>	<u>-</u>	<u>-</u>	<u>327,304</u>
Total expenses and losses	<u>3,732,860</u>	<u>-</u>	<u>-</u>	<u>3,732,860</u>
Change in Net Assets	795,202	(2,384,518)	1,554,414	(34,902)
Net Assets (Deficit), Beginning of Year	<u>(319,907)</u>	<u>5,119,552</u>	<u>4,322,157</u>	<u>9,121,802</u>
Net Assets, End of Year	<u>\$ 475,295</u>	<u>\$ 2,735,034</u>	<u>\$ 5,876,571</u>	<u>\$ 9,086,900</u>

Montana State University-Northern Foundation

Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support, and Gains				
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>
Expenses and Losses				
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	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>13,000</u>
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

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ (34,902)	\$ 475,692
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	2,217	1,222
Impairment of property held for investment	-	13,000
Realized and unrealized (gain) loss on investments	(620,056)	20,687
Contributions restricted to endowment	(1,426,689)	(53,315)
Contributions of artwork	-	(11,500)
Change in value of liabilities under split-interest agreements	140,952	113,953
Changes in operating assets and liabilities		
Promises to give	(336,696)	7,567
Accrued interest receivable	9,979	9,695
Accounts payable and accrued liabilities	-	(6)
Net Cash from (used for) Operating Activities	<u>(2,265,195)</u>	<u>576,995</u>
Investing Activities		
Purchases of investments	(1,998,710)	(795,194)
Proceeds from sales of investments	1,297,960	806,245
Purchases of property and equipment	(1,346)	(3,733)
Receipts on notes receivable	241,669	260,301
Net Cash from (used for) Investing Activities	<u>(460,427)</u>	<u>267,619</u>
Financing Activities		
Collections of contributions restricted to endowment	1,426,689	53,315
Payments to beneficiaries of split-interest agreements	(184,912)	(187,017)
Net Cash from (used for) Financing Activities	<u>1,241,777</u>	<u>(133,702)</u>
Net Change in Cash and Cash Equivalents	(1,483,845)	710,912
Cash and Cash Equivalents, Beginning of Year	<u>3,157,455</u>	<u>2,446,543</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,673,610</u>	<u>\$ 3,157,455</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position		
Cash and cash equivalents	\$ 327,617	\$ 154,128
Restricted cash and cash equivalents - by donors	<u>1,345,993</u>	<u>3,003,327</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,673,610</u>	<u>\$ 3,157,455</u>
Supplemental Disclosure of Non-Cash Transactions		
Artwork received as gifts	<u>\$ -</u>	<u>\$ 11,500</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 statements 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, 2017 and 2016, \$-0- and \$13,000 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, 2017 and 2016.

Artwork

Artwork consisting 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, 2017 and 2016, 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 by others is an endowment owned by Montana State University-Northern that is invested by the Foundation. The balance at June 30, 2017 and 2016 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, 2017 and 2016 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 September 27, 2017, 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. Certificates of deposit, corporate, government, and municipal 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, 2017 and 2016:

	Total	Fair Value Measurements at Report Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Investments				
Equity securities	\$ 4,645,859	\$ 4,645,859	\$ -	\$ -
Corporate bonds	754,298	-	754,298	-
Government bonds	483,462	-	483,462	-
Certificate of deposit	15,047	-	15,047	-
Municipal bonds	70,672	-	70,672	-
	<u>\$ 5,969,338</u>	<u>\$ 4,645,859</u>	<u>\$ 1,323,479</u>	<u>\$ -</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>

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 201,510	\$ 213,389
Net realized and unrealized gain (loss)	620,056	(20,687)
Less investment management and custodial fees	(64,762)	(56,652)
	\$ 756,804	\$ 136,050

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2017 and 2016:

	2017	2016
Within one year	\$ 902,300	\$ 297,663
In one to five years	428,300	715,400
	1,330,600	1,013,063
Less discount to present value 2%	(19,957)	(38,116)
Less allowance for uncollectible promises to give	-	(1,000)
	\$ 1,310,643	\$ 973,947

At June 30, 2017, three donors accounted for approximately 87% of gross promises to give.

