

# MSU-Billings Foundation

Financial Statements and  
Independent Auditor's Report

Years ended June 30, 2019 and 2018



# MSU-Billings Foundation

Years Ended June 30, 2019 and 2018

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## **Independent Auditor's Report**

Board of Directors  
MSU-Billings Foundation  
Billings, MT

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

We have audited the accompanying financial statements of MSU-Billings Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, 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; 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. 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 MSU-Billings Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

**Prior Period Financial Statements**

The financial statements of MSU-Billings Foundation as of June 30, 2018, were audited by other auditors whose report dated September 28, 2018, expressed an unmodified opinion on those statements.

*Wipfli LLP*

Wipfli LLP

Billings, Montana  
October 16, 2019

# MSU-Billings Foundation

## Statements of Financial Position

<i>Years Ended June 30,</i>	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,241,738	\$ 2,110,844
Accrued investment income	60,996	60,569
Marketable equity securities	30,623,392	31,029,701
Contributions receivable, net of discount and allowances	1,284,800	1,655,800
<b>Total current assets</b>	<b>37,210,926</b>	<b>34,856,914</b>
Property and equipment:		
Buildings and improvements	1,992,850	1,989,068
Computer equipment and software	10,745	5,517
Pianos	206,700	206,700
Accumulated depreciation	(1,228,903)	(1,158,525)
<b>Total property and equipment, net</b>	<b>981,392</b>	<b>1,042,760</b>
<b>Other assets</b>	<b>101,965</b>	<b>101,564</b>
<b>Total assets</b>	<b>\$ 38,294,283</b>	<b>\$ 36,001,238</b>

# MSU-Billings Foundation

## Statements of Financial Position (Continued)

<i>June 30,</i>	2019	2018
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable - trade	\$ 13,952	\$ 18,477
Accounts payable - scholarships	1,097,069	1,169,648
Other current liabilities	31,513	27,978
Total current liabilities	1,142,534	1,216,103
Other liabilities:		
Investment held in trust	1,860,625	1,805,604
Liability on annuity contracts and trusts	348,478	327,809
Total other liabilities	2,209,103	2,133,413
Total liabilities	3,351,637	3,349,516
Net assets:		
Without donor restrictions:		
Undesignated	2,471,907	2,433,791
Designated by the governing board	2,451,613	2,434,580
Total without donor restrictions	4,923,520	4,868,371
With donor restrictions	30,019,126	27,783,351
Total net assets	34,942,646	32,651,722
Total liabilities and net assets	\$ 38,294,283	\$ 36,001,238

# MSU-Billings Foundation

## Statements of Activities

<i>Years Ended June 30,</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Support and Revenue:					
Contributions	\$ 219,636	\$ 3,222,049	\$ 3,441,685	\$ 237,398	\$ 3,457,565	\$ 3,694,963
In-kind contributions	-	34,464	34,464	36,000	133,951	169,951
Rental revenue, net of rental expenses	484,141	-	484,141	459,096	-	459,096
Interest and dividends	157,192	629,973	787,165	156,904	513,636	670,540
Realized and unrealized gains on investments	207,081	681,873	888,954	198,696	1,346,765	1,545,461
Other revenues	148,412	49,294	197,706	93,982	75,463	169,445
Change in restriction	(5,000)	5,000	-	(65,250)	65,250	-
Net assets released from restrictions	2,386,878	(2,386,878)	-	2,736,412	(2,736,412)	-
Total support and revenue	3,598,340	2,235,775	5,834,115	3,853,238	2,856,218	6,709,456
Expenses:						
Program expenses:						
Student scholarships	1,681,396	-	1,681,396	1,837,038	-	1,837,038
Academic programs	246,685	-	246,685	324,312	-	324,312
Campus projects	69,893	-	69,893	139,737	-	139,737
Campus and community outreach	482,275	-	482,275	539,771	-	539,771
Alumni relations	246,545	-	246,545	153,986	-	153,986
Non-program expenses:						
General and administrative	232,189	-	232,189	178,846	-	178,846
Investment management and audit	193,150	-	193,150	174,487	-	174,487
Facilities and maintenance	36,000	-	36,000	36,000	-	36,000
Fundraising	200,685	-	200,685	244,354	-	244,354
Cultivation and stewardship	154,373	-	154,373	172,403	-	172,403
Total expenses	3,543,191	-	3,543,191	3,800,934	-	3,800,934
Change in net assets	55,149	2,235,775	2,290,924	52,304	2,856,218	2,908,522
Net assets at beginning of year	4,868,371	27,783,351	32,651,722	4,816,067	24,927,133	29,743,200
Net assets at end of year	\$ 4,923,520	\$ 30,019,126	\$ 34,942,646	\$ 4,868,371	\$ 27,783,351	\$ 32,651,722

