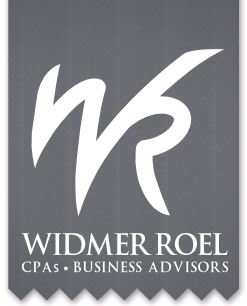


**MINNESOTA STATE UNIVERSITY
MOORHEAD FOUNDATION, INC.**

**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

WITH INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota State University Moorhead Foundation, Inc.
Moorhead, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of **Minnesota State University Moorhead Foundation, Inc.** (a Minnesota non-profit foundation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, 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 the **Minnesota State University Moorhead Foundation, Inc.** as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements in 2020, **Minnesota State University Moorhead Foundation, Inc.** adopted Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". Our opinion is not modified with respect to this matters.



Fargo, North Dakota
October 2, 2020

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

| <u>ASSETS</u> | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,027,411 | \$ 1,107,868 |
| Current portion of promises to give, net | 1,222,415 | 1,149,925 |
| Bequest receivables | - | 2,308,612 |
| Other receivables | 3,486 | 283,266 |
| | <u>5,253,312</u> | <u>4,849,671</u> |
| Total current assets | | |
| | <u>5,253,312</u> | <u>4,849,671</u> |
| PROPERTY AND EQUIPMENT, net | <u>1,597,884</u> | <u>1,729,218</u> |
| | | |
| OTHER ASSETS | | |
| Promises to give, net | 1,583,853 | 2,037,240 |
| Investments | 35,996,734 | 35,570,210 |
| Assets held in charitable remainder trusts | 267,886 | 285,832 |
| Beneficial interest in assets held by others | 1,860,290 | 1,781,557 |
| Remainder life interests in real estate, net of depreciation | 233,748 | 526,875 |
| Property held for sale | 256,818 | 320,000 |
| | <u>40,199,329</u> | <u>40,521,714</u> |
| Total other assets | | |
| | <u>40,199,329</u> | <u>40,521,714</u> |
| Total assets | \$ <u><u>47,050,525</u></u> | \$ <u><u>47,100,603</u></u> |

| LIABILITIES AND NET ASSETS | 2020 | 2019 |
|---|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 165,253 | \$ 160,207 |
| Current portion of liabilities under charitable remainder trusts | 8,807 | 18,788 |
| Current portion of remainder life interest obligations | 12,332 | 21,788 |
| Current portion of annuity obligations | 49,185 | 51,550 |
| Accounts payable and other accrued liabilities | <u>30,214</u> | <u>75,904</u> |
| Total current liabilities | <u>265,791</u> | <u>328,237</u> |
| LONG-TERM LIABILITIES | | |
| Long-term debt, net of current portion | 2,180,859 | 2,214,613 |
| Liabilities under charitable remainder trusts, net of current portion | 84,611 | 94,005 |
| Remainder life interest obligations, net of current portion | 171,613 | 180,441 |
| Annuity obligations, net of current portion | <u>412,539</u> | <u>410,430</u> |
| Total long-term liabilities | <u>2,849,622</u> | <u>2,899,489</u> |
| Total liabilities | <u>3,115,413</u> | <u>3,227,726</u> |
| NET ASSETS | | |
| Without donor restrictions | | |
| Unrestricted | 3,180,229 | 2,560,046 |
| Board designated | 125,633 | 126,587 |
| With donor restrictions | <u>40,629,250</u> | <u>41,186,244</u> |
| Total net assets | <u>43,935,112</u> | <u>43,872,877</u> |
| Total liabilities and net assets | <u>\$ 47,050,525</u> | <u>\$ 47,100,603</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restriction</u> | <u>Total</u> |
|--|---------------------------------------|-----------------------------------|--------------------------|
| SUPPORT AND REVENUE | | | |
| Contributions and campaigns | \$ 319,606 | \$ 2,385,656 | \$ 2,705,262 |
| Contributions from MSUM | 856,213 | - | 856,213 |
| Net investment return | 944,808 | (994,772) | (49,964) |
| Change in value | | | |
| of split-interest agreements | 17,197 | 6,775 | 23,972 |
| Lease and rental income | 229,243 | - | 229,243 |
| Miscellaneous income | 34,775 | - | 34,775 |
| Net assets released from restrictions | <u>1,954,653</u> | <u>(1,954,653)</u> | <u>-</u> |
| Total support and revenue | <u>4,356,495</u> | <u>(556,994)</u> | <u>3,799,501</u> |
| EXPENSES | | | |
| Program services | | | |
| Support to university | 1,918,788 | - | 1,918,788 |
| Resource support university/alumni | 426,792 | - | 426,792 |
| Supporting services | | | |
| Management and general | 503,170 | - | 503,170 |
| Fundraising | <u>888,516</u> | <u>-</u> | <u>888,516</u> |
| Total expenses | <u>3,737,266</u> | <u>-</u> | <u>3,737,266</u> |
| CHANGE IN NET ASSETS | 619,229 | (556,994) | 62,235 |
| NET ASSETS, Beginning of year | <u>2,686,633</u> | <u>41,186,244</u> | <u>43,872,877</u> |
| NET ASSETS, End of year | <u>\$ 3,305,862</u> | <u>\$ 40,629,250</u> | <u>\$ 43,935,112</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Without Donor Restriction</u> | <u>With Donor Restriction</u> | <u>Total</u> |
|--|--------------------------------------|-----------------------------------|--------------------------|
| SUPPORT AND REVENUE | | | |
| Contributions and campaigns | \$ 623,875 | \$ 6,562,671 | \$ 7,186,546 |
| Contributions from MSUM | 807,192 | - | 807,192 |
| Investment income, net | 1,226,935 | 2,891,983 | 4,118,918 |
| Change in value | | | |
| of split-interest agreements | (16,464) | 31,872 | 15,408 |
| Lease and rental income | 229,243 | 11,445 | 240,688 |
| Special events | - | 46,979 | 46,979 |
| Miscellaneous income | 1,006 | 801 | 1,807 |
| Net assets released from restrictions | <u>2,435,199</u> | <u>(2,435,199)</u> | <u>-</u> |
| Total support and revenue | <u>5,306,986</u> | <u>7,110,552</u> | <u>12,417,538</u> |
| EXPENSES | | | |
| Program services | | | |
| Support to university | 2,003,552 | - | 2,003,552 |
| Resource support university/alumni | 348,533 | - | 348,533 |
| Supporting services | | | |
| Management and general | 489,307 | - | 489,307 |
| Fundraising | <u>863,032</u> | <u>-</u> | <u>863,032</u> |
| Total expenses | <u>3,704,424</u> | <u>-</u> | <u>3,704,424</u> |
| CHANGE IN NET ASSETS | 1,602,562 | 7,110,552 | 8,713,114 |
| NET ASSETS, Beginning of year | <u>1,084,071</u> | <u>34,075,692</u> | <u>35,159,763</u> |
| NET ASSETS, End of year | <u>\$ 2,686,633</u> | <u>\$ 41,186,244</u> | <u>\$ 43,872,877</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