Note 5 - Notes Receivable

Notes receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
6.0% 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	\$ 645,169	\$ 865,169
6.0% contract receivable, due in monthly payments of \$2,962, including interest, to June 2025, secured by property	355,384	369,151
5.4% contract receivable, due in monthly payments of \$1,375, including interest, to May 2037, secured by property	199,632	205,190
5.5% contract receivable, due in monthly payments of \$344, including interest, to January 2027, secured by property	<u>31,396</u>	<u>33,740</u>
	<u>\$ 1,231,581</u>	<u>\$ 1,473,250</u>

Notes receivable are included in the statements of financial position as of June 30, 2017 and 2016 as follows:

Notes receivable, held for donor restricted purposes	\$ 1,206,311	\$ 1,439,363
Notes receivable	<u>25,270</u>	<u>33,887</u>
	<u>\$ 1,231,581</u>	<u>\$ 1,473,250</u>

Note 6 - Endowments

The Foundation's endowment (the Endowment) consists of approximately 139 and 120 individual funds for the years ended June 30, 2017 and 2016. These were 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, 2017 and 2016, 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, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017				
Donor-restricted for permanent endowment	<u>\$ -</u>	<u>\$ 350,558</u>	<u>\$ 5,876,571</u>	<u>\$ 6,227,129</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>

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, 2017 and 2016, 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, 2017 and 2016

Changes in Endowment net assets for the year ended June 30, 2017 and 2016 are as follows:

Change in Endowment Assets 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 253,660	\$ 4,322,157	\$ 4,575,817
Investment return				
Interest and dividend income	-	100,361	-	100,361
Net realized and unrealized gains	-	428,745	-	428,745
	<u>-</u>	<u>529,106</u>	<u>-</u>	<u>529,106</u>
Contributions	-	-	1,426,689	1,426,689
Reclassification of donor intent	-	-	127,725	127,725
Board designation to endowment	-	64,364	-	64,364
Appropriation of endowment assets pursuant to spending-rate policy	-	(496,572)	-	(496,572)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 350,558</u>	<u>\$ 5,876,571</u>	<u>\$ 6,227,129</u>

Change in Endowment Assets 2016

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 losses	-	(85,402)	-	(85,402)
	<u>-</u>	<u>30,804</u>	<u>-</u>	<u>30,804</u>
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	<u>\$ -</u>	<u>\$ 253,660</u>	<u>\$ 4,322,157</u>	<u>\$ 4,575,817</u>

Note 7 - Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Diesel center	\$ 1,120,775	\$ 3,267,705
Scholarships	551,973	401,681
Restricted for trusts	498,414	495,736
Athletics	151,698	124,995
Faculty/Staff	110,700	48,517
Community projects	-	304,328
Alumni	-	266,664
Other	301,474	209,926
	<u>\$ 2,735,034</u>	<u>\$ 5,119,552</u>

Net assets were released from restrictions as follows during the year ended June 30, 2017 and 2016:

Diesel center	\$ 2,540,041	\$ 12,956
Scholarships	427,566	365,833
Athletics	330,125	328,173
Community projects	304,328	-
Restricted for trusts	85,804	70,325
Other	198,529	151,495
	<u>\$ 3,886,393</u>	<u>\$ 928,782</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Permanently Restricted		
Scholarships	\$ 5,609,967	\$ 4,046,480
Other	266,604	275,677
	<u>\$ 5,876,571</u>	<u>\$ 4,322,157</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 6.0% of the employee's compensation. For the years ended June 30, 2017 and 2016, the Foundation's contributions to the plan were \$9,300 and \$8,748, respectively.

Note 9 - Related Party Transactions

The Foundation received a management fee for fundraising and other services from Montana State University-Northern of \$182,204 and \$182,579 for the years ended June 30, 2017 and 2016, respectively. The Foundation also has a 6.0% note receivable from Montana State University-Northern of \$645,169 and \$865,169 as of June 30, 2017 and 2016, 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 3.0%. The balance outstanding to be repaid as of June 30, 2017 and 2016 is \$75,000 and \$454,329, respectively.