

NORTHWESTERN STATE UNIVERSITY FOUNDATION

**ANNUAL FINANCIAL REPORT
JUNE 30, 2014**

Northwestern State University Foundation
Annual Financial Report
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northwestern State University Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Northwestern State University Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, 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 Northwestern State University Foundation as of June 30, 2014, 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.

Johnson, Thomas & Cunningham

Johnson, Thomas & Cunningham, CPA's

October 1, 2014

Natchitoches, Louisiana

FINANCIAL STATEMENTS

Northwestern State University Foundation
Statement of Financial Position
June 30, 2014

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Assets-			
Cash & Cash Equivalents	\$ 3,352,778	\$ 30,399	\$ 3,383,177
Investments	11,456,906	121,575	11,578,481
Revenue Receivables	9,750	2,341	12,091
CSV of Life Insurance	48,260	0	48,260
Paintings	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total Assets	<u>\$14,887,694</u>	<u>\$154,315</u>	<u>\$15,042,009</u>
Liabilities-			
Accounts Payable	\$ 8,906	\$ 5,680	\$ 14,586
Accrued Interest Payable	29,599	0	29,599
Current Portion of Long-Term Debt	159,500	0	159,500
Funds Held In Custody	383,996	0	383,996
Long-Term Debt, net of current portion	<u>638,697</u>	<u>0</u>	<u>638,697</u>
Total Liabilities	<u>\$ 1,220,698</u>	<u>\$ 5,680</u>	<u>\$ 1,226,378</u>
Net Assets-			
Unrestricted	\$ 329,813	\$ 59,716	\$ 389,529
Temporarily Restricted	5,958,263	88,919	6,047,182
Permanently Restricted	<u>7,378,920</u>	<u>0</u>	<u>7,378,920</u>
Total Net Assets	<u>\$13,666,996</u>	<u>\$148,635</u>	<u>\$13,815,631</u>
Total Liabilities & Net Assets	<u>\$14,887,694</u>	<u>\$154,315</u>	<u>\$15,042,009</u>

The accompanying notes are an integral part of the financial statements.

Northwestern State University Foundation
Statement of Activities
For the Year Ended June 30, 2014

	<u>Foundation</u>	<u>Alumni</u>	<u>Total</u>
Changes in Unrestricted Net Assets			
Revenue:			
Contributions	\$ 209,951	\$ 78,508	\$ 288,459
Fundraising	19,061	46,505	65,566
Fees	1,742	27,105	28,847
Investment Income	4,328	981	5,309
Unrealized Gains on Investments	0	3,505	3,505
Other Income	1,868	12,721	14,589
Net Assets Released from Restrictions	1,803,288	5,666	1,808,954
Total Revenues and Reclassifications	<u>\$2,040,238</u>	<u>\$174,991</u>	<u>\$2,215,229</u>
Expenses:			
Program Services			
Marketing and Promotions	\$ 130,337	\$ 12,037	\$ 142,374
Materials and Supplies	152,271	9,766	162,037
Professional Services	60,168	14,887	75,055
Scholarships	906,172	11,000	917,172
Camps	51,979	0	51,979
Travel	178,637	2,291	180,928
Transfers to NSU	240,575	0	240,575
Other	116,126	7,298	123,424
Support Services			
Fundraising	28,286	75,232	103,518
Management and General	68,527	19,735	88,262
Total Expenses	<u>\$1,933,078</u>	<u>\$152,246</u>	<u>\$2,085,324</u>
Increase in Unrestricted Net Assets	<u>\$ 107,160</u>	<u>\$ 22,745</u>	<u>\$ 129,905</u>
Changes in Temporarily Restricted Net Assets			
Contributions	\$1,690,742	\$ 0	\$1,690,742
Fundraising	658,399	0	658,399
Fees	86,551	0	86,551
Investment Income	202,256	2,686	204,942
Unrealized Gains on Investments	1,537,891	10,294	1,548,185
Net Assets Released from Restrictions	(1,632,975)	(5,666)	(1,638,641)
Increase in Temporarily Restricted Net Assets	<u>\$2,542,864</u>	<u>\$ 7,314</u>	<u>\$2,550,178</u>

Continued on next page.