| | <u>Program Services</u> | | | | | |
|--------------------------------|-------------------------|--------------------------|---------------------|--------------------|--------------------|---------------------|
| | <u>Support to</u> | <u>Resource Support</u> | | <u>Management</u> | <u>Fundraising</u> | <u>Total</u> |
| | <u>University</u> | <u>University/Alumni</u> | <u>Total</u> | <u>and General</u> | | |
| Scholarships | \$ 1,366,665 | \$ - | \$ 1,366,665 | \$ - | \$ - | \$ 1,366,665 |
| University department support | 351,753 | - | 351,753 | - | - | 351,753 |
| Dorm building support | 200,370 | - | 200,370 | - | - | 200,370 |
| Other support | - | 30,000 | 30,000 | - | - | 30,000 |
| Salary and wages | - | 333,427 | 333,427 | 422,573 | 704,198 | 1,460,198 |
| Consultant expense | - | - | - | - | 14,978 | 14,978 |
| Technology/computer expense | - | 12,935 | 12,935 | 18,790 | 70,474 | 102,199 |
| Meals, travel, lodging | - | 3,063 | 3,063 | 1,323 | 28,170 | 32,556 |
| Professional fees | - | - | - | 26,354 | - | 26,354 |
| Insurance - general | - | - | - | 16,141 | - | 16,141 |
| Printing expense | - | 4,430 | 4,430 | 1,479 | 23,334 | 29,243 |
| Hospitality expense | - | 17,139 | 17,139 | - | 13,411 | 30,550 |
| Production expense | - | 11,900 | 11,900 | - | 7,350 | 19,250 |
| Credit card and bank fees | - | - | - | 7,567 | - | 7,567 |
| Staff training and dues | - | 1,159 | 1,159 | 2,871 | 6,408 | 10,438 |
| Postage expense | - | 104 | 104 | 289 | 16,427 | 16,820 |
| Supplies and promotional items | - | 2,991 | 2,991 | 539 | 1,392 | 4,922 |
| Board expense | - | - | - | 3,706 | - | 3,706 |
| Miscellaneous expense | - | 9,644 | 9,644 | 1,538 | 2,374 | 13,556 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses by function | \$ <u>1,918,788</u> | \$ <u>426,792</u> | \$ <u>2,345,580</u> | \$ <u>503,170</u> | \$ <u>888,516</u> | \$ <u>3,737,266</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Program Services</u> | | | | | |
|--------------------------------|----------------------------------|---|---------------------|-----------------------------------|--------------------|---------------------|
| | <u>Support to University</u> | <u>Resource Support University/Alumni</u> | <u>Total</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
| Scholarships | \$ 1,348,644 | \$ - | \$ 1,348,644 | \$ - | \$ - | \$ 1,348,644 |
| University department support | 414,288 | - | 414,288 | - | - | 414,288 |
| Dorm building support | 204,520 | - | 204,520 | - | - | 204,520 |
| Other support | 36,100 | - | 36,100 | - | - | 36,100 |
| Salaries and wages | - | 309,644 | 309,644 | 371,749 | 668,442 | 1,349,835 |
| Consultant expense | - | - | - | - | 70,615 | 70,615 |
| Computer expense | - | 15,490 | 15,490 | 29,070 | 33,585 | 78,145 |
| Meals, travel, lodging | - | 1,562 | 1,562 | - | 59,288 | 60,850 |
| Professional fees | - | - | - | 38,305 | - | 38,305 |
| Insurance - general | - | - | - | 15,948 | - | 15,948 |
| Printing expense | - | 2,174 | 2,174 | 3,762 | 9,600 | 15,536 |
| Hospitality expense | - | 13,285 | 13,285 | - | - | 13,285 |
| Credit card and bank fees | - | - | - | 12,106 | - | 12,106 |
| Staff training and dues | - | 860 | 860 | 4,057 | 6,713 | 11,630 |
| Postage expense | - | 3,247 | 3,247 | 1,670 | 7,293 | 12,210 |
| Supplies and promotional items | - | 2,100 | 2,100 | 3,310 | 4,383 | 9,793 |
| Board expense | - | - | - | 7,508 | - | 7,508 |
| Miscellaneous expense | - | 171 | 171 | 1,822 | 3,113 | 5,106 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses by function | \$ <u>2,003,552</u> | \$ <u>348,533</u> | \$ <u>2,352,085</u> | \$ <u>489,307</u> | \$ <u>863,032</u> | \$ <u>3,704,424</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 62,235 | \$ 8,713,114 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Change in value of charitable remainder trusts | 16,180 | 3,468 |
| Change in value of beneficial interest in assets held by others | (78,733) | 70,612 |
| Unrealized (appreciation) depreciation of investments | 1,764,670 | (2,102,910) |
| Realized gains on sale of investments | (1,158,694) | (1,550,398) |
| Contributions of securities | (507,708) | (173,634) |
| Contribution of land | - | (1,190,000) |
| Contributions restricted for endowments | (3,122,523) | (2,327,610) |
| Depreciation on property and equipment | 131,334 | 131,334 |
| Depreciation on remainder life interest assets | 36,309 | 6,125 |
| Amortization of discount on remainder life interest obligations | (18,284) | (110,263) |
| Change in value of annuity obligations | (24,976) | 31,755 |
| Changes in assets and liabilities | | |
| Promises to give | 380,897 | (538,779) |
| Bequest receivables | 2,308,612 | (2,308,612) |
| Other receivables | 279,780 | 104,476 |
| Accounts payable and other accrued liabilities | <u>(45,690)</u> | <u>(24,485)</u> |
| Net cash provided by (used in) operating activities | <u>23,409</u> | <u>(1,265,807)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 36,296 | 2,758,742 |
| Proceeds from sale of property held for sale | 320,000 | - |
| Purchases of investments | <u>(561,088)</u> | <u>(3,376,192)</u> |
| Net cash used in investing activities | <u>(204,792)</u> | <u>(617,450)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for endowments | 3,122,523 | 2,327,610 |
| Principal payments on long-term debt | (160,208) | (155,563) |
| Principal payments on liabilities under charitable remainder trusts | (17,609) | (18,406) |
| Net proceeds from annuity obligations | 71,620 | 64,555 |
| Proceeds from long-term debt | 131,500 | - |
| Payments on annuity obligations | <u>(46,900)</u> | <u>(45,747)</u> |
| Net cash provided by financing activities | <u>3,100,926</u> | <u>2,172,449</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 2,919,543 | 289,192 |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>1,107,868</u> | <u>818,676</u> |
| CASH AND CASH EQUIVALENTS, End of year | \$ <u>4,027,411</u> | \$ <u>1,107,868</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|---------------------|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ <u>69,037</u> | \$ <u>73,680</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES | | |
| Contributed securities acquired | \$ <u>507,708</u> | \$ <u>173,634</u> |
| Contributed land | \$ <u>-</u> | \$ <u>1,190,000</u> |
| Increase to property held for sale through the termination of remainder life interests in real estate | \$ <u>256,818</u> | \$ <u>-</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Minnesota State University Moorhead Foundation, Inc. (“Foundation”) is a nonprofit organization established for the purpose of providing support to Minnesota State University Moorhead (“MSUM”). The Foundation obtains pledges and bequests primarily from former graduates of the University, residents and businesses in North Dakota and Minnesota. The Foundation provides academic scholarship funding to Minnesota State University Moorhead. The Foundation also provides funding to Minnesota State University Moorhead to enhance and support its mission for academic excellence and for its academic departments.

