

**UNIVERSITY OF MONTANA-WESTERN FOUNDATION
DILLON, MONTANA**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2017**

Peck & Peck, CPAs PC

312 South Pacific
Dillon, Montana 59725

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TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-10



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
University of Montana-Western Foundation
Dillon, MT 59725

We have audited the accompanying financial statements of the University of Montana-Western Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana-Western Foundation as of June 30, 2017, and the results of their activities and changes in net assets and cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Peck & Peck, CPAs PC

Dillon, Montana
September 27, 2017

University of Montana-Western Foundation
Statement of Financial Position
June 30, 2017

Assets

Cash and cash equivalents	\$ 160,281
Contributions and pledges receivable, net	20,000
Accrued investment income	24,424
Vehicle (net of accumulated depreciation, \$36,000)	7,427
Investments	<u>6,306,343</u>
 Total Assets	 <u>\$ 6,518,475</u>

Liabilities

Accounts payable	\$ 11,397
Notes payable	<u>-</u>
 Total Liabilities	 <u>11,397</u>

Net Assets

Unrestricted	273,849
Temporarily restricted	1,162,157
Permanently restricted	<u>5,071,072</u>
 Total Net Assets	 <u>6,507,078</u>
 Total Liabilities and Net Assets	 <u>\$ 6,518,475</u>

See accompanying notes to financial statements.

University of Montana-Western Foundation
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows From Operating Activities:	
Change in net assets	\$ 525,774
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Decrease in contributions and pledges receivable, net	20,000
Increase in accrued investment income	(413)
Increase in accounts payable	6,391
Net realized and unrealized gains on investments	(364,216)
Permanently restricted contributions	<u>(560,625)</u>
Net cash provided by operating activities	<u>(373,089)</u>
Cash Flows From Investing Activities:	
Purchase of investment securities	(1,466,662)
Proceeds from redemption of investment securities	<u>1,003,000</u>
Net cash used in investing activities	<u>(463,662)</u>
Cash Flows From Financing Activities:	
Permanently restricted contributions	<u>560,625</u>
Net cash provided from financing activities	<u>560,625</u>
Net increase in cash and cash equivalents	(276,126)
Cash and cash equivalents, beginning of year	<u>436,407</u>
Cash and cash equivalents, end of year	<u>\$ 160,281</u>
Supplementary Data:	
Interest Paid	<u>\$ -</u>

See accompanying notes to financial statements.

University of Montana-Western Foundation
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

University of Montana-Western Foundation (the Foundation) was formed as a non-profit corporation under the laws for the State of Montana to promote the educational objectives of University of Montana-Western.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of *Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

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

University of Montana-Western Foundation
Notes to Financial Statements-continued
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies- continued

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are composed of securities as managed by Wells Fargo Investment Management and Trust and real estate. All investments with readily determinable fair values are stated at fair value based upon quoted market prices. Unrealized gains and losses are included in the change in net assets. Restricted gains and investment income are generally reported as increases to temporarily restricted investment income and upon expiration of the restrictions are reclassified to unrestricted investment income. Investments with no readily determinable fair values are carried at cost.

Pledges Receivable

The Foundation reports unconditional promises to give (pledges) at net realizable value. An allowance for uncollectible pledges is estimated based upon the Foundation's collection history and is netted against the gross pledges receivable.

Fair Value of Financial Instruments

Cash, receivables and accounts payable, as reflected in the financial statements, approximate fair value due to the short-term nature of those instruments. The fair value of the Foundation's investments is estimated based on quoted market prices or other third party information for those investments, and are disclosed in note 4.

Depreciation

The Foundation's vehicle is depreciated using the straight-line method of accounting for financial reporting purposes and amounted to \$0.

Fees

The Foundation assesses an administrative fee on the endowment investments based on the 18-month average of the endowment's market value. The annual fee was 1%. Total Foundation fees for the year ending June 30, 2017, were \$34,384.

NOTE 2. Cash

The total cash held by the Foundation at June 30, 2017, includes \$0 in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institution is not of particular concern at this time.

University of Montana-Western Foundation
Notes to Financial Statements-continued
June 30, 2017

NOTE 3. Contributions and Pledges Receivable

Contributions and pledges receivable outstanding at June 30, 2017, totaled \$20,000 and the allowance for uncollectible contributions and pledges was \$0.

NOTE 4. Investments and Fair Value Measurements

The FASB defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.

The standard establishes a fair value hierarchy which requires valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable prices inputs where there is little or no market activity for the asset or liability at the measurement date.

There are three general valuation techniques that may be used to measure fair value, as described below:

- *Market Approach* – Uses prices and other relevant information generated by market transaction involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades or other sources;
- *Cost Approach* – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- *Income Approach* – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Investments are stated at fair value, determined based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Cost is determined using the specific identification method. The Foundation determined the fair value of its marketable securities through the application of GAAP.

