

**NORTHWESTERN STATE UNIVERSITY  
FOUNDATION**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2018**

Northwestern State University Foundation  
Annual Financial Report  
June 30, 2018

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# Johnson, Thomas & Cunningham

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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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwestern State University Foundation, Inc. as of June 30, 2018, 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.

### **Other Matters**

We have previously audited the Northwestern State University Foundation, Inc.'s financial statements for the year ended June 30, 2017, and we expressed an unmodified opinion on those audited financial statements in our report dated October 4, 2017. In our opinion, the summarized information as of and for the year ended June 30, 2017, presented herein for comparative purposes, is consistent, in material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018, on our consideration of Northwestern State University Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern State University Foundation, Inc.'s internal control over financial reporting and compliance.

*Johnson, Thomas + Cunningham, CPA's*

Johnson, Thomas & Cunningham, CPA's  
Natchitoches, Louisiana

September 20, 2018

## FINANCIAL STATEMENTS

Northwestern State University Foundation  
Statement of Financial Position  
June 30, 2018  
(With Comparative Totals for 2017)

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>	<u>2017 Total</u>
<b>Assets-</b>				
Cash & Cash Equivalents	\$ 1,050,290	\$ 20,210	\$ 1,070,500	\$ 2,185,899
Investments	17,381,017	50,549	17,431,566	15,445,195
Revenue Receivables	61,443	2,269	63,712	730,537
CSV of Life Insurance Policies	56,501	0	56,501	54,787
Collections & Works of Art	20,000	0	20,000	20,000
Construction In Progress	34,830	0	34,830	0
Land	80,000	0	80,000	80,000
Buildings	1,080,000	0	1,080,000	0
Property & Equipment	5,000	0	5,000	0
Accumulated Depreciation	<u>(24,988)</u>	<u>0</u>	<u>(24,988)</u>	<u>0</u>
Total Assets	<u>\$19,744,093</u>	<u>\$ 73,028</u>	<u>\$19,817,121</u>	<u>\$18,516,418</u>
<b>Liabilities-</b>				
Accounts Payable	\$ 92,305	\$ 988	\$ 93,293	\$ 85,804
Accrued Interest Payable	4,570	0	4,570	12,155
Current Portion of Long-Term Debt	49,636	0	49,636	159,500
Funds Held In Custody	1,148,120	0	1,148,120	641,514
Long-Term Debt, net of current portion	<u>1,030,364</u>	<u>0</u>	<u>1,030,364</u>	<u>160,197</u>
Total Liabilities	<u>\$ 2,324,995</u>	<u>\$ 988</u>	<u>\$ 2,325,983</u>	<u>\$ 1,059,170</u>
<b>Net Assets-</b>				
Unrestricted	\$ 1,429,858	\$ (30,711)	\$ 1,399,147	\$ 281,205
Temporarily Restricted	6,631,770	102,751	6,734,521	7,849,018
Permanently Restricted	<u>9,357,470</u>	<u>0</u>	<u>9,357,470</u>	<u>9,327,025</u>
Total Net Assets	<u>\$17,419,098</u>	<u>\$ 72,040</u>	<u>\$17,491,138</u>	<u>\$17,457,248</u>
Total Liabilities & Net Assets	<u>\$19,744,093</u>	<u>\$ 73,028</u>	<u>\$19,817,121</u>	<u>\$18,516,418</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, 2018  
(With Comparative Totals for 2017)