Minnesota State University Moorhead Foundation, Inc. was previously known as Minnesota State University Moorhead Alumni Foundation, Inc. The Executive board approved the name change on August 28, 2018 and the Foundation’s Bylaws were amended on October 5, 2018 to reflect the Foundation’s name change.

Basis of Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be extended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Minnesota State University Moorhead Foundation, Inc.’s management and board of directors. The Foundation’s board designated net assets have been established to provide scholarship funds for eligible students.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Concentration of Credit Risk

The Foundation maintains funds on deposit at a local financial institution. The majority of these balances are held in an interest bearing account subject to FDIC limits. At times, the Foundation’s bank balances exceed the federally insured limits. At June 30, 2020 and 2019, the Foundation’s uninsured cash balance totaled \$3,813,894 and \$878,479, respectively. The Foundation has not experienced any losses on such accounts.

At June 30, 2020, approximately \$1,300,000 of the Foundation’s promises to give has been promised by two donors. The current level of the Foundation’s operations and program services may be impacted if these promises to give become uncollectible.

At June 30, 2019, approximately \$2,100,000 of the Foundation’s promises to give has been promised by three donors. The current level of the Foundation’s operations and program services may be impacted if these promises to give become uncollectible.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

The Foundation's investments are exposed to various risks, such as fluctuation in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

Cash and Cash Equivalents

The Foundation includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. Cash and short-term investments held in money market accounts are reported as investments instead of cash and cash equivalents because the Foundation holds those amounts as investments.

Promises to Give

Promises to give, net of an allowance for uncollectible promises to give, are recorded as receivables and revenue when received. The Foundation distinguishes between promises to give for each net asset category in accordance with donor-imposed restrictions. Promises to give are recorded after being discounted to the anticipated net present value of the future cash flows.

The Foundation provides for losses on promises to give using the allowance method. The allowance is based on historical collection experience and other circumstances. It is the Foundation's policy to charge off uncollectible promises to give when management determines the receivable will not be collected.

Investments

Investments consist primarily of assets invested in common stocks, corporate and government obligations, and money market funds. Investments are generally stated at fair value based on published amounts, net asset value of underlying assets, or net expected cash payment upon cancellation of life insurance policies.