University of Montana-Western Foundation
Notes to Financial Statements-continued
June 30, 2017

NOTE 4. Investments and Fair Value Measurements (Continued)

As required by GAAP, investments are classified within the level of lowest significant input considered in determining fair value. Investments classified within Level 3 whose fair value measurement considers several inputs may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices with active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based on significant unobservable prices or inputs where there is little or no market activity for the asset at the measurement date. Level 3 assets include real estate fair value which was based on original purchase cost.

Investments measured at fair value at June 30, 2017, are summarized below:

	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Investments				
Cash and cash equivalents	\$ 361,829	\$ -	\$ -	\$ 361,829
Government obligations	-	391,834	-	391,834
Corporate bonds	-	440,861	-	440,861
Fixed income domestic mutual funds	523,034	-	-	523,034
Fixed income international mutual funds	465,933	-	-	465,933
Equity securities and mutual funds				
Corporate stocks	1,274,677	-	-	1,274,677
Mutual funds	1,427,075	-	-	1,427,075
Alternative investments	639,182	-	-	639,182
Real assets	480,794	-	-	480,794
Real estate	-	-	<u>301,124</u>	<u>301,124</u>
Total investments	<u>\$5,172,524</u>	<u>\$832,695</u>	<u>\$301,124</u>	<u>\$6,306,343</u>

The table below rolls forward balances for Level 3 assets from July 1, 2016, through the year ended June 30, 2017:

	<u>Real Estate</u>
Balance as of July 1, 2016	\$ 392,526
Interest and dividends	-
Withdrawals	(91,402)
Unrealized gain	<u>-</u>
Balance as of June 30, 2017	<u>\$ 301,124</u>

University of Montana-Western Foundation
Notes to Financial Statements-continued
June 30, 2017

NOTE 4. Investments and Fair Value Measurements (Continued)

Transfers between levels due to changes in inputs are considered to take place at the end of the reporting period. There were no transfers between levels during 2017 or 2016. Unrealized gains on investments held at June 31, 2017, was \$837,646.

Investment returns for the year ended June 30, 2017, consisted of the following:

	<u>2017</u>
Investment returns:	
Interest and dividends	\$ 99,011
Realized and unrealized gains on investments	<u>364,214</u>
Total return on investment	<u>\$463,225</u>

Investment advisory fees are netted against interest and dividends. These fees totaled \$34,440 for the year ended June 30, 2017.

NOTE 5. Net Assets

Restrictions placed upon net assets as of June 30, 2017, and June 30, 2016, are as follows:

Temporarily restricted net assets are available for the following purposes as of June 30, 2017, and June 30, 2016:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 783,535	\$ 776,129
Booster	76,124	13,771
Alumni	56,022	58,821
Birch Creek Center	321	321
Faculty Development	787	86
Chancellor's Special Projects	3,958	3,368
Director's Special Projects	1,185	919
Growth	156	172
Campaign	24,594	5,314
Clubs, Departments & Other Programs	<u>215,475</u>	<u>565,025</u>
Total temporarily restricted net assets	<u>\$ 1,162,157</u>	<u>\$ 1,423,926</u>

Net assets were permanently restricted for the following purposes as of June 30, 2017, and June 30, 2016:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 4,622,217	\$ 3,779,869
Booster	58,551	55,284
Growth	36,511	34,534
Alumni	92,157	89,988
Clubs, Departments & Other Programs	<u>261,636</u>	<u>253,306</u>
Total permanently restricted net assets	<u>\$ 5,071,072</u>	<u>\$ 4,212,981</u>

University of Montana-Western Foundation
Notes to Financial Statements-continued
June 30, 2017

NOTE 6. Leases in the Financial Statements of Lessors

On November 21, 2012, the Foundation (lessor) executed a new twenty-three year agreement to lease the property and equipment known as the Sparky's Garage (Restaurant) effective as of October 1, 2012. The monthly lease payments are \$1,800. The rate of \$1,800 will increase 2% on each anniversary of the lease. The lease payments were waived from January 1, 2013, to March 31, 2013.

Future minimum lease payments to be received are as follows:

<u>Year</u>	<u>Amount</u>
6/30/2018	\$23,727
6/30/2019	\$23,204
6/30/2020	\$24,693
6/30/2021	\$25,185
6/30/2022	\$25,686

NOTE 7. D.I. Emerick & M.B. Emerick Trusts

The D.I. Emerick and M.B. Emerick Trusts are separate legal entities and were established in 1981 in keeping with the Last Will and Testament of Mary Baker Emerick for the purposes of providing an art scholarship fund for needy students of high scholastic standing who desire to enter the teaching profession and in obtaining additional equipment and procuring library books for the use and benefit of the Art Department of the University of Montana – Western.

The trustees are independent of the University of Montana-Western Foundation and consist of the President, Academic Dean (or its equivalent office) and the Chairperson of the Art Department of the University of Montana – Western.

In the event the University of Montana – Western should be closed, removed from the City of Dillon, or reduced from the status of a post-secondary academic institution of higher learning, for the preparation of teachers the residual of the Trusts are to be paid to the Barrett Memorial Hospital and to the City of Dillon for the benefit of its public library.

The University of Montana-Western Foundation manages the investments on behalf of the Trusts.