	<u>Foundation</u>	<u>Alumni</u>	<u>Total</u>	<u>2017 Total</u>
<u>Changes in Unrestricted Net Assets</u>				
Revenue:				
Contributions	\$ 323,349	\$ 4,775	\$ 328,124	\$ 299,450
Fundraising	65,735	145,485	211,220	165,091
Fees	0	27,642	27,642	21,739
Investment Income	2,645	113	2,758	3,340
Other Income	73,158	10,758	83,916	72,750
Interfund Transfers	1,175,062	72,810	1,247,872	188,588
Net Assets Released from Restrictions	<u>4,776,378</u>	<u>0</u>	<u>4,776,378</u>	<u>2,865,073</u>
Total Revenues and Reclassifications	<u>\$ 6,416,327</u>	<u>\$ 261,583</u>	<u>\$ 6,677,910</u>	<u>\$ 3,616,031</u>
Expenses:				
Program Services				
Marketing and Promotions	\$ 254,306	\$ 40,593	\$ 294,899	\$ 278,661
Materials and Supplies	370,153	32,397	402,550	395,773
Professional Services	59,529	0	59,529	79,099
Scholarships	2,149,742	1,400	2,151,142	1,657,406
Camps	61,925	0	61,925	69,743
Travel	158,491	3,541	162,032	119,138
Transfers to NSU	92,006	0	92,006	207,775
Interfund Transfers	1,303,268	201	1,303,469	188,587
Other	95,497	14,276	109,773	78,327
Support Services				
Fundraising	79,636	144,533	224,169	156,631
Management and General	<u>645,915</u>	<u>54,774</u>	<u>700,689</u>	<u>422,293</u>
Total Expenses	<u>\$5,270,468</u>	<u>\$291,715</u>	<u>\$5,562,183</u>	<u>\$3,653,533</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$1,145,859</u>	<u>\$ (30,132)</u>	<u>\$1,115,727</u>	<u>\$ (37,502)</u>
<u>Changes in Temporarily Restricted Net Assets</u>				
Contributions	\$1,617,211	\$ 0	\$1,617,211	\$1,821,118
Fundraising	695,544	0	695,544	429,783
Fees	105,761	0	105,761	104,036
Investment Income	1,223,680	6,016	1,229,696	1,654,863
Other Income	11,207	0	11,207	25,528
Net Assets Released from Restrictions	<u>(4,771,699)</u>	<u>0</u>	<u>(4,771,699)</u>	<u>(2,803,260)</u>
Increase (Decrease) in Temp. Rest. Net Assets	<u>\$ (1,118,296)</u>	<u>\$ 6,016</u>	<u>\$ (1,112,280)</u>	<u>\$ 1,232,068</u>
<u>Changes in Permanently Restricted Net Assets</u>				
Contributions	\$ 736,489	\$ 0	\$ 736,489	\$1,132,882
Fundraising	2,000	0	2,000	0
Interfund Transfers	55,597	0	55,597	0
Net Assets Released from Restrictions	<u>(4,679)</u>	<u>0</u>	<u>(4,679)</u>	<u>(61,813)</u>
Increase in Permanently Restricted Net Assets	<u>\$ 789,407</u>	<u>\$ 0</u>	<u>\$ 789,407</u>	<u>\$ 1,071,069</u>

Continued on next page.

Northwestern State University Foundation  
Statement of Activities  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	<u>Foundation</u>	<u>Alumni</u>	<u>Total</u>	2017 <u>Total</u>
Increase (Decrease) in Net Assets	\$ 816,970	\$ (24,116)	\$ 792,854	\$ 2,265,635
Net Assets- Beginning of Year, As Restated	* <u>16,602,128</u>	<u>96,156</u>	<u>16,698,284</u>	<u>15,191,613</u>
Net Assets- End of Year	<u>\$17,419,098</u>	<u>\$ 72,040</u>	<u>\$17,491,138</u>	<u>\$17,457,248</u>

\* Restated for prior period adjustment. See note 18.

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, 2018  
(With Comparative Totals for 2017)

