

**MONTANA COMMUNITY FOUNDATION**  
**REPORT OF INDEPENDENT AUDITORS**  
**AND FINANCIAL STATEMENTS**

**JUNE 30, 2010**

## TABLE OF CONTENTS

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REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-19

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Montana Community Foundation  
Helena, Montana

We have audited the accompanying statement of financial position of Montana Community Foundation (the Foundation) (a nonprofit organization) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Community Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, the Foundation corrected errors related to a beneficial interest in a pooled income fund and classification of net assets.

*Moss Adams LLP*

Spokane, Washington  
June 23, 2011

**MONTANA COMMUNITY FOUNDATION  
STATEMENT OF FINANCIAL POSITION**

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**ASSETS**

	June 30, 2010
ASSETS	
Cash and cash equivalents	\$ 967,419
Accrued interest receivable	154,089
Prepaid expenses	12,329
Beneficial interest in pooled income fund	716,643
Pooled investments	49,711,306
Cash surrender value of life insurance	159,638
Property and equipment, net of accumulated depreciation of \$131,278	<u>97,062</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 51,818,486</u></b>

**LIABILITIES AND NET ASSETS**

LIABILITIES	
Accounts payable	\$ 9,992
Accrued expenses	19,929
Grants and distributions payable	820,824
Planned gift liabilities	2,501,885
Funds held as agency endowments	<u>6,152,396</u>
<b>Total liabilities</b>	<b><u>9,505,026</u></b>
NET ASSETS	
Unrestricted net assets	
Unrestricted - for operating purposes	590,551
Unrestricted - deficit in endowment assets	<u>(1,669,031)</u>
<b>Total unrestricted net assets</b>	<b>(1,078,480)</b>
Temporarily restricted net assets	4,826,537
Permanently restricted net assets	<u>38,565,403</u>
<b>Total net assets</b>	<b><u>42,313,460</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 51,818,486</u></b>

**MONTANA COMMUNITY FOUNDATION  
STATEMENT OF ACTIVITIES**

	Year Ended June 30, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions				
Contributions	\$ 94,688	\$ 619,364	\$ 1,080,298	\$ 1,794,350
Intrafund grants from endowment funds	113,462	321	31,737	145,520
<b>Total contributions</b>	<b>208,150</b>	<b>619,685</b>	<b>1,112,035</b>	<b>1,939,870</b>
Revenue and other additions				
Administrative fees	189,120	-	-	189,120
Interest and dividends	32,880	1,151,461	159,951	1,344,292
Realized and unrealized gains and losses on investments	14,635	2,255,758	679,227	2,949,620
Change in deficit in endowments	808,380	(808,380)	-	-
Change in value of beneficial interest in pooled income fund	-	-	10,731	10,731
Change in value of planned gift liabilities	-	-	(157,913)	(157,913)
<b>Total revenue and other additions</b>	<b>1,045,015</b>	<b>2,598,839</b>	<b>691,996</b>	<b>4,335,850</b>
Net assets released from restrictions	2,937,534	(2,937,534)	-	-
<b>Total support, revenue, other additions, and net assets released from restrictions</b>	<b>4,190,699</b>	<b>280,990</b>	<b>1,804,031</b>	<b>6,275,720</b>
<b>EXPENSES</b>				
Grants and philanthropic distributions				
Grants	2,152,766	-	-	2,152,766
Intrafund grants to endowment funds	821	144,699	-	145,520
Transfer of assets under management	-	2,055	47,656	49,711
<b>Total grant and philanthropic distributions</b>	<b>2,153,587</b>	<b>146,754</b>	<b>47,656</b>	<b>2,347,997</b>
Endowment expenses				
Investment fees	339,957	-	-	339,957
<b>Total endowment expenses</b>	<b>339,957</b>	<b>-</b>	<b>-</b>	<b>339,957</b>
Operating and administrative expenses				
General and administrative	577,105	-	-	577,105
Development and fund-raising	33,470	-	-	33,470
Program support	227,250	-	-	227,250
<b>Total operating and administrative expenses</b>	<b>837,825</b>	<b>-</b>	<b>-</b>	<b>837,825</b>
<b>Total expenses</b>	<b>3,331,369</b>	<b>146,754</b>	<b>47,656</b>	<b>3,525,779</b>
Reclassification of net assets	-	(108,187)	108,187	-
<b>INCREASE IN NET ASSETS</b>	<b>859,330</b>	<b>26,049</b>	<b>1,864,562</b>	<b>2,749,941</b>
<b>NET ASSETS, beginning of year (restated)</b>	<b>(1,937,810)</b>	<b>4,800,488</b>	<b>36,700,841</b>	<b>39,563,519</b>
<b>NET ASSETS, end of year</b>	<b>\$ (1,078,480)</b>	<b>\$ 4,826,537</b>	<b>\$ 38,565,403</b>	<b>\$ 42,313,460</b>

