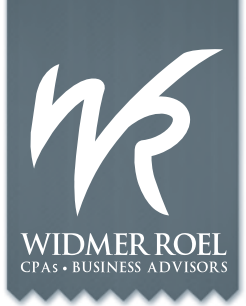


**MINNESOTA STATE UNIVERSITY
MOORHEAD FOUNDATION, INC.**

**FINANCIAL STATEMENTS
JUNE 30, 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

We have audited the accompanying financial statements of the **Minnesota State University Moorhead Foundation, Inc.** (a Minnesota non-profit foundation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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

The Foundation's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Minnesota State University Moorhead Foundation, Inc.** 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 of America.

Emphasis of a Matter

As discussed in Note 1 to the basic financial statements in 2019, the **Minnesota State University Moorhead Foundation, Inc.** adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

A handwritten signature in black ink, appearing to read "William Rouse". The signature is written in a cursive style with a large, stylized initial "W".

Fargo, North Dakota
September 25, 2019

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,107,868
Current portion of promises to give, net	1,149,925
Bequest receivables	2,308,612
Other receivables	<u>283,266</u>

Total current assets 4,849,671

PROPERTY AND EQUIPMENT, net

1,729,218

OTHER ASSETS

Promises to give, net	2,037,240
Investments	35,570,210
Assets held in charitable remainder trusts	285,832
Beneficial interest in assets held by others	1,781,557
Remainder life interests in real estate, net of depreciation	526,875
Land held for sale	<u>320,000</u>

Total other assets 40,521,714

Total assets \$ 47,100,603

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 160,207
Current portion of liabilities under charitable remainder trusts	18,788
Current portion of remainder life interest obligations	21,788
Current portion of annuity obligations	51,550
Accounts payable and other accrued liabilities	<u>75,904</u>

Total current liabilities 328,237

LONG-TERM LIABILITIES

Long-term debt, net of current portion	2,214,613
Liabilities under charitable remainder trusts, net of current portion	94,005
Remainder life interest obligations, net of current portion	180,441
Annuity obligations, net of current portion	<u>410,430</u>

Total long-term liabilities 2,899,489

Total liabilities 3,227,726

NET ASSETS

Without donor restrictions	
Unrestricted	2,560,046
Board designated	126,587
With donor restrictions	<u>41,186,244</u>

Total net assets 43,872,877

Total liabilities and net assets \$ 47,100,603

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

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

	<u>Without Donor Restrictions</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
Net investment return	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, 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>171</u>	<u>171</u>	<u>1,822</u>	<u>3,113</u>	<u>5,106</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.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 8,713,114
Adjustments to reconcile change in net assets to net cash used in operating activities	
Change in value of charitable remainder trusts	3,468
Change in value of beneficial interest in assets held by others	70,612
Unrealized appreciation of investments	(2,102,910)
Realized gains on sale of investments	(1,550,398)
Contributions of securities	(173,634)
Contribution of land	(1,190,000)
Contributions restricted for endowments	(2,327,610)
Depreciation on property and equipment	131,334
Depreciation on remainder life interest assets	6,125
Amortization of discount on remainder life interest obligations	(110,263)
Change in value of annuity obligations	31,755
Changes in assets and liabilities	
Promises to give	(538,779)
Bequest receivables	(2,308,612)
Other receivables	104,476
Accounts payable and other accrued liabilities	<u>(24,485)</u>
Net cash used in operating activities	<u>(1,265,807)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	2,758,742
Purchases of investments	<u>(3,376,192)</u>
Net cash used in investing activities	<u>(617,450)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted for endowments	2,327,610
Principal payments on long-term debt	(155,563)
Principal payments on liabilities under charitable remainder trusts	(18,406)
Cash received subject to annuity obligations	64,555
Payments on annuity obligations	<u>(45,747)</u>
Net cash provided by financing activities	<u>2,172,449</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	289,192
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>818,676</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ <u>1,107,868</u></u>

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ <u>73,680</u>
------------------------	------------------

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES

Contributed securities acquired and sold	\$ <u>173,634</u>
--	-------------------

Contributed land	\$ <u>1,190,000</u>
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MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 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 offers a variety of benefits, programs, and services for alumni and students.