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>	<u>2017 Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Increase (Decrease) in Net Assets	\$ 816,970	\$ (24,116)	\$ 792,854	\$2,265,635
Adjustments to Reconcile Decreases in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation	24,988	0	24,988	0
(Increase) Decrease in Accounts Receivable	664,522	2,302	666,824	36,321
Increase in CSV of Life Insurance	(1,714)	0	(1,714)	(3,087)
Increase in Funds Held in Custody	(252,358)	0	(252,358)	172,844
Increase (Decrease) in Accounts Payable	<u>6,592</u>	<u>(6,688)</u>	<u>(96)</u>	<u>29,705</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,259,000</u>	<u>\$ (28,502)</u>	<u>\$ 1,230,498</u>	<u>\$2,501,418</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of Capital Assets	\$(1,119,830)	\$ 0	\$(1,119,830)	\$ 0
Purchase of Investments	(999,119)	0	(999,119)	(321,316)
Withdrawal of Investments	144,474	48,500	192,974	341,183
Net Reinvestment Earnings	<u>(1,172,580)</u>	<u>(7,645)</u>	<u>(1,180,225)</u>	<u>(1,601,070)</u>
Net Cash Provided (Used) by Investing Activities	<u>\$(3,147,055)</u>	<u>\$ 40,855</u>	<u>\$(3,106,200)</u>	<u>\$(1,581,203)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Loan Proceeds	\$ 1,080,000	\$ 0	\$ 1,080,000	\$ 0
Principal payments on notes payable	<u>(319,697)</u>	<u>0</u>	<u>(319,697)</u>	<u>(159,500)</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 760,303</u>	<u>\$ 0</u>	<u>\$ 760,303</u>	<u>\$ (159,500)</u>
Net Increase (Decrease) in Cash	\$(1,127,752)	\$ 12,353	\$(1,115,399)	\$ 760,715
Cash at Beginning of Year	<u>2,178,042</u>	<u>7,857</u>	<u>2,185,899</u>	<u>1,425,184</u>
Cash at End of Year	<u>\$ 1,050,290</u>	<u>\$ 20,210</u>	<u>\$ 1,070,500</u>	<u>\$ 2,185,899</u>
Total Interest Paid in Cash	<u>\$ 35,491</u>	<u>\$ 0</u>	<u>\$ 35,491</u>	<u>\$ 21,923</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, 2018

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 NSU 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, 2018

- 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”. Therefore, no provision for income taxes has been made in the financial statements, but the Foundation is required to file an annual information tax return. The Foundation’s Form 990, *Return of Organization Exempt from Income Tax*, for the years ending 2015 through 2018 remain subject to examination by the Internal Revenue Service, 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 up to 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 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, 2018

- 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. Property, Plant, and Equipment:

Donations of property, plant, and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. When donor stipulations are absent regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Association maintains a threshold level of \$5,000 or more for capitalizing property and equipment. Property and equipment are depreciated using the straight-line method. Purchased property and equipment are recorded at cost.

- K. 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. For the purposes of the statement of cash flows, cash includes amounts in demand deposits, interest-bearing deposits, and money market accounts.

3. Donated Services:

During the year ended June 30, 2018, 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.

4. 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, 2018.

Northwestern State University Foundation  
Notes to Financial Statements  
June 30, 2018

5. Cash and Cash Equivalents:

The cash and cash equivalents of the Foundation are subject to the following risk:

*Custodial Credit Risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover its deposits. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Foundation that the fiscal agent bank has failed to pay deposited funds upon demand. Further, Louisiana Revised Statute 39:1224 states that securities held by a third party shall be deemed to be held in the Foundation's name.

At June 30, 2018, cash and cash equivalents totaling \$1,070,500 as follows:

Interest bearing demand deposit accounts	\$1,043,082
Money market accounts	<u>27,418</u>
Total	<u>\$1,070,500</u>

Bank balances at June 30, 2018 totaled \$1,519,168. Deposits of \$250,000 were secured by FDIC insurance, while the remaining \$1,269,168 was unsecured.

6. Cash Surrender Value of Life Insurance Policies:

The cash surrender value of life insurance policies totaled \$56,501 for the year ended June 30, 2018. The cash surrender value of life insurance policies is net of any outstanding policy loans. Various individuals donated the policies, with the Foundation designated as beneficiary and owner.

7. Transactions with Northwestern State University:

During the year ended June 30, 2018, the University provided certain personnel services, usage of office space and equipment, and travel expenses to the Foundation that is not reflected in the financial statements. The estimated value of these transactions for the year ended June 30, 2018 was \$227,621. In return, the Foundation solicits and collects funds for the benefit of the University.