Realized and unrealized gains and losses on investments, interest and dividend income, as well as investment fees are included in the change in net assets in the statements of activities and changes in net assets. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Property and Equipment

Purchases of property and equipment are recorded at cost at the time of purchase. Donated property and equipment are recorded at fair value at the date of the gift. The Foundation follows the practice of capitalizing all expenditures for property and equipment in excess of \$10,000 as well as major repair and maintenance costs on equipment or buildings that exceed \$10,000, whereas expenditures for maintenance and repairs that do not meet the \$10,000 threshold are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts and the resulting gain or loss is reflected in the statements of activities and changes in net assets.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method. The estimated useful lives is 30 years.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

Donated Assets and Services

Property, equipment, and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair market values at the date they are received. During fiscal years 2020 and 2019, MSUM provided employees, supplies and services valued at \$856,213 and \$807,192, respectively, which were recorded as contribution revenue and expense in the statements of activities and changes in net assets.

Property Held for Sale

The Foundation received land from a donor during the year ended June 30, 2019 that was sold with the proceeds going into the donor's endowment. The land was still available for sale as of June 30, 2019. The land was recorded at the appraised value and received in the current year.

As of June 30, 2020, a donor's house and land were held for sale after a life estate agreement was terminated. In early fiscal year 2021, both the house and land were sold. The property held for sale amount is recorded at the final price received from the sale.

Income Taxes

The Foundation is exempt from the payment of federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation is required to record a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonable estimated. As of June 30, 2020 and 2019, no such liability existed. Management will continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

Revenue Recognition

The Foundation's primary source of revenue is from contributions. Due to contributions being both voluntary and nonreciprocal, they do not fall under ASU No. 2014-09, "*Revenue from Contracts with Customers* (Topic 606)". The Foundation has analyzed the provision of Topic 606, including the five-step approach to evaluating contracts and has concluded that no changes are necessary to conform with the new standard.

Functional Allocation of Expenses

The statements of functional expenses presents expenses by function and natural classification. Expenses have been allocated on a functional basis between program, supporting services, and fundraising based on directly identifiable costs. Payroll is allocated based on personnel time devoted to various activities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Accounting Pronouncements Adopted

As of July 1, 2019, the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Results for reporting the years ending June 30, 2020 and 2019 are presented under FASB ASC Topic 606. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. The Foundation believes that there has not been an event subsequent to year end where disclosure is necessary.

NOTE 2 – AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statements of financial position date, comprise of the following:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 4,027,411 | \$ 1,107,868 |
| Promises to give without donor restriction, current | 11,605 | 11,430 |
| Accounts receivable | 3,650 | 15,077 |
| Investments without donor restriction | 669,154 | 2,896,801 |
| Endowment spending-rate allocations | <u>17,236</u> | <u>18,740</u> |
| Total | <u>\$ 4,729,056</u> | <u>\$ 4,049,916</u> |

Endowment funds consist of donor-restricted endowment and fund designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes and therefore, not available for general expenditure. There are six endowment funds that the donor has designated the Foundation Board of Directors to determine how to spend their allocations on an annual basis, plus the Board created an endowment. The spending allocation could be made available for general purposes if necessary. The amount allocated is reflected in the liquidity figure.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 3 – PROMISES TO GIVE

Promises to give consisted of the following at June 30, 2020 and 2019:

| | <u>Due in 1 Year</u> | <u>Due in 2 - 5 Years</u> | <u>Due in Over 5 Years</u> | <u>Total</u> | <u>2019</u> |
|--------------------------------------|--------------------------|-------------------------------|--------------------------------|---------------------|---------------------|
| Gross promises to give | \$ 1,258,015 | \$ 1,286,320 | \$ 444,700 | \$ 2,989,035 | \$ 3,404,428 |
| Less: | | | | | |
| Discount to net present value | - | (70,771) | (76,396) | (147,167) | (174,263) |
| Allowance for uncollectible promises | <u>(35,600)</u> | <u>-</u> | <u>-</u> | <u>(35,600)</u> | <u>(43,000)</u> |
| | <u>\$ 1,222,415</u> | <u>\$ 1,215,549</u> | <u>\$ 368,304</u> | <u>\$ 2,806,268</u> | <u>\$ 3,187,165</u> |

Promises to give due in one year are reflected at the net realizable value. Pledges receivable with due dates extending beyond one year are discounted at a rate of 3%. Amortization of the discount is included in contributions in the statements of activities and changes in net assets.

NOTE 4 – BEQUEST RECEIVABLES

The Foundation has outstanding bequest receivables in the amounts of \$- and \$2,308,612 as of June 30, 2020 and 2019, respectively. The bequest receivables are unconditional bequests that the Foundation has recently been notified about, but the payments had not been received as of June 30, 2020 and 2019. The amounts recorded are measurable and the Foundation has clear title to the bequests.

NOTE 5 – PROPERTY AND EQUIPMENT

The Foundation's property and equipment consisted of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|--------------------------|---------------------|---------------------|
| Neumaier dorm | \$ 3,940,000 | \$ 3,940,000 |
| Accumulated depreciation | <u>(2,342,116)</u> | <u>(2,210,782)</u> |
| | <u>\$ 1,597,884</u> | <u>\$ 1,729,218</u> |

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$131,334 and \$131,334, respectively, is recorded in the dorm building support expense account with interest expense.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 – INVESTMENTS

Investments consisted of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------------|--------------------------|
| Money market mutual funds | \$ 721,886 | \$ 469,401 |
| Common stocks | 21,348,879 | 24,696,808 |
| Corporate bonds | 7,908,075 | 5,085,535 |
| Government obligations | 6,005,153 | 5,305,725 |
| Cash surrender value of life insurance | <u>12,741</u> | <u>12,741</u> |
| Total investments | \$ <u>35,996,734</u> | \$ <u>35,570,210</u> |