Northwestern State University Foundation
Statement of Activities
For the Year Ended June 30, 2014

Changes in Permanently Restricted Net Assets			
Contributions	\$ 418,056	\$ 0	\$ 418,056
Fundraising	2,885	0	2,885
Net Assets Released from Restrictions	(170,313)	0	(170,313)
Increase in Permanently Restricted Net Assets	<u>\$ 250,628</u>	<u>\$ 0</u>	<u>\$ 250,628</u>
Increase in Net Assets	\$ 2,900,652	\$ 30,059	\$ 2,930,711
Net Assets, Beginning of Year	\$10,926,095	\$118,576	\$11,044,671
Prior Period Adjustment* (see note 14)	(159,751)	0	(159,751)
Net Assets, Beginning of Year, As Restated	<u>\$10,766,344</u>	<u>\$118,576</u>	<u>\$10,884,920</u>
Net Assets, End of Year	<u>\$13,666,996</u>	<u>\$148,635</u>	<u>\$13,815,631</u>

The accompanying notes are an integral part of the financial statements.

Northwestern State University Foundation
Statement of Cash Flows
For the Year Ended June 30, 2014

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Increase in Net Assets	\$ 2,900,652	\$ 30,059	\$ 2,930,711
Adjustments to Reconcile Decreases in Net Assets to Net Cash Provided by (Used by) Operating Activities:			
(Increase) Decrease in Accounts Receivable	(8,761)	(2,341)	(11,102)
(Increase) Decrease in CSV of Life Insurance	(1,844)	0	(1,844)
Increase (Decrease) in Funds Held in Custody	224,245	0	224,245
Increase (Decrease) in Accounts Payable	<u>(31,948)</u>	<u>(1,783)</u>	<u>(33,731)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,082,344</u>	<u>\$ 25,935</u>	<u>\$3,108,279</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	\$ (225,216)	\$ 0	\$ (225,216)
Sale of Investments	74,624	0	74,624
Reinvestment of Investment Earnings	<u>(1,694,485)</u>	<u>(12,832)</u>	<u>(1,707,317)</u>
Net Cash Used by Investing Activities	<u>\$(1,845,077)</u>	<u>\$(12,832)</u>	<u>\$(1,857,909)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on notes payable	\$ (158,424)	\$ 0	\$ (158,424)
Net Cash Used by Financing Activities	<u>\$ (158,424)</u>	<u>\$ 0</u>	<u>\$ (158,424)</u>
Net Increase in Cash	\$ 1,078,843	\$ 13,103	\$ 1,091,946
Cash at Beginning of Year	<u>2,273,935</u>	<u>17,296</u>	<u>2,291,231</u>
Cash at End of Year	<u>\$ 3,352,778</u>	<u>\$ 30,399</u>	<u>\$ 3,383,177</u>
Total Interest Paid	<u>\$ 36,954</u>	<u>\$ 0</u>	<u>\$ 36,954</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

1. Organization:

The Northwestern State University Foundation, Inc. (the Foundation) is a non-profit organization established on May 20, 1960. The mission of the Foundation is to serve Northwestern State University (the University), its students and its faculty, primarily through financial resources raised and distributed by the corporation. The primary objectives and purposes of the Foundation are to promote the educational and cultural welfare of the University, to aid any student in continuing his or her studies at the University, to solicit and accept funds of all kinds for the purpose of providing scholarships and activities in research or other benefits for the University, its faculty and students and to exercise all powers and authority for the accomplishments of the objectives and purpose of the corporation. The Foundation's Board of Directors is comprised of twenty-five volunteer members.

The Foundation also includes the Northwestern State University Alumni Association (the Association). The mission of the Association is to promote the advancement of academic excellence by developing coalition among alumni, students, friends and the university community while supporting the university's traditions, values, and future. The Alumni Association's Board of Directors is comprised of thirty volunteer members.

The Foundation, as a reporting unit, previously included the Northwestern State University Athletic Association. As of July 1, 2013, the Athletic Association became a separate entity, known as Demons Unlimited Foundation, and is no longer reported under the auspices of the Foundation.

2. Summary of Significant Accounting Policies:

The accounting and reporting policies of Northwestern State University Foundation conform to generally accepted accounting principles as applicable to non-profit organizations, and are applied on a consistent basis between periods.