8. Comparative Totals for Prior Year:

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Northwestern State University Foundation  
Notes to Financial Statements  
June 30, 2018

9. Investments:

At June 30, 2018, the Foundation had investments summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Market Value
Certificates of Deposit, maturities >90 days	\$ 348,794	\$ 15,667	\$ 364,461
Corporate Bonds	3,020,139	2,091,488	5,111,627
Mutual Funds	1,235,995	90,243	1,326,238
Equity Securities	6,267,015	4,362,225	10,629,240
Total	\$10,871,943	\$6,559,623	\$17,431,566

*Interest Rate Risk.* This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity is its fair value to changes in market interest rates. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, as a means of offsetting exposure to interest rate risk, the Foundation diversifies its investments by security type and institution.

Investment earnings included in the statement of activities were comprised of the following for the year ended June 30, 2018:

Unrealized gains on investments	\$ 933,905
Interest income	<u>298,546</u>
Total investment earnings	<u>\$1,232,451</u>

Total investment fees and expenses incurred on investment accounts for the year ended June 30, 2018, were \$49,608 and are included in the Statement of Activities under other program services expenses.

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.

Northwestern State University Foundation  
Notes to Financial Statements  
June 30, 2018

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, 2018 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	\$ 364,461	\$0	\$0	\$ 364,461
Corporate Bonds	5,111,627	0	0	5,111,627
Mutual Funds	1,326,238	0	0	1,326,238
Equity Securities	10,629,240	0	0	10,629,240
CSV of Life Insurance	56,501	0	0	56,501
Total	<u>\$17,488,067</u>	<u>\$0</u>	<u>\$0</u>	<u>\$17,488,067</u>

#### 11. Funds Held in Custody:

In 1989, the Louisiana Legislature enacted R.S. 17:3129.5 to establish the Louisiana Endowed Professorship Fund for providing faculty enhancement. Under the direction of the Board of Regents, matching grants are made by the state at 60%. In 2008, the Board of Regents established the Endowed Scholarship Program. Effective July 1, 2017, matching from the Board of Regents will be at 20%.

At June 30, 2018, the Foundation had funds held in custody for professorships and scholarships summarized as follows:

State match applied for	\$1,040,000
Other professorships & scholarships	<u>108,120</u>
Total funds held in custody	<u>\$1,148,120</u>

#### 12. Related Parties

The Mary R. Gallaspy Charitable Trust #2 (Trust) is a substantial contributor of the Foundation. The Trust instruments dictate that all board members of the Foundation will also act as trustees of the Trust. The Director of the Foundation is also a paid consultant for the Trust. The Foundation's Accountant is also paid by the Trust for bookkeeping services. As described in note 13, during the current year the Foundation borrowed from the Trust by executing a multiple indebtedness mortgage and promissory note in the amount of \$1,080,000 bearing interest at a rate of 5% per annum.

#### 13. Long-Term Debt:

On July 23, 2008, the Foundation obtained a debt issue in the amount of \$1,595,000 bearing an interest rate of 4.5%, with a maturity date of August 31, 2018. The note payable was the funding source of a new scoreboard for NSU Athletics. The note was paid off early in March 2018.



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On February 8, 2018, the Foundation obtained a debt issue in the amount of \$1,080,000 bearing an interest rate of 5%. It is a multiple indebtedness mortgage maturing June 30, 2023 with a balloon payment. The loan is to be repaid with one interest-only payment on June 1, 2018, following with monthly principal and interest payments of \$8,543 beginning July 1, 2018. The final principal and interest payment of \$817,003 will be due on June 30, 2023.

The following is a summary of debt transactions for the year ended June 30, 2018:

<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Amount Due In One Year</u>
<u>\$319,697</u>	<u>\$1,080,000</u>	<u>\$(319,697)</u>	<u>\$1,080,000</u>	<u>\$49,636</u>

The annual requirements to amortize all debt outstanding as of June 30, 2018, including interest expense as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$49,636	\$ 52,879	\$ 102,515
2020	52,175	50,340	102,515
2021	54,844	47,671	102,515
2022	57,650	44,865	102,515
2023	<u>865,695</u>	<u>41,915</u>	<u>907,610</u>
Total	<u>\$1,080,000</u>	<u>\$237,670</u>	<u>\$1,317,670</u>

Total interest expense for all debt for the year ended June 30, 2018 was \$27,916 and is included in other program services expenses.