*See accompanying notes.*

**MONTANA COMMUNITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**

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	Year Ended June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 2,749,941
Adjustments to reconcile net assets to net cash from operating activities:	
Realized and unrealized gains and losses	(2,949,620)
Depreciation	59,089
Loss on disposal of equipment	6,619
Change in value of beneficial interest in pooled income fund	(10,731)
Change in valuation of planned gift liabilities	157,913
Noncash contributions	(218,988)
Contributions to permanently restricted endowments	(1,080,298)
Transfer of assets under management	49,711
Change in operating assets and liabilities:	
Interest receivable	18,468
Prepaid expenses	(12,329)
Accounts payable	(30,081)
Accrued expense	(535)
Grants payable	149,299
Funds held as agency endowments	184,362
Net cash from operating activities	<u>(927,180)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investment securities	26,016,660
Purchase of investment securities	(25,989,323)
Purchase of equipment	(67,501)
Net cash from investing activities	<u>(40,164)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Contributions to permanently restricted endowments	1,080,298
Payments to annuitants and life income beneficiaries	(278,836)
Transfer of assets under management	(49,711)
Net cash from financing activities	<u>751,751</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(215,593)
Cash and cash equivalents, beginning of year	<u>1,183,012</u>
Cash and cash equivalents, end of year	<u>\$ 967,419</u>

**Note 1 - General Purpose and Activities**

Montana Community Foundation (the Foundation) is a Montana public benefit corporation whose mission is to cultivate a culture of giving so Montana communities can flourish. It accomplishes this by working with donors who want to provide long-term support for charitable services, communities to build unrestricted funds to meet changing needs, and policy makers to implement systemic changes to improve the quality of life for Montanans. The majority of gifts received are endowment gifts, which are preserved in perpetuity. A portion of the net investment earnings are granted to Montana public benefit corporations or to award scholarships. The Foundation was incorporated on January 29, 1988, and began operations in July 1988. Effective January 1, 1989, the Foundation merged with Community Development Foundation, Inc., a community foundation formed for the purpose of assisting and promoting the well being of the people living in the Yellowstone Basin by supporting various charitable activities.

**Note 2 - Summary of Significant Accounting Policies**

***Basis of presentation:***

The financial statements are prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

***Fund accounting:***

The accounts of the Foundation are maintained in accordance with the principles of fund accounting. As such, contributions are classified into funds based upon their particular purpose and nature. For the purpose of investing funds, the Foundation pools them according to their purpose or whether they are considered permanently or temporarily restricted. At June 30, 2010, the Foundation held 578 endowment funds.

***Classification of net assets:***

In order to report limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation and financial statement presentation are maintained in accordance with the requirements of the Financial Accounting Standards Board. This requires the Foundation to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

***Unrestricted net assets:***

Resources that are not restricted by donor-imposed stipulations. Generally these assets represent the operating assets of the Foundation.

***Temporarily restricted net assets:***

Resources that are limited by donor stipulations that expire with the passage of time or upon completion of charitable goals. This category consists of undistributed earnings on permanent endowment funds and funds held for specific projects.

***Permanently restricted net assets:***

Resources from donors to permanent endowments. The value of contributions to permanent endowments is never spent. Generally, the earnings on permanent endowments are classified as temporarily restricted until appropriated for expenditure based on the Foundation's payout policy or other terms of the gift agreement. In some cases, the terms of the gift agreement require appreciated earnings to also be permanently restricted.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Cash and cash equivalents:***

For financial statement purposes, the Foundation considers all cash accounts and highly liquid debt instruments purchased with a maturity of 90 days or less as cash equivalents. This amount is available to support the operating needs of the Foundation. Cash and cash equivalents are also held by investment managers for future investment in securities and are reported as part of pooled investments.

***Fair value measurement of investments:***

Investments are stated at fair value following applicable requirements of accounting principles generally accepted in the United States of America. Fair value is defined as the price the Foundation would receive upon selling an asset in an orderly transaction between market participants at the measurement date. Fair market values are determined by the most relevant available and observable valuation inputs and are classified into three levels.

- Level 1**      Quoted prices in active markets for identical assets or liabilities.  
Example: listed securities
  
- Level 2**      Directly or indirectly observable inputs other than quoted prices included in Level 1. Example: thinly traded securities
  
- Level 3**      Unobservable inputs that are not corroborated by market data and reflect the entity's assumptions for pricing. Example: private equity funds

***Beneficial interest in pooled income fund:***

The Foundation is the beneficiary of irrevocable pooled income gifts that are managed as a trust by a third party trustee. The value of the Foundation's estimated irrevocable remainder interest is the discounted present value of cash flows and is shown as a beneficial interest in pooled income fund.

***Pooled Investments:***

The Foundation pools its funds for the purposes of investing. The Foundation uses two investment pools; one holds permanently restricted funds (Investment Pool) and the second holds temporarily restricted funds (Short Term Pool). The Investment Pool's assets are divided among cash, fixed income, equity, and alternative investments. Allocation among asset classes and investment managers is guided by an investment policy based upon an investment objective of growth and income. The Short Term Pool's assets are cash and fixed income investments and investing is guided by an investment policy based on preserving contribution value. Earnings from the pooled investment portfolios are prorated back to individual funds.