See accompanying notes to financial statements.

# MSU-Billings Foundation

## Statement of Functional Expenses for the Year Ended June 30, 2019 (with comparative totals for June 30, 2018)

Program Expenses	Student Scholarships	Academic Programs	Campus Projects	Campus and Community Outreach	Alumni Relations	Total Program Expenses
Advertising	\$ -	\$ 313	\$ 234	\$ 1,585	\$ 562	\$ 2,694
Audit fees	-	-	-	-	-	-
Bank charges	-	3	2	13	5	23
Conferences and training	-	98	73	5,088	175	5,434
Consultants	-	-	-	-	-	-
Contract services	-	-	-	302	8,123	8,425
Depreciation	-	10,335	-	-	951	11,286
Donor relations	-	1,431	1,067	13,678	2,567	18,743
Dues and subscriptions	-	26	19	5,245	322	5,612
Education programs	-	-	-	993	-	993
Employee benefits	3,134	1,778	-	22,549	19,402	46,863
Grants and allocations	-	-	-	-	-	-
In-kind expense	-	16,669	4,457	13,338	-	34,464
Insurance	-	-	-	-	-	-
Investment fees	-	-	-	-	-	-
Legal fees	-	-	-	-	-	-
Payroll taxes	1,654	938	-	11,898	10,046	24,536
Postage and shipping	-	190	90	2,122	230	2,632
Printing and duplication	-	929	377	9,145	4,754	15,205
Program expenses	-	200,992	63,018	221,763	57,059	542,832
Rent	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	1,234	1,234
Salaries and wages	21,409	12,151	-	154,022	134,008	321,590
Stewardship expenses	-	-	-	4,062	-	4,062
Special events	-	88	66	5,625	3,012	8,791
Scholarship expense	1,655,199	-	-	40	-	1,655,239
Sponsorships	-	115	34	4,792	15	4,956
Supplies	-	549	410	4,837	3,397	9,193
Telephone and internet	-	80	46	1,178	683	1,987
<b>Total</b>	<b>\$ 1,681,396</b>	<b>\$ 246,685</b>	<b>\$ 69,893</b>	<b>\$ 482,275</b>	<b>\$ 246,545</b>	<b>\$ 2,726,794</b>



# MSU-Billings Foundation

## Statement of Functional Expenses for the Year Ended June 30, 2019 - Continued (with comparative totals for June 30, 2018)