The following schedule summarizes the investment return and its classification in the statements of activities and changes in net assets for the year ended June 30:

| | <u>2020</u> | | |
|---|---------------------------------------|------------------------------------|-------------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Interest and dividend income | \$ 420,766 | \$ 322,767 | \$ 743,533 |
| Investment advisory fees | (36,907) | (150,614) | (187,521) |
| Realized gains on sale of investments, net | 626,176 | 532,518 | 1,158,694 |
| Unrealized depreciation of investments, net | <u>(65,227)</u> | <u>(1,699,443)</u> | <u>(1,764,670)</u> |
| Net investment return | \$ <u>944,808</u> | \$ <u>(994,772)</u> | \$ <u>(49,964)</u> |
| | <u>2019</u> | | |
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Interest and dividend income | \$ 227,367 | \$ 409,483 | \$ 636,850 |
| Investment advisory fees | (59,645) | (111,595) | (171,240) |
| Realized gains on sale of investments, net | 393,747 | 1,156,651 | 1,550,398 |
| Unrealized appreciation of investments, net | <u>665,466</u> | <u>1,437,444</u> | <u>2,102,910</u> |
| Net investment return | \$ <u>1,226,935</u> | \$ <u>2,891,983</u> | \$ <u>4,118,918</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 – FAIR VALUE MEASUREMENTS

Professional standards state that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, they establish a fair value hierarchy that prioritizes the information used to develop those assumptions. The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Money Market Mutual Funds – Valued at the net asset value (“NAV”) of shares held by the Foundation at year-end. Mutual funds held by the Foundation are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The money market mutual funds held by the Foundation are deemed to be actively traded.

Common Stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds – Valued at the most recent traded prices reported on the active market on which the individual securities are traded. When the held asset is infrequently traded, valuations are based on various market and industry inputs including a combination of the relative changes in market interest rates, changes in the credit quality of bonds, and the relative supply of and demand for bonds.

Government Obligations – Valued at the most recent traded prices reported on the active market on which the individual securities are traded. When the held asset is infrequently traded, valuations are based on various market and industry inputs including the use of pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

Cash Surrender Value of Life Insurance – Valued the estimated amounts of payout from the insurance companies in the event the policies are voluntarily terminated before their maturities, net of surrender charges.

Promises to Give, Liabilities under Charitable Remainder Trusts, Remainder Life Interest and Annuity Obligations – Valued based on the net present value of expected future cash flows to be received from the donors based on various discount rates and donor or beneficiaries’ life expectancies.

Assets Held in Charitable Remainder Trusts – Valued at the NAV of shares held by the trusts at year-end. Mutual funds held by the trusts are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The money market mutual funds held by the trusts are deemed to be actively traded.

Beneficial Interest in Assets Held by Others – Valued based on the present value of expected future cash flows based on donor or beneficiaries’ life expectancies and various discount rates.

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**NOTES TO THE FINANCIAL STATEMENTS
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The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Foundation's fair value measurement policies and procedures are reviewed annually to determine if the valuation techniques are still appropriate.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2020:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|----------------------|----------------------|----------------------|---------------------|
| Money market mutual funds | \$ 721,886 | \$ 721,886 | \$ - | \$ - |
| Common stocks | | | | |
| Communication services | 2,570 | 2,570 | - | - |
| Consumer discretionary | 2,637,629 | 2,637,629 | - | - |
| Consumer staples | 1,063,006 | 1,063,006 | - | - |
| Energy | 1,249 | 1,249 | - | - |
| Financials | 3,781,580 | 3,781,580 | - | - |
| Foreign | 1,392,198 | 1,392,198 | - | - |
| Health care | 3,025,614 | 3,025,614 | - | - |
| Industrials | 3,042,776 | 3,042,776 | - | - |
| Information technology | 3,439,211 | 3,439,211 | - | - |
| Materials | 880,875 | 880,875 | - | - |
| Real estate | 198,206 | 198,206 | - | - |
| Telecommunication services | 1,382,330 | 1,382,330 | - | - |
| Transportation | 5,381 | 5,381 | - | - |
| Utilities | 496,254 | 496,254 | - | - |
| Corporate bonds | 7,908,075 | - | 7,908,075 | - |
| Government obligations | 6,005,153 | - | 6,005,153 | - |
| Cash surrender value of | | | | |
| life insurance | 12,741 | - | 12,741 | - |
| Promises to give | 2,806,268 | - | - | 2,806,268 |
| Assets held in charitable | | | | |
| remainder trusts | 267,886 | 267,886 | - | - |
| Beneficial interest | | | | |
| in assets held by others | <u>1,860,290</u> | <u>-</u> | <u>-</u> | <u>1,860,290</u> |
| Total assets at fair value | \$ <u>40,931,178</u> | \$ <u>22,338,651</u> | \$ <u>13,925,969</u> | \$ <u>4,666,558</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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The following table sets forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of June 30, 2020:

| | <u>Fair Value</u> | | <u>Level 1</u> | | <u>Level 2</u> | | <u>Level 3</u> |
|---|-------------------|----|----------------|----|----------------|----|-------------------|
| Liabilities under charitable remainder trusts | \$ 93,418 | \$ | - | \$ | - | \$ | 93,418 |
| Remainder life interest obligations | 183,945 | | - | | - | | 183,945 |
| Annuity obligations | <u>461,724</u> | | <u>-</u> | | <u>-</u> | | <u>461,724</u> |
| Total liabilities at fair value | \$ <u>739,087</u> | \$ | \$ <u>-</u> | \$ | \$ <u>-</u> | \$ | \$ <u>739,087</u> |