The Foundation is the beneficiary of irrevocable planned gifts (split interest agreements) - gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. The remainder amount of all planned gifts benefits funds that are permanently restricted and therefore planned gift assets are invested in the Investment Pool.

***Property and equipment:***

Furniture and equipment are carried at cost if purchased and at fair value at the date of the gift if donated. Depreciation is computed using the straight-line method over a period of three to ten years. The Foundation capitalizes expenditures for items over \$5,000 that have a useful life over one year.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Grants and distributions payable:***

Grants are recognized as liabilities at the time they are authorized for expenditure regardless of the year in which the grants are paid. Grant amounts are determined by the Foundation's payout policy or when a donor restriction supersedes the payout policy, according to the terms of the gift instrument.

***Planned gift liabilities (split interest agreements):***

The Foundation records an amount due to income beneficiaries of charitable gift annuities and charitable remainder trusts when it acts as trustee. The liability is based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Annual adjustments to the liability reflect revaluation of the present value of the estimated future payments to the income beneficiary and are recognized in the statement of activities as a change in value of planned gifts. The present value of the estimated future payments was calculated using discount rates, ranging from 2.5% to 7.0%, at the date of gift and applicable mortality tables.

***Funds held as agency endowments:***

The Foundation follows the accounting standards for transfers of assets to not-for-profit organizations and charitable trusts that raise or hold contributions for others. When a not-for-profit organization establishes a fund with the Foundation with its own funds and specifies itself as the beneficiary of that fund, the Foundation must account for the fund as a liability. The liability is recorded at the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit. The Foundation refers to these funds as agency funds. According to agreements, the Foundation owns the assets of agency endowments; however, in the event the Foundation is dissolved, agency endowments would be returned to the benefitting nonprofit. The Foundation reports the funds as part of pooled investments.

The Foundation manages gift annuities for which it is not the remainder beneficiary. Upon maturity or termination, the value of the annuity will be transferred to the benefiting charity to be held as a liability within permanent endowment. These assets are recorded as an asset of the investment pool and as funds held as agency endowments. The Foundation receives a fee for this arrangement.

***Contributions:***

Contributions are recognized as revenue when received or unconditionally promised. Contributions of public stock are recorded at fair market value on the date of donation. Contributions of life insurance policies are recorded at cash surrender value on the date of donation.

***Administrative fees:***

Fees charged for the management of agency funds are reported as revenue. Fees charged for the management of other funds are reported as net assets released from restriction (see Note 8).

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Change in deficit in endowment funds:***

Permanently restricted net assets cannot be expended; however, it is possible that market conditions will cause the current value of permanently restricted assets to fall below the value that is accounted for as permanent. When that happens, as it did in 2010 and 2009, the difference between the permanent balance and the fair value is accounted for as an unrealized loss to unrestricted net assets. When market gains cause current values to approach or meet the permanent value that amount is recognized as change in deficit in endowment funds.

***Intrafund grants to endowment funds:***

This is the amount granted from one Foundation fund to another based on donor recommendations and Foundation approval. These grants are both expenses and revenues at the fund level. They are reported as intrafund grants to endowment funds and intrafund grants from endowment funds on the statement of activity for the purpose of reflecting all grant support from the Foundation's funds. Although this is not in accordance with accounting principles generally accepted in the United States of America (GAAP), the amounts are deemed immaterial for elimination.

***Functional expenses:***

Expenses, which apply to more than one functional category, are allocated between general and administrative, development, and program support based on the time spent on these functions by specific employees as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

***Reclassification of net assets:***

During the year ended June 30, 2010, several donors to scholarship funds agreed to allow the entire fund to be expended over the next three to five years. These scholarship funds are small, less than \$25,000 and the administrative burden and expense was not in line with the funds' value. Assets were reclassified from permanently to temporarily restricted net assets in accordance with donor request.

***Concentrations of risk:***

**Cash equivalents:**

In the normal course of business, the Foundation may maintain balances at a bank in excess of the federally insured limits.

**Investments:**

Investments are exposed to various risks, such as interest, market, and credit risks. It is reasonably possible given the risks associated with investments that changes in the near term could materially affect the amounts reported in the financial statements. To manage risk, the Foundation has formal investment policies. The Foundation engages the services of a third party investment consultant that assists with compliance with the policies and evaluation of performance.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Income taxes:***

The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundation complies with FASB ASC 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. As of June 30, 2010, the Foundation had no uncertain tax positions requiring accrual.

***Accounting estimates:***

The preparation of financial statements in conformity with GAAP 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.

***Subsequent events:***

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Foundation recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about the conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are issued.

The Foundation has evaluated subsequent events through June 23, 2011, which is the date the financial statements were available to be issued.

**Note 3 - Interpretation of Relevant Laws**

***Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Montana Code Annotated [MCA] 72-30-101):***

The Board of Directors in consultation with its legal counsel determined it holds net assets that meet the definition of endowment funds under UPMIFA. As a result, the Foundation classifies contributions made to endowment funds as permanently restricted net assets. The value is established on the date of contribution. Earnings on endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Foundation unless required to be added to the corpus and then the earnings are classified as permanently restricted.