The following is a summary of certain significant accounting policies and practices:

- A. Financial Statement Presentation - The Foundation has adopted FASB Accounting Standard Codification 958-205 "Not-for-Profit Organizations." Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restriction when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

- B. Basis of Accounting - The Foundation uses the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when they are incurred.
- C. 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.
- D. Endowment Funds – Expenditures from endowed funds are based on donor or other legally imposed restrictions being satisfied. These restrictions are reviewed by management and legal counsel, as necessary.
- E. 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 and classified by the Internal Revenue Service as “other than private foundation”. The Foundation’s Form 990, *Return of Organization Exempt from Income Tax*, for the years ending 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.
- F. Funds Held in Custody - The University participates in a program with the State of Louisiana (the Eminent Scholars/Endowed Professorships Programs sponsored by the Louisiana Board of Regents) whereby the State contributes matching funds which, together with donations received by the Foundation, establishes endowment funds, which are accumulated and maintained by the University. The State match constitutes 40% of the total endowment. “Funds Held in Custody” represents the donations received by the Foundation for these endowments. These funds are transferred to the University when the University receives the State match.
- G. Collections and Works of Art – Donated collections and works of art are recorded as support at their estimated fair value at the date of receipt. The Foundation has received donated collections and works of art consisting of a collection of Southern History Journals and Salvador Dali paintings. These items are recorded as other assets at \$20,000. Donated properties are not used for the Foundation’s operations.
- H. Promises to Give – Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are made or as increases in temporary or permanently restricted net assets, depending on the nature of the restrictions. Temporarily and permanently restricted net assets are reclassified to unrestricted net assets in the fiscal year all restrictions are satisfied.

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

- I. Investments – The Foundation has the same investment policy for both endowed and non-endowed funds. The investment objective of the policy is a long-term real total return of at least five percent, net of fees and expenses. The investments are invested in a wide range of asset classes including equities, fixed income, alternative investments, and cash. All investments are pooled to maximize investment efficiency with separate general ledger accounts being maintained for each Endowment and Non-Endowment account. The asset allocations are reviewed annually by the Investment Committee and discussed with the Investment Managers.

Investments are reported at fair value, which is determined using quoted market price of identical or similar securities. Donated investments are recorded at fair market value at the date of receipt, which is then treated as cost.

Realized gains and losses on dispositions of investments are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized and unrealized gains and losses are recognized in the Foundation's current operations.

- J. Cash and Equivalents – Cash and cash equivalents are considered to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
- K. Concentration of Credit Risk – At various times during the year, cash on deposit with banking institutions may exceed the amounts insured by the Federal Deposit Insurance Corporation (FDIC). Management monitors the financial condition of these institutions on a regular basis, along with their cash balances to minimize this potential risk.

3. Cash and Cash Equivalents:

At June 30, 2014, cash and cash equivalents totaling \$3,383,177 as follows:

Interest bearing demand deposit accounts	\$ 3,349,242
Money market accounts	<u>33,935</u>
Total	<u>\$ 3,383,177</u>

Bank balances at June 30, 2014 totaled \$3,462,968. Deposits of \$403,210 are secured by FDIC insurance, while the remaining \$3,059,758 is unsecured.

4. Other Assets:

At June 30, 2014, the Foundation had other assets consisting of the following:

Cash surrender value of life insurance policies	\$ 48,260
Collections and works of art	<u>20,000</u>
Total	<u>\$ 68,260</u>

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

5. Donated Services:

During the year ended June 30, 2014, the Foundation received donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

6. Promises to Give:

Certain donors have stipulated in their will to donate to the Foundation upon death. As the donors have placed a condition on the donation, these amounts have not been recorded in the financial statements. The total amount of conditional promises to give was unknown at June 30, 2014.

7. Investments:

At June 30, 2014, the Foundation had investments summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Market Value
Certificates of Deposit, maturities >90 days	\$ 348,794	\$ 11,591	\$ 360,385
Corporate Bonds	2,132,117	950,228	3,082,345
Mutual Funds	170,490	76,833	247,323
Equity Securities	5,464,893	2,423,535	7,888,428
Total	<u>\$ 8,116,294</u>	<u>\$ 3,462,187</u>	<u>\$ 11,578,481</u>

Investment earnings included in the statement of activities were comprised of the following for the year ended June 30, 2014:

Unrealized gains on investments	\$1,551,690
Interest income	<u>210,251</u>
Total investment earnings	<u>\$1,761,941</u>

Total investment fees and expenses incurred on investment accounts for the year ended June 30, 2014, were \$36,804 and are included in the Statement of Activities under other program services expenses.

8. Transactions with Northwestern State University:

During the year ended June 30, 2014, the University provided certain personnel services, usage of office space and equipment, and travel expenses to the Foundation. The estimated value of these transactions for the year ended June 30, 2014 was \$139,500. In return, the Foundation solicits and collects funds for the benefit of the University.