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2019:

| | <u>Fair Value</u> | | <u>Level 1</u> | | <u>Level 2</u> | | <u>Level 3</u> |
|--|----------------------|----|----------------------|----|----------------------|----|---------------------|
| Money market mutual funds | \$ 469,401 | \$ | 469,401 | \$ | - | \$ | - |
| Common stocks | | | | | | | |
| Communication services | 2,833 | | 2,833 | | - | | - |
| Consumer discretionary | 3,546,703 | | 3,546,703 | | - | | - |
| Consumer staples | 985,649 | | 985,649 | | - | | - |
| Energy | 690,277 | | 690,277 | | - | | - |
| Financials | 4,896,695 | | 4,896,695 | | - | | - |
| Foreign | 1,754,873 | | 1,754,873 | | - | | - |
| Health care | 2,747,398 | | 2,747,398 | | - | | - |
| Industrials | 3,163,122 | | 3,163,122 | | - | | - |
| Information technology | 3,202,019 | | 3,202,019 | | - | | - |
| Materials | 1,391,423 | | 1,391,423 | | - | | - |
| Real estate | 157,777 | | 157,777 | | - | | - |
| Telecommunication services | 1,835,379 | | 1,835,379 | | - | | - |
| Transportation | 5,659 | | 5,659 | | - | | - |
| Utilities | 317,001 | | 317,001 | | - | | - |
| Corporate bonds | 5,085,535 | | - | | 5,085,535 | | - |
| Government obligations | 5,305,725 | | - | | 5,305,725 | | - |
| Cash surrender value of life insurance | 12,741 | | - | | 12,741 | | - |
| Promises to give | 3,187,165 | | - | | - | | 3,187,165 |
| Assets held in charitable remainder trusts | 285,832 | | 285,832 | | - | | - |
| Beneficial interest in assets held by others | <u>1,781,557</u> | | <u>-</u> | | <u>-</u> | | <u>1,781,557</u> |
| Total assets at fair value | \$ <u>40,824,764</u> | \$ | \$ <u>25,452,041</u> | \$ | \$ <u>10,404,001</u> | \$ | \$ <u>4,968,722</u> |

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The following table sets forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of June 30, 2019:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-------------------|----------------|----------------|-------------------|
| Liabilities under charitable remainder trusts | \$ 112,793 | \$ - | \$ - | \$ 112,793 |
| Remainder life interest obligations | 202,229 | - | - | 202,229 |
| Annuity obligations | <u>461,980</u> | <u>-</u> | <u>-</u> | <u>461,980</u> |
| Total liabilities at fair value | \$ <u>777,002</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>777,002</u> |

Valuation Techniques

The following table describes the valuation techniques used for the other recurring fair value measurements for assets and liabilities in Level 3 of the fair value hierarchy:

| | Quantitative Information about Level 3 Fair Value Measurements | | | | |
|---|---|--|---------------------------------|--|---|
| | Fair Value as of 06/30/20 | Fair Value as of 06/30/19 | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) |
| Promises to give | \$ 2,806,268 | \$ 3,187,165 | Present value | Discount rate | 3.0% |
| Beneficial interest in assets held by others | \$ 1,860,290 | \$ 1,781,557 | Present value | Discount rate | 6.0% |
| Liabilities under charitable remainder trusts | \$ 93,418 | \$ 112,793 | Present value | Life expectancies, Discount rate | 6 - 13 years 6.0% - 7.25% |
| Remainder life interest obligations | \$ 183,945 | \$ 202,229 | Present value | Life expectancies calculated using IRS annuity tables, Discount rate | 7.60% |
| Annuity obligations | \$ 461,724 | \$ 461,980 | Present value | Life expectancies calculated using IRS annuity tables, Discount rates | 1.34% - 9.90% |

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Changes in Level 3 assets and liabilities are as follows for the year ended June 30:

| | <u>Promises to Give</u> | <u>Beneficial Interest in Assets Held by Others</u> | <u>Liabilities under Charitable Remainder Trusts</u> | <u>Remainder Life Interest Obligations</u> | <u>Annuity Obligations</u> |
|----------------------|-----------------------------|---|--|--|--------------------------------|
| June 30, 2018 | \$ 2,648,386 | \$ 1,852,169 | \$ 140,290 | \$ 312,492 | \$ 411,417 |
| Changes in value | (63,314) | (70,612) | (27,497) | (110,263) | 32,655 |
| Additions | 1,434,740 | - | - | - | 64,555 |
| Payments | (831,647) | - | - | - | (46,647) |
| Changes in allowance | 30,100 | - | - | - | - |
| Promises written off | <u>(31,100)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| June 30, 2019 | \$ 3,187,165 | \$ 1,781,557 | \$ 112,793 | \$ 202,229 | \$ 461,980 |
| Changes in value | 27,002 | 78,733 | (19,375) | (18,284) | (24,976) |
| Additions | 642,285 | - | - | - | 71,620 |
| Payments | (1,057,584) | - | - | - | (46,900) |
| Change in allowance | 12,156 | - | - | - | - |
| Promises written off | <u>(4,756)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| June 30, 2020 | \$ <u>2,806,268</u> | \$ <u>1,860,290</u> | \$ <u>93,418</u> | \$ <u>183,945</u> | \$ <u>461,724</u> |