14. Endowed Net Assets:

At June 30, 2018, the Foundation's endowed net assets are composed as follows:

	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Balance at June 30, 2017, as restated*	\$ 7,849,018	\$8,568,062	\$16,417,080
Contributions	1,617,211	736,489	2,353,700
Fundraising Income	695,544	2,000	697,544
Investment income	1,229,696	0	1,229,696
Camps Income	105,761	0	105,761
Other Income	11,207	53,381	64,588
Released from restriction	<u>(4,773,916)</u>	<u>(2,462)</u>	<u>(4,776,378)</u>
Balance at June 30, 2018	<u>\$ 6,734,521</u>	<u>\$9,357,470</u>	<u>\$16,091,991</u>

\*Restated for prior period adjustment. See Note 18.

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15. Restricted Net Assets:

At June 30, 2018, the Foundation had net assets of \$9,357,470 permanently restricted for scholarships.

At June 30, 2018, the Foundation had temporarily restricted net assets of \$6,734,521. During the year ended June 30, 2018, permanently and temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the time and/or purpose restrictions specified by donors as follows:

Marketing and promotions	\$ 131,337
Materials and supplies	277,025
Professional services	5,224
Scholarships	2,149,546
Transfers to NSU	92,006
Travel	142,704
Camps	61,925
Other program services expenses	80,410
Interfund Transfers	1,303,268
Fundraising	64,112
Management and general	<u>468,821</u>
Total Restrictions Released	<u>\$4,776,378</u>

16. Capital Assets:

The following is a summary of changes in capital assets for the Foundation for the year ended June 30, 2018:

	Balance <u>7/1/17</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/18</u>
Non-Depreciable Capital Assets-				
Collections- Works of Art	\$ 20,000	\$ 0	\$0	\$ 20,000
Construction In Progress	0	34,830	0	34,830
Land	<u>80,000</u>	<u>0</u>	<u>0</u>	<u>80,000</u>
Total Non-Depreciable Assets	<u>\$100,000</u>	<u>\$ 34,830</u>	<u>\$0</u>	<u>\$ 134,830</u>
Depreciable Capital Assets-				
Buildings	\$ 0	\$1,080,000	\$0	\$1,080,000
Property & Equipment	<u>0</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total Depreciable Capital Assets	<u>\$ 0</u>	<u>\$1,085,000</u>	<u>\$0</u>	<u>\$1,085,000</u>
Total Capital Assets	\$100,000	\$1,119,830	\$0	\$1,219,830
Less: Accumulated Depreciation	<u>\$ 0</u>	<u>\$ (24,988)</u>	<u>\$0</u>	<u>\$ (24,988)</u>
Total Capital Assets, Net	<u>\$100,000</u>	<u>\$1,094,842</u>	<u>\$0</u>	<u>\$1,194,842</u>

Depreciation expense for the current year totaled \$24,988. On February 8, 2018, the Foundation purchased real estate in the form of a building and land. The Foundation financed this property with a multiple indebtedness mortgage (see note 13).

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17. Bookstore Agreement

The Foundation entered into a fifteen-year agreement with Follett Higher Education Group, Inc. (Follett) to operate the official campus store in the NSU Campus Marketplace, effective July 1, 2018 and ending June 30, 2033. Follett will pay the Foundation a monthly rental fee of \$13,000, to be paid once a year by August 31. Annual increases of 1.5% per year begin July 1, 2019. For the year ended June 30, 2018, rental income totaled \$61,443. Follett will pay commission to NSU as follows: 6% of commissionable sales over \$1,000,000 but less than \$3,000,000; 10% of any commissionable sales over \$3,000,000; 7% of commissionable sales of digital course materials. Follett will provide \$2,000 annually in textbook scholarships and contribute \$2,000 annually to the Foundation's general scholarship fund. The Foundation will receive a one-time payment for \$650,000 from Follett for construction costs. Follett will spend up to \$350,000 for interior improvements.