Non-Program Expenses	General and Administrative	Investment Management and Audit	Facilities and Maintenance	Fundraising	Cultivation and Stewardship	Total Non-Program Expenses	Total Program Expenses	Total Expenses June 30, 2019	Total Expenses June 30, 2018
Advertising	\$ -	\$ -	\$ -	\$ 79	\$ 960	\$ 1,039	\$ 2,694	\$ 3,733	\$ 9,144
Audit fees	-	22,767	-	-	-	22,767	-	22,767	22,286
Bank charges	-	10,128	-	-	-	10,128	23	10,151	5,657
Conferences and training	3,063	-	-	25	7,957	11,045	5,434	16,479	17,577
Consultants	-	6,090	-	-	-	6,090	-	6,090	2,400
Contract services	18,155	-	-	481	-	18,636	8,425	27,061	43,564
Depreciation	2,219	-	-	-	-	2,219	11,286	13,505	10,335
Donor relations	-	-	-	360	10,818	11,178	18,743	29,921	35,654
Dues and subscriptions	551	-	-	-	5,474	6,025	5,612	11,637	7,951
Education programs	-	-	-	-	994	994	993	1,987	3,148
Employee benefits	23,099	-	-	21,818	9,380	54,297	46,863	101,160	88,798
Grants and allocations	-	-	-	-	12,058	12,058	-	12,058	13,121
In-kind expense	-	-	-	-	-	-	34,464	34,464	169,951
Insurance	4,309	-	-	-	-	4,309	-	4,309	2,138
Investment fees	-	151,195	-	-	-	151,195	-	151,195	142,476
Legal fees	-	2,970	-	1,261	1,255	5,486	-	5,486	9,170
Payroll taxes	12,156	-	-	11,481	4,949	28,586	24,536	53,122	49,017
Postage and shipping	2,301	-	-	1,035	3,303	6,639	2,632	9,271	7,922
Printing and duplication	1,766	-	-	4,152	3,638	9,556	15,205	24,761	33,656
Program Expenses	993	-	-	4,701	14,832	20,526	542,832	563,358	601,205
Rent	-	-	36,000	-	-	36,000	-	36,000	-
Repairs and maintenance	2,880	-	-	-	-	2,880	1,234	4,114	4,000
Salaries and wages	154,687	-	-	148,860	64,085	367,632	321,590	689,222	632,010
Stewardship expenses	-	-	-	-	2,243	2,243	4,062	6,305	5,780
Special events	955	-	-	2,667	1,856	5,478	8,791	14,269	25,586
Scholarship expense	-	-	-	-	21	21	1,655,239	1,655,260	1,815,848
Sponsorships	-	-	-	-	4,747	4,747	4,956	9,703	18,871
Supplies	2,460	-	-	2,670	4,498	9,628	9,193	18,821	18,026
Telephone and internet	2,595	-	-	1,095	1,305	4,995	1,987	6,982	5,643
<b>Total</b>	<b>\$ 232,189</b>	<b>\$ 193,150</b>	<b>\$ 36,000</b>	<b>\$ 200,685</b>	<b>\$ 154,373</b>	<b>\$ 816,397</b>	<b>\$ 2,726,794</b>	<b>\$ 3,543,191</b>	<b>\$ 3,800,934</b>

# MSU-Billings Foundation

## Statements of Cash Flows

<i>Years Ended June 30,</i>	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 2,290,924	\$ 2,908,522
Adjustments to reconcile increase in net assets to net cash from operations:		
Depreciation	70,378	67,285
Unrealized and realized gains on investments	(888,954)	(1,545,461)
Contributions restricted for long-term investment	(312,388)	(570,665)
Other revenue restricted for long-term investment	(3,022)	(4,300)
(Increase) decrease in:		
Accrued income	(427)	(19,261)
Contributions receivable	371,000	(585,916)
Other assets	(401)	(1,122)
Increase (decrease) in:		
Accounts payable	(77,104)	120,113
Other current liabilities	3,535	3,677
Annuity obligations	20,669	(4,709)
Net cash flows from operating activities	1,474,210	368,163
Cash flows from investing activities:		
Change in assets held in trust	55,021	50,605
Purchases of fixed assets	(9,010)	(60,112)
Proceeds from sales of investments	9,029,753	6,866,067
Purchases of investments	(7,734,490)	(8,370,799)
Net cash flows from investing activities	1,341,274	(1,514,239)
Cash flows from financing activities:		
Contributions and other revenue restricted for investment in endowments	315,410	574,965
Net cash flows from financing activities	315,410	574,965
Net change in cash and equivalents	3,130,894	(571,111)
Cash and equivalents, beginning of year	2,110,844	2,681,955
Cash and equivalents, end of year	\$ 5,241,738	\$ 2,110,844