NOTE 8 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| 2.95% dormitory bond payable to Bremer Bank, due in monthly installments of \$19,104, including interest, through November 2031. Secured by assignment of rents and guaranteed by Minnesota State Colleges and Universities. | \$ 2,214,612 | \$ 2,374,820 |
| 1.00% Paycheck Protection Program loan payable to Bremer Bank. If relief is not granted, the loan will be required to be paid by April 14, 2022 with monthly payments commencing on November 14, 2020. | <u>131,500</u> | <u>-</u> |
| | 2,346,112 | 2,374,820 |
| Current portion | <u>(165,253)</u> | <u>(160,207)</u> |
| | \$ <u>2,180,859</u> | \$ <u>2,214,613</u> |

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The following schedule shows the principal payments required on the above long-term debt for the years ending June 30:

| | |
|------------|---------------------|
| 2021 | \$ 165,253 |
| 2022 | 301,764 |
| 2023 | 175,427 |
| 2024 | 180,645 |
| 2025 | 186,223 |
| Thereafter | <u>1,336,800</u> |
| Total | \$ <u>2,346,112</u> |

Interest expense on the long-term debt for the years ended June 30, 2020 and 2019, totaled \$69,036 and \$73,187, respectively.

NOTE 9 – SPLIT-INTEREST AGREEMENTS

The Foundation is the beneficiary of various charitable gift annuity agreements, charitable remainder trusts, and remainder life interests, in which the donor generally contributes assets in exchange for distributions to the donor or other beneficiaries based on the value of trust assets for a specified period of time. At the end of the specified time, the remaining assets are available for the Foundation's use. Assets received are recorded at fair value on the date the agreement is recognized. A liability for the charitable remainder trusts is recorded equal to the present value of the future distributions using published discount rates issued by the *American Council on Gift Annuities*. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. On an annual basis, the Foundation revalues the liabilities based on life expectancy rates determined by the IRS dependent on the age(s) of the donors as of year-end.

A liability recorded for the life estates is based on the fair market value at the time of the donation less any remaining amortized liability. The liability is re-evaluated each year for any changes to the life expectancies of the donors and evaluated for impairment each year.

In addition, the Foundation is the beneficiary under various wills and remainder life interest agreements, the total realizable amount of which is not presently determinable. Such amounts will be recorded when clear title is established and the proceeds are measurable.

NOTE 10 – RELATED PARTY TRANSACTIONS

A significant portion of the Foundation's operations and management are conducted by personnel of MSUM. In addition, MSUM also compensates the Foundation for certain operating expenses. Amounts paid by MSUM for the years ended June 30, 2020 and 2019 totaled \$856,213 and \$807,192, respectively, have been recognized as contribution and expense in the statements of activities and changes in net assets.

The Foundation reimburses MSUM for certain operating expenses incurred on its behalf and provides scholarships to MSUM students. Payments for scholarships for the years ended June 30, 2020 and 2019 totaled \$1,366,665 and \$1,348,644, respectively, are included as expenses in the statements of activities and changes in net assets.

The Foundation uses office space provided by MSUM. No fees are charged for this service.

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The Foundation has a banking relationship with a financial institution in which a Board member of the Foundation is an employee of the financial institution. The banking relationship consists of a checking account and a debt facility. Total deposits as of June 30, 2020 and 2019 were approximately \$4,063,894 and \$1,128,479, respectively. Total note payable indebted to the financial institution as of June 30, 2020 and 2019 was \$2,214,612 and \$2,374,820, respectively.

MSUM operates and maintains the Neumaier Dorm which is owned by the Foundation. In return for using the property, MSUM reimburses the Foundation for the interest and principal payments due on the long-term dormitory bond payable to Bremer Bank.

During 2020 and 2019, the Foundation received contributions from Board members totaling \$54,303 and \$60,899, respectively. Promises to give from Board members at June 30, 2020 and 2019, totaled \$303,680 and \$534,681, respectively.

NOTE 11 – ENDOWMENTS

The Foundation's endowments consist of approximately 276 individual donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions for endowment subject to spending policy and appropriation (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in donor restricted for endowment subject to spending policy and appropriation net assets is classified donor restricted for appropriation and expenditure when a specific event occurs until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA.

In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation and the donor restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets to achieve growth in principal value while seeking to maintain the purchasing power of the endowment assets. The Foundation expects its endowment funds, over time, to provide a reasonable level of

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total return to support the spending policy authorized by the Board of Directors and to grow endowment assets. Therefore, the Foundation expects endowment assets to produce an average 5.5% return net of annual payouts and inflation (as measured by the Consumer Price Index) that exceeds 1% annually over a ten year period. Actual results may vary from this objective, however, failure to meet this objective should prompt the Board of Directors to re-examine the investment and spending policies.

Endowment assets are managed on a total return basis. While the Foundation recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the Foundation’s best interest on a risk adjusted basis. Risk management of the investment program is focused on understanding both the investment and operational risks to which the Foundation is exposed. The objective is to minimize operational risks and require appropriate compensation for investment risks which the Foundation is willing to accept.

Spending Policy

The Foundation has a policy of appropriating for distribution each year a percentage of its endowment fund’s average fair value. The approved distribution percentage for fiscal years 2020 and 2019 was 4.0% and 3.5%, respectively. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2020 and 2019, the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had no deficiencies.