18. Prior Period Adjustment:

In prior years, there were receipts of \$758,963 erroneously reported as revenue instead of Funds Held in Custody. These receipts for scholarships and professorships are held by the Foundation and later transferred to Northwestern State University. The net effect of the restatement was to reduce the Foundation's endowed net position of \$9,327,025 by \$758,963, resulting in a restated beginning endowed net position of \$8,568,062.

19. Lease Commitments:

Northwestern State University Foundation was not obligated under any capital or operating lease commitments at June 30, 2018.

20. Compensation Paid to Board Members:

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

21. New Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 *Revenue from Contracts with Customers* as a new Topic, Accounting Standards Codification *Topic 606*. The ASU is intended to provide a more robust framework for addressing revenue issues, improving comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 by one year. This ASU is effective for annual reporting periods beginning after December 15, 2018, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The Foundation is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its financial statements at this time.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December

Northwestern State University Foundation  
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15, 2019, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The Foundation is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its financial statements at this time.

In August 2016, the FASB issue ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. ASU No. 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The Foundation is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its financial statements at this time.

22. Subsequent Events:

Management has evaluated events through September 20, 2018, the date which the financial statements were available for issue. The following items were identified to be reported.

The Foundation entered into a fifteen-year agreement with Sodexo Operations, LLC (Sodexo) to operate a Chick-fil-a inside the NSU Campus Marketplace, effective July 1, 2018 and ending June 30, 2033. Upon completion of the construction, Sodexo will pay the Foundation an annual rental fee of \$45,550, and a 5% commission of net sales monthly.

On July 9, 2018, the Foundation received a one-time payment in the amount of \$650,000 from Follett Higher Education Group, Inc. to cover a portion of NSU Campus Marketplace renovations that began July 1, 2018. This payment was in accordance with the executed bookstore operating agreement, as described in note 17.

On August 10, 2018, the board granted approval for the Foundation to borrow an additional \$1,500,000 from the Mary R. Gallaspy Charitable Trust #2 to cover remaining project costs for the NSU Campus Marketplace.

## INTERNAL CONTROL AND COMPLIANCE

# Johnson, Thomas & Cunningham

## Certified Public Accountants

Eddie G. Johnson, CPA - A Professional Corporation (1927-1996)

Mark D. Thomas, CPA - A Professional Corporation

Roger M. Cunningham, CPA - A Professional Corporation

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northwestern State University Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2018.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northwestern State University Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwestern State University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Northwestern State University Foundation, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we identified one deficiency in internal control (Item 2018-001) that we do not consider to be a material weakness. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northwestern State University Foundation, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Management's Response to Findings**

The Foundation's response to the findings identified in our audit is described in the accompanying schedule of audit findings. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northwestern State University Foundation, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purposes. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

  
Johnson, Thomas & Cunningham, CPA's  
Natchitoches, Louisiana

September 20, 2018

Northwestern State University Foundation, Inc.  
Schedule of Audit Findings  
For the Year Ended June 30, 2018

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of Northwestern State University Foundation, Inc. for the year ended June 30, 2018.
2. One significant deficiency relating to the audit of the financial statements was reported. See finding *2018-001* below.
3. No instances of noncompliance material to the financial statements of Northwestern State University Foundation, Inc. were disclosed during the audit.
4. Northwestern State University Foundation, Inc. was not subject to a federal single audit for the year ended June 30, 2018.

B. Financial Statement Findings

Internal Control-

*2018-001* Insufficient Controls Over Expenditures

Criteria - Adequate internal controls require that expenditures are supported with proper documentation and approval before payment is issued.

Condition - The Foundation failed to obtain and maintain adequate supporting documentation and proper approval on expenditures.

Cause - The Foundation did not follow established internal controls procedures for the processing of expenditures.

Effect - Payments could be made, intentionally or unintentionally, that do not comply with the Foundation's mission and donor's intentions, which could result in the misstatement of the financial statements.

Recommendation - The Foundation should follow internal controls to ensure payments are not issued without appropriate supporting documentation and approval.

Management's Response - We will follow our internal controls procedures to ensure payments are not issued without the appropriate supporting documentation and approval.

C. Prior Year Findings

None identified.