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 consist of the Founders Endowment Fund, which was established to provide scholarship funds for eligible students.

Net assets with donor restrictions: Net assets subject to simulations 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 statement 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, 2019, the Foundation’s uninsured cash balance totaled \$878,479. The Foundation has not experienced any losses on such accounts.

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.

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.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, as well as interest and dividend income, are included in the change in net assets in the statement 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 statement 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 range from 5 to 40 years.

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 year 2019, MSUM provided employees, supplies and services valued at \$807,192, which were recorded as contribution revenue and expense in the statement of activities and changes in net assets.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Land Held for Sale

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

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, 2019, no such liability existed. Management will continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

With few exceptions, the Foundation is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2015.

Functional Allocation of Expenses

The statement 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.

New Accounting Pronouncement

Also during 2019, the Foundation adopted ASU 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

A recap of the net asset classifications driven by the adoption of ASU 2016-14 as of June 30, 2018 follows:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor Restrictions</u>	<u>With donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented			
Unrestricted			
Undesignated	\$ 993,169	\$ -	\$ 993,169
Board restricted	90,902	-	90,902
Temporarily restricted	-	15,004,592	15,004,592
Permanently restricted	-	19,071,100	19,071,100
	<u> </u>	<u> </u>	<u> </u>
Net assets, as reclassified	\$ <u>1,084,071</u>	\$ <u>34,075,692</u>	\$ <u>35,159,763</u>

NOTE 2 – AVAILABILITY AND LIQUIDITY

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

Cash and cash equivalents	\$ 1,107,868
Promises to give, current	11,430
Accounts receivable	15,077
Investments without donor restriction	2,155,029
Endowment spending-rate allocations	<u>18,740</u>
Total	\$ <u>3,308,144</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.

NOTE 3 – PROMISES TO GIVE

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

	<u>Due in 1 Year</u>	<u>Due in 2 - 5 Years</u>	<u>Due in Over 5 Years</u>	<u>Total</u>
Gross promises to give	\$ 1,192,925	\$ 1,866,503	\$ 345,000	\$ 3,404,428
Less:				
Discount to net present value	-	(110,672)	(63,591)	(174,263)
Allowance for uncollectible promises	<u>(43,000)</u>	<u>-</u>	<u>-</u>	<u>(43,000)</u>
	\$ <u>1,149,925</u>	\$ <u>1,755,831</u>	\$ <u>281,409</u>	\$ <u>3,187,165</u>

(Continued)

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 amount of \$2,308,612 as of June 30, 2019. 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, 2019. The amounts recorded are measurable and the Foundation has clear title to the bequests. All bequest receivables are expected to be received within the next year and deemed to be current assets.

NOTE 5 – PROPERTY AND EQUIPMENT

The Foundation’s property and equipment consisted of the following at June 30, 2019:

Neumaier dorm	\$ 3,940,000
Accumulated depreciation	<u>(2,210,782)</u>
	\$ <u><u>1,729,218</u></u>

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

NOTE 6 – INVESTMENTS

Investments consisted of the following at June 30, 2019:

Money market mutual funds	\$ 469,401
Common stocks	24,696,808
Corporate bonds	5,085,535
Government obligations	5,305,725
Cash surrender value of life insurance	<u>12,741</u>
Total investments	\$ <u><u>35,570,210</u></u>

The following schedule summarizes the investment return and its classification in the statement of activities and changes in net assets for the year ended June 30, 2019:

	<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><u>1,226,935</u></u>	\$ <u><u>2,891,983</u></u>	\$ <u><u>4,118,918</u></u>

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 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.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 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>

(Continued)

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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	180,441	-	-	180,441
Annuity obligations	<u>461,980</u>	<u>-</u>	<u>-</u>	<u>461,980</u>
Total liabilities at fair value	\$ <u>755,214</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>755,214</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:

<u>Quantitative Information about Level 3 Fair Value Measurements</u>				
	<u>Fair Value as of 06/30/19</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Promises to give	\$ 3,187,165	Present value	Discount rate	3.0%
Beneficial interest in assets held by others	\$ 1,781,557	Present value	Discount rate	6.0%
Liabilities under charitable remainder trusts	\$ 112,793	Present value	Life expectancies, Discount rate	6 - 13 years 6.0% - 7.25%
Remainder life interest obligations	\$ 180,441	Present value	Life expectancies calculated using IRS annuity tables, Discount rate	Various 6.0% - 8.0%
Annuity obligations	\$ 461,980	Present value	Life expectancies calculated using IRS annuity tables, Discount rates	Various 1.3% - 12.4%

(Continued)

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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)	(132,051)	32,655
Additions	1,434,740	-	-	-	64,555
Payments	(831,647)	-	-	-	(46,647)
Change in allowance	30,100	-	-	-	-
Promises written off	<u>(31,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2019	\$ <u>3,187,165</u>	\$ <u>1,781,557</u>	\$ <u>112,793</u>	\$ <u>180,441</u>	\$ <u>461,980</u>

NOTE 8 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2019:

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.

	\$ 2,374,820
Current portion	<u>(160,207)</u>
	\$ <u>2,214,613</u>

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

2020	\$ 160,207
2021	165,253
2022	170,264
2023	175,427
2024	180,642
Thereafter	<u>1,523,027</u>
Total	\$ <u>2,374,820</u>

Interest expense on the long-term debt for the year ended June 30, 2019, totaled \$73,187.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 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.

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 year ended June 30, 2019 totaled \$807,192 and have been recognized as contribution and expense in the statement 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 and operating expenses for the year ended June 30, 2019 totaled \$1,348,644 and are included as expenses in the statement of activities and changes in net assets.

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

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, 2019 were approximately \$1,128,479. Total note payable indebted to the financial institution as of June 30, 2019 was \$2,374,820.

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 2019, the Foundation received \$47,674 in contributions from Board members. Promises to give from Board members at June 30, 2019, totaled \$534,681.

NOTE 11 – ENDOWMENTS

The Foundation's endowments consist of approximately 271 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.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 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 rate of 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.

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 year 2019 was 3.5%. 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, 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, 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, 2019 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	-	1,405,033	1,405,033
Net appreciation	10,685	1,476,265	1,486,950
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	<u>\$ 126,587</u>	<u>\$ 29,056,355</u>	<u>\$ 29,182,942</u>

MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 12 – DONOR RESTRICTED NET ASSETS

Donor restricted net assets consisted of the following at June 30, 2019:

Subject to expenditure for a specific purpose

Scholarships	\$ 1,214,182
University departmental/program support	1,381,625
Building project	1,021,247
Promises to give for specific purpose	<u>3,013,217</u>
Total purpose restriction	<u>6,630,271</u>

Subject to passage of time

Beneficial interests in charitable trusts held by others	1,781,557
Charitable remainder trusts	173,039
Charitable gift amount of annuity agreement	21,252
Promises to give unavailable until due	<u>28,037</u>
Total time restriction	<u>2,003,885</u>

Endowment

Subject to appropriation and expenditure when a specific event occurs:

Available for general use	144,289
Scholarship	4,708,939
Department/program support	<u>2,650,799</u>
Total purpose restriction	<u>7,504,027</u>

Subject to endowment spending policy and appropriation for specific time and purpose:

Scholarship	800,000
Department/program support	<u>100,000</u>
Total specific time and purpose restriction	<u>900,000</u>

Subject to endowment spending policy, perpetual in nature

General use	330,953
Scholarship	13,027,164
Department/program support	<u>7,294,211</u>
Total perpetual in nature restriction	<u>20,652,328</u>

Total endowment	<u>29,056,355</u>
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MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Not subject to endowment spending policy	
Promises to give, the proceeds which have been restricted by donors for endowment	145,911
Receivable/land when realized go to endowment for scholarships	2,905,966
Charitable gift amount of annuity agreements	119,210
Life estates net of liability	<u>324,646</u>
Total not subject to endowment spending policy	<u>3,495,733</u>
Total net assets with donor restrictions	\$ <u><u>41,186,244</u></u>

NOTE 13 – RETIREMENT PLANS

During the year ended June 30, 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. Total retirement plan related expense totaled approximately \$14,269 for the year ended June 30, 2019.

NOTE 14 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through September 25, 2019, which is the date the financial statements were available to be issued.