Endowment net asset consisted of the following at June 30, 2020:

| | <u>Without Restrictions</u> | <u>With Restrictions</u> | <u>Total</u> |
|--|---------------------------------|------------------------------|----------------------|
| Board-designated endowment funds | \$ 125,633 | \$ - | \$ 125,633 |
| Donor restricted endowment funds | | | |
| Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 23,861,513 | 23,861,513 |
| Original donor restricted gift amount and amounts required to be maintained for time by donor | - | 900,000 | 900,000 |
| Accumulated investment gains | - | 4,899,498 | 4,899,498 |
| | <u>\$ 125,633</u> | <u>\$ 29,661,011</u> | <u>\$ 29,786,644</u> |

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Endowment net asset consisted of the following at June 30, 2019:

| | <u>Without Restrictions</u> | <u>With Restrictions</u> | <u>Total</u> |
|--|---------------------------------|------------------------------|----------------------|
| Board-designated endowment funds | \$ 126,587 | \$ - | \$ 126,587 |
| Donor restricted endowment funds | | | |
| Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 20,652,328 | 20,652,328 |
| Original donor restricted gift amount and amounts required to be maintained for time by donor | - | 900,000 | 900,000 |
| Accumulated investment gains | - | 7,504,027 | 7,504,027 |
| | <u>\$ 126,587</u> | <u>\$ 29,056,355</u> | <u>\$ 29,182,942</u> |

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

| | <u>Without Restrictions</u> | <u>With Restrictions</u> | <u>Total</u> |
|---|---------------------------------|------------------------------|----------------------|
| Endowment fund net assets, June 30, 2018 | \$ 90,902 | \$ 24,407,478 | \$ 24,498,380 |
| Investment income, net | 10,685 | 2,881,298 | 2,891,983 |
| Contributions | 25,000 | 2,327,610 | 2,352,610 |
| Appropriation of endowment assets for expenditure | - | (560,031) | (560,031) |
| Endowment fund net assets, June 30, 2019 | \$ 126,587 | \$ 29,056,355 | \$ 29,182,942 |
| Investment income, net | (954) | (993,818) | (994,772) |
| Contributions | - | 3,122,523 | 3,122,523 |
| Appropriation of endowment assets for expenditure | - | (1,524,049) | (1,524,049) |
| Endowment fund net assets, June 30, 2020 | <u>\$ 125,633</u> | <u>\$ 29,661,011</u> | <u>\$ 29,786,644</u> |

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 12 – DONOR RESTRICTED NET ASSETS

Donor restricted net assets consisted of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Subject to expenditure for a specific purpose | | |
| Scholarships | \$ 1,598,818 | \$ 1,214,182 |
| University departmental/program support | 2,593,507 | 1,381,625 |
| Building project | 1,474,244 | 1,021,247 |
| Promises to give for specific purpose | <u>2,348,188</u> | <u>3,013,217</u> |
| Total purpose restriction | <u>8,014,757</u> | <u>6,630,271</u> |
| Subject to passage of time | | |
| Beneficial interests in charitable trusts held by others | 1,860,290 | 1,781,557 |
| Charitable remainder trusts | 174,468 | 173,039 |
| Charitable gift amount of annuity agreement | 22,421 | 21,252 |
| Promises to give unavailable until due | <u>17,503</u> | <u>28,037</u> |
| Total time restriction | <u>2,074,682</u> | <u>2,003,885</u> |
| Endowment | | |
| Subject to appropriation and expenditure when a specific event occurs: | | |
| Available for general use | 68,413 | 144,289 |
| Scholarship | 3,204,594 | 4,708,939 |
| Department/program support | <u>1,626,491</u> | <u>2,650,799</u> |
| Total purpose restriction | <u>4,899,498</u> | <u>7,504,027</u> |
| Subject to endowment spending policy and appropriation for specific time and purpose: | | |
| Scholarship | 800,000 | 800,000 |
| Department/program support | <u>100,000</u> | <u>100,000</u> |
| Total specific time and purpose restriction | <u>900,000</u> | <u>900,000</u> |
| Subject to endowment spending policy, perpetual in nature | | |
| General use | 321,003 | 321,003 |
| Scholarship | 16,181,497 | 13,027,164 |
| Department/program support | <u>7,359,013</u> | <u>7,304,161</u> |
| Total perpetual in nature restriction | <u>23,861,513</u> | <u>20,652,328</u> |
| Total endowment | <u>29,661,011</u> | <u>29,056,355</u> |

(Continued)

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | | |
|---|----------------------|----------------------|
| Not subject to endowment spending policy | | |
| Promises to give, the proceeds which have been restricted by donors for endowment | 440,577 | 145,911 |
| Receivable/land when realized go to endowment for scholarships | - | 2,905,966 |
| Property held for sale and life insurance | 244,936 | - |
| Charitable gift amount of annuity agreements | 143,484 | 119,210 |
| Life estates net of liability | <u>49,803</u> | <u>324,646</u> |
| Total not subject to endowment spending policy | <u>878,800</u> | <u>3,495,733</u> |
| Total net assets with donor restrictions | \$ <u>40,629,250</u> | \$ <u>41,186,244</u> |

NOTE 13 – RETIREMENT PLANS

During the years ended June 30, 2020 and 2019, the Foundation had a 401(k) and profit-sharing plan covering all employees who meet the eligibility requirements. The Foundation matches 100% of employee contributions on the first 3% and 50% on the next 2% of each employee's elective contribution. The Foundation added an HRA plan in the year ended June 30, 2020, in which the employer makes contributions of \$429 per month for each eligible employee or \$550 per month for each eligible employee and his/her covered dependents. Total retirement plan related expense totaled approximately \$58,533 and \$14,269 for the years ended June 30, 2020 and 2019, respectively.

NOTE 14 – COVID-19 RESPONSE

As of June 30, 2020, the Foundation believes it understands the risk associated with COVID-19. The Foundation has implemented risk mitigation tactics or the Foundation as to the risk of the impact, if any, of COVID-19 related to all aspects of the Foundation's business transactions with customers and donors and human interactions within and outside of the Foundation.