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Nature of Activities

The Montana State University Billings Foundation (the Foundation) is a publicly supported, nonprofit corporation founded in 1968 to advance the goals of Montana State University Billings by:

- (1) Establishing lifelong relationships with university students, parents, faculty, alumni, friends, and community partners.
- (2) Creating pathways to success and sustaining them through philanthropy, stewardship, and community engagement.
- (3) Seeking and nurturing innovative partnerships to support the realization of current and emerging university priorities.
- (4) Fostering a culture of inclusivity that celebrates diversity on campus and beyond.

#### Change in Accounting Policy

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958). This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures (Note 2), presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance was adopted effective July 1, 2018, and was applied retrospectively with the exception of certain omissions permitted by the ASU.

The changes have the following effect on net assets at July 1, 2018:

<i>Net Asset Class</i>	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 4,868,371	\$ -
Temporarily restricted net assets	11,532,547	-
Permanently restricted net assets	16,250,804	-
Net assets without donor restrictions	-	4,868,371
Net assets with donor restrictions	-	27,783,351
<b>Total net assets</b>	<b>\$ 32,651,722</b>	<b>\$ 32,651,722</b>

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. The Foundation is currently evaluating the impact of the provisions of ASC 606.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU provides guidance on the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and new disclosures on key information about leasing arrangements. The new standard supersedes current leases accounting in FASB Accounting Standards Codification (ASC) Topic 840, *Leases*. When adopted, the amendments in the ASU must be applied using a modified retrospective approach. ASU No. 2016-02 is effective for nonpublic companies for annual periods beginning after December 15, 2019. The Foundation is currently evaluating the impact of the provisions of ASC 842.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. Early application of the amendments in this update is permitted. The Foundation is still evaluating the impact of the provisions of ASU Topic 958.

#### Basis of Accounting

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

#### Cash and Cash Equivalents

The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The carrying amounts reported on the statement of financial position approximate their fair value due to their short term maturity and/or liquidity.

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Promises to Give

Unconditional promises to give to the Foundation are recorded as receivables 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 5.00% and 5.50% as of June 30, 2019 and 2018, respectively. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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

#### Investments

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

#### Concentrations of Credit Risk

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

The Foundation's investments are made in well-established, quality companies whose securities are readily marketable. The Foundation attempts to diversify its investment holdings across various industries as well as in various types of investment classes. At June 30, 2019 and 2018, the Foundation's investment in marketable equity securities included investments in corporations primarily in the financial, information technology, health care, consumer discretionary, natural resources and energy industries. The Foundation's investments in marketable debt securities included bonds issued by domestic corporations, the United States Treasury, international governments and corporations and certificates of deposit.

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

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

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring fair values. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market. This level includes common stocks, corporate bonds or mutual funds based on closing price reported in the active market where the securities are traded.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means. Investment funds valued using net asset value (NAV) per share or its equivalent as reported by investment managers are included within Level 2.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Certain investments in hedge funds, private equity funds, or other private investments valued utilizing unobservable inputs and which have no trading activity or cannot be redeemed at NAV or its equivalent are classified within Level 3. The Foundation's Level 3 assets presented in the accompanying financial statements are based upon the best estimates after considering a variety of internal and external factors.

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

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

# MSU-Billings Foundation

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **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 a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

#### **Property and Equipment**

All acquisitions and improvements of property and equipment of \$1,000 or more are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Depreciation is computed using the straight-line method over the estimated lives of the assets (3 to 39 years). Purchased property and equipment is carried at cost.

The Foundation reports gifts of property 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 and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

#### **Scholarships Payable**

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

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Net Assets

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

**Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**Net assets with donor restrictions:** Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor or grantor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### Contribution Revenue

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as support without restrictions 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 with restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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

#### In-Kind Contributions

The Foundation recognized 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.



# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Program Expenses

**Student Scholarships:** Activities that provide direct financial support for MSU Billings students.

**Academic Programs:** Activities that provide funding to support academic programs at MSU Billings by providing specific resources and faculty development opportunities.

**Campus Projects:** Activities related to capital expenditures for MSU Billings and expenditures for intercollegiate athletic programs and the MSU Billings Library.

**Campus and Community Outreach:** Activities related to Foundation public relation efforts to promote MSU Billings throughout the greater community.

**Alumni Relations:** Activities related to all activities of the MSU Billings Alumni Association.

#### Non-Program Expenses

**General and Administrative:** Activities related to general foundation operating expenses.

**Investment Management and Audit:** Activities including professional costs relating to investment management and accounting services.

**Facilities and Maintenance:** Activities cost of the foundation's office space.

**Fundraising:** Activities related to Foundation development activities.

**Cultivation and Stewardship:** Outreach activities designed to build friendships and alliances across our various communities.

The accompanying statement of functional expenses includes prior-year summarized comparative information in total but not by functional area. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

#### Compensated Absences

The Foundation recognizes a liability for the cost of unused vacation benefits, payable in the event of employee termination. The liability amounted to \$31,513 and \$27,978 at June 30, 2019 and 2018, respectively, and is included in other current liabilities on the statements of financial position.

# MSU-Billings Foundation

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Income Taxes**

The Organization is organized as a not-for-profit corporation and is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for federal income taxes has been included in the accompanying financial statements. The Organization's tax returns are subject to possible examination by the taxing authorities for the three previous tax years. The Organization has determined that no uncertain tax positions have been taken. In the event that the Organization is assessed penalties and/or interest, penalties will be charged to other operating expense and interest will be charged to interest expense.

#### **Use of Estimates**

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Subsequent Events**

The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 16, 2019, which is the date the financial statements were available to be issued. There were no events that occurred subsequent to year-end requiring disclosure and inclusion in these financial statements.

#### **Reclassification**

Certain amounts as previously reported in the prior-year financial statements have been reclassified to conform to the June 30, 2019, presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets.

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 2: Liquidity and Availability of Financial Resources

The Organization has \$3,840,163 of financial assets available within one year of the statement of financial position date consisting of cash held in checking and savings accounts, certificates of deposit, investments, and accounts receivables net of any donor restrictions. These financial assets are not subject to donor or other contractual restrictions that make them unavailable for expenditure within one year of the statement of financial position date. The certificates of deposit are subject to time restrictions, but mature within one year. As part of its liquidity management, the Organization may draw upon board-designated endowments in the event of an unanticipated liquidity need.

<i>Year Ended June 30, 2019</i>	
Total assets, at year-end	\$ 38,294,283
Less: Property and equipment	(981,392)
Less: Other assets	(101,965)
Financial assets, at year-end	37,210,926
Less: Those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Donor-restricted investment net assets	(30,019,126)
Liabilities	(3,351,637)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,840,163

### Note 3: Contributions Receivable

Unconditional promises to give as of June 30, 2019 and 2018, are as follows:

	2019	2018
Receivable in less than one year	\$ 389,456	\$ 924,145
Receivable in one to five years	618,680	626,973
Receivable in more than five years	802,500	533,000
Unconditional promises to give	1,810,636	2,084,118
Less: Discounts to net present value	(510,307)	(408,206)
Less: Allowance for uncollectible promises receivable	(15,529)	(20,112)
Net unconditional promises to give	\$ 1,284,800	\$ 1,655,800

# MSU-Billings Foundation

## Notes to Financial Statements

### Note 4: Property and Equipment

A summary of property and equipment is as follows as of June 30, 2019 and 2018:

	June 30, 2018	Additions	Disposals	June 30, 2019
Property and equipment:				
Buildings and land	\$ 1,989,068	\$ 3,782	\$ -	\$ 1,992,850
Pianos	206,700	-	-	206,700
Computer equipment and software	5,517	5,228	-	10,745
	2,201,285	9,010	-	2,210,295
Less accumulated depreciation:	1,158,525	70,378	-	1,228,903
<b>Total</b>	<b>\$ 1,042,760</b>	<b>\$ (61,368)</b>	<b>\$ -</b>	<b>\$ 981,392</b>

### Note 5: Other Assets

Other assets as of June 30, 2019 and 2018, consist of the following:

	2019	2018
Cash surrender value of life insurance	\$ 48,365	\$ 47,589
Works of art	53,025	53,425
Prepaid expenses	575	550
<b>Total</b>	<b>\$ 101,965</b>	<b>\$ 101,564</b>

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

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

The Foundation combined "investments in life insurance policies" with "other" assets due to its immaterial nature for reporting purposes as of June 30, 2019 and 2018, respectively.

# MSU-Billings Foundation

## Notes to Financial Statements

### Note 6: Investments and Fair Value Measurements

Investments are carried at fair value and consist of the following at June 30, 2019 and 2018:

<i>June 30, 2019</i>	Level 1	Level 2	Level 3	Total
Equity securities	\$ 19,417,236	\$ -	\$ -	\$ 19,417,236
Debt securities	9,905,021	-	-	9,905,021
Alternative securities:				
Commodities	-	209,141	-	209,141
Private equity - global	-	233,937	-	233,937
Private equity - real estate	-	-	858,057	858,057
<b>Total</b>	<b>\$ 29,322,257</b>	<b>\$ 443,078</b>	<b>\$ 858,057</b>	<b>\$ 30,623,392</b>

  

<i>June 30, 2018</i>	Level 1	Level 2	Level 3	Total
Equity securities	\$ 20,208,575	\$ -	\$ -	\$ 20,208,575
Debt securities	9,595,978	-	-	9,595,978
Alternative securities:				
Commodities	-	320,708	-	320,708
Private equity - global	-	223,577	-	223,577
Private equity - real estate	-	-	680,863	680,863
<b>Total</b>	<b>\$ 29,804,553</b>	<b>\$ 544,285</b>	<b>\$ 680,863</b>	<b>\$ 31,029,701</b>

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

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

Unrealized gains on investments all relate to assets still held as of June 30, 2019 and 2018, and are included in the lines realized and unrealized gains and losses on investments in the statements of activities for the years ended June 30, 2019 and 2018.

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 7: Annuity Contracts and Trusts

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

A liability is recognized for the estimated present value of the commitments. The present value of the estimated future payments (\$348,478 and \$327,809 as of June 30, 2019 and 2018, respectively) is calculated using the American Council of Gift Annuities discount rate of 2.80% and 3.40% as of June 30, 2019 and 2018, respectively, and applicable mortality tables. 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 during the years ending June 30, 2019 and 2018, respectively, is \$2,357 and \$2,071.

### Note 8: Assets Held in Trust

The Foundation recognizes the assets held in trust for the Montana Center on Disabilities as a liability. The Foundation and its Board of Trustees have no decision-making authority on these assets. The Foundation serves as the administrator of these assets. The following is a reconciliation of assets held in trust during the years ended June 30, 2019 and 2018:

	2019	2018
Balance at beginning of year	\$ 1,805,604	\$ 1,754,999
Interest and dividends	51,337	48,783
Realized/unrealized gains, net	47,102	63,382
Total income	98,439	112,165
Program expenses	24,718	42,729
Investment management	8,366	8,135
Administrative fees	10,334	10,696
Total expenses	43,418	61,560
Total	\$ 1,860,625	\$ 1,805,604

# MSU-Billings Foundation

## Notes to Financial Statements

### Note 9: Net Assets with Board Designations

The Foundation's Board of Trustees periodically designates net assets that are otherwise unrestricted. Such designations imposed by the Board of Trustees are as follows as of June 30, 2019 and 2018:

	2019	2018
Academic projects	\$ 244,215	\$ 233,773
Campus projects	325,673	326,998
Campus and community outreach	37,902	12,006
Student scholarships	182,323	181,047
KBYM Trust	1,578,162	1,578,162
Other	83,338	102,594
<b>Total</b>	<b>\$ 2,451,613</b>	<b>\$ 2,434,580</b>

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

### Note 10: Net Assets with Donor Restriction

Net assets with donor restrictions are available for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Academic projects	\$ 3,458,569	\$ 3,555,330
Alumni relations	-	44,775
Campus and community outreach	247,299	256,444
Campus projects	6,621,619	5,115,185
Student scholarships	19,462,833	18,585,821
General and administrative	228,806	225,796
<b>Total</b>	<b>\$ 30,019,126</b>	<b>\$ 27,783,351</b>

The University and State of Montana plan to start construction on the new Yellowstone Science and Allied Health Building in July 2019. Construction is expected to last approximately 18 months. As of June 30, 2019 and 2018, \$4,375,000 and \$3,415,000, respectively, is included in the "campus projects" line above as net assets with donor restrictions.

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 11: In-Kind Contributions

The value of donated services is included as contributions in the financial statements as of June 30, 2019 and 2018, and the corresponding expenses are as follows:

	2019	2018
Campus projects	\$ 4,457	\$ 5,083
Academic projects	16,669	112,748
Campus and community outreach	13,338	16,120
Facilities and maintenance	-	36,000
<b>Total</b>	<b>\$ 34,464</b>	<b>\$ 169,951</b>

### Note 12: 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.

Future minimum lease revenue, by year, is as follows:

		Future Minimum Lease Payments
2020	\$	562,275
<b>Total</b>	<b>\$</b>	<b>562,275</b>



# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 12: Operating Leases (Continued)

The Foundation recognized rental revenue (net of rental expenses) for the years ended June 30, 2019 and 2018, as follows:

	2019	2018
Rental revenue	\$ 562,575	\$ 543,822
Operating expenses	(18,726)	(25,070)
Property taxes	(2,866)	(2,696)
Depreciation	(56,842)	(56,960)
Total	\$ 484,141	\$ 459,096

In addition, the Foundation entered into a five-year lease with the University commencing on July 1, 2010, and terminating on June 30, 2015, for its offices at 2615 Virginia Lane in Billings, Montana. The lease required monthly rental payments of \$3,000. Effective July 1, 2014 for the mutual benefit of the Foundation and the University, the parties agreed to terminate lease payments to the University and the facilities were provided to the Foundation as an in-kind contribution by the University during the year ended June 30, 2018, at a value of \$36,000. As of July 1, 2018, the Foundation and the University signed a new lease requiring quarterly rental payments of \$9,000. 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 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 \$40,611 and \$38,254 for the years ended June 30, 2019 and 2018, respectively.

# MSU-Billings Foundation

## Notes to Financial Statements

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### Note 14: Endowment Funds

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	Board- Designated	With Donor Restrictions
Endowments held at Wells Fargo	\$ 1,545,312	\$ 8,958,452
Endowments held at US Bank	-	4,348,596
Endowments held at First Interstate Bank	2,491,306	7,053,826
Endowments held at Stockman Bank and Trust	-	3,668,258
Other asset holdings and accruals	-	600,658
Less: assets held in trust	(1,860,625)	-
<b>Total</b>	<b>\$ 2,175,993</b>	<b>\$ 24,629,790</b>

Endowment net asset composition by type of fund consists of the following as of June 30, 2018:

	Board- Designated	With Donor Restrictions
Endowments held at Wells Fargo	\$ 1,557,218	\$ 8,828,021
Endowments held at US Bank	-	4,229,365
Endowments held at First Interstate Bank	2,403,176	6,744,614
Endowments held at Stockman Bank and Trust	-	3,485,178
Other asset holdings and accruals	-	805,645
Less: assets held in trust	(1,805,604)	-
<b>Total</b>	<b>\$ 2,154,790</b>	<b>\$ 24,092,823</b>

# MSU-Billings Foundation

## Notes to Financial Statements

### Note 14: Endowment Funds (Continued)

Changes in donor-restricted endowment net assets for the fiscal year ended June 30, 2019, are listed below:

	Board- Designated	With Donor Restrictions	Total
Endowment net assets - June 30, 2018	\$ 2,154,790	\$ 24,092,823	\$ 26,247,613
Additions	-	315,410	315,410
Interest and dividends	58,759	562,474	621,233
Net realized and unrealized gains	69,360	681,523	750,883
Total investment return	128,119	1,243,997	1,372,116
Appropriation of endowment assets	(106,916)	(1,022,440)	(1,129,356)
Endowment net assets - June 30, 2019	\$ 2,175,993	\$ 24,629,790	\$ 26,805,783

Changes in donor-restricted endowment net assets for the fiscal year ended June 30, 2018, are listed below:

	Board- Designated	With Donor Restrictions	Total
Endowment net assets - June 30, 2017	\$ 2,084,130	\$ 22,658,791	\$ 24,742,921
Additions	425	578,292	578,717
Investment Return:			
Interest and dividends	21,411	513,636	535,047
Net realized and unrealized gains	156,754	1,337,408	1,494,162
Total investment return	178,165	1,851,044	2,029,209
Appropriation of endowment assets	(107,930)	(995,304)	(1,103,234)
Endowment net assets - June 30, 2018	\$ 2,154,790	\$ 24,092,823	\$ 26,247,613

The Foundation's board-designated endowment includes only funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# MSU-Billings Foundation

## Notes to Financial Statements

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### **Note 14: Endowment Funds** (Continued)

The Board of Trustees has adopted an overall investment objective for the Foundation's assets that is expected to earn long-term returns comprised of capital appreciation and current income sufficient to fund current disbursements, and maintain or grow the purchasing power of assets. It is desired that the Fund earn returns higher than the "market", as represented by a mix of indexes reflective of the Foundation's return objectives and risk tolerance. The board constructs the benchmark, or "policy index" for the endowment funds by performing a weighted average on several well-known indexes. The Fund is expected to exceed the average annual return of this benchmark on a risk-adjusted basis over a three- to five-year rolling time period and a full market cycle. The Board of Trustees has analyzed the behavior of the Foundation's assets within different economic environments and is comfortable with a risk level of the Fund as measured by volatility (standard deviation) that is similar to the volatility level of the policy index. The Fund is expected to operate within an overall asset allocation strategy defining the Foundation's mix of asset classes. This strategy sets a long-term percentage target for the amount of the Foundation's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes above and below the target allocations.

The Foundation will use the moving average method of determining year-to-year spending in order to smooth distributions/appropriations. The Foundation will distribute 4.0% of the moving average endowment market value annually. The moving average will be based on a three-year rolling average. The average market value for endowments without a three-year history will be determined based on an average of available balances.

### **Note 15: Related Party Transactions**

The Organization receives support, in the form of charitable gift annuities, from members of the Board of Trustees on a periodic basis to help fund the Foundation's mission. New Trustee charitable gift annuity contributions totaled \$22,500 and \$24,905 for the year ended June 30, 2019 and 2018, respectively.

### **Note 16: Risk Management**

In the normal course of business, the Foundation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. A variety of methods are used to provide insurance for these risks. A commercial policy transferring all risk of loss, except for relatively small deductible amounts, was purchased for property and content damage, employee torts and professional liabilities. The Foundation carries worker's compensation insurance, the levels of which have not changed from the prior year. The Foundation does not carry coverage for environmental damages. The risk of potential loss is low and coverage is not cost beneficial.