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

9. Accounts Payable and Other Accruals:

At June 30, 2014, the Foundation had accounts payable and other accrued liabilities as follows:

Vendors	\$ 14,586
Accrued Interest Payable	<u>29,599</u>
Total	<u>\$ 44,185</u>

10. Fair Value of Financial Instruments:

The Foundation has adopted FASB Accounting Standards Codification Topic 820, "Fair Value Measurements". Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume).

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2014 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of Deposit, maturities > 90 days	\$ 360,386	\$ 0	\$ 0	\$ 360,386
Corporate Bonds	3,082,346	0	0	3,082,346
Mutual Funds	247,322	0	0	247,322
Equity Securities	7,888,427	0	0	7,888,427
CSV of Life Insurance	48,260	0	0	48,260
Total	<u>\$11,626,741</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$11,626,741</u>

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

11. Long-Term Debt:

In 2009 the Foundation obtained a debt issue in the amount of \$1,595,000 bearing an interest rate of 4.5%. The note payable was the funding source of a new scoreboard for NSU Athletics.

The following is a summary of debt transactions for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount Due</u> <u>In One Year</u>
Note Payable					
-MidSouth Bank '09	\$ 956,621	\$ 0	\$ (158,424)	\$ 798,197	\$ 159,500

The annual requirements to amortize all debt outstanding as of June 30, 2014, including interest expense as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$159,500	\$ 35,520	\$195,020
2016	159,500	28,741	188,241
2017	159,500	21,564	181,064
2018	159,500	14,386	173,886
2019	<u>160,197</u>	<u>7,240</u>	<u>167,437</u>
Total	<u>\$798,197</u>	<u>\$107,451</u>	<u>\$905,648</u>

Total interest expense for the year ended June 30, 2014 was \$36,954 and is included in other program services expenses.

12. Funds Held in Custody:

At June 30, 2014, the Foundation had funds held in custody summarized as follows:

Professorships- state match applied for	\$ 300,000
Professorships	<u>83,996</u>
Total funds held in custody	<u>\$ 383,996</u>

13. Compensation Paid to Board Members:

The members of the Board of Directors serve as volunteers and receive no compensation.

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

14. Restatement of Net Assets:

Beginning temporarily restricted net assets was restated to reflect \$159,751 of funds held in custody that were erroneously reported as contribution revenue in the prior year. This prior period adjustment is necessary to correct the understatement of funds held in custody at June 30, 2013.

	Temporarily Restricted Net Assets
Balance July 1, 2013, before PPA	\$3,656,755
Prior Period Adjustment	<u>(159,751)</u>
Balance July 1, 2013, after PPA	<u>\$3,497,004</u>

15. Restricted Net Assets:

At June 30, 2014, the Foundation had net assets of \$7,378,920 permanently restricted for scholarships.

At June 30, 2014, the Foundation had temporarily restricted net assets of \$6,047,182. During the year ended June 30, 2014, temporarily and permanently restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Marketing and promotions	\$ 87,287
Materials and supplies	119,172
Professional services	49,974
Scholarships	904,880
Transfers to NSU	238,394
Travel	169,925
Camps	51,979
Other program services expenses	105,017
Fund raising	27,552
Management and general	<u>54,774</u>
Total Restrictions Released	<u>\$ 1,808,954</u>

16. Lease Commitments:

Northwestern State University Foundation was not obligated under any capital or operating lease commitments at June 30, 2014.

17. Litigation:

There was no outstanding litigation against the Northwestern State University Foundation at June 30, 2014.

Northwestern State University Foundation
Notes to Financial Statements
June 30, 2014

18. Endowed Net Assets:

At June 30, 2014, the Foundation's endowed net assets are composed as follows:

	Temporarily Restricted <u>Net Assets</u>	Permanently Restricted <u>Net Assets</u>	<u>Total</u>
Balance at June 30, 2013, as restated*	\$3,497,004	\$7,128,292	\$10,625,296
Contributions	2,435,692	420,941	2,856,633
Investment income	204,942	0	204,942
Unrealized gains on investments	1,548,185	0	1,548,185
Released from restriction	<u>(1,638,641)</u>	<u>(170,313)</u>	<u>(1,808,954)</u>
Balance at June 30, 2014	<u>\$6,047,182</u>	<u>\$7,378,920</u>	<u>\$13,426,102</u>

*See note 14 regarding prior period adjustment.

19. Subsequent Events:

Management has evaluated events through October 1, 2014, the date which the financial statements were available for issue. There were no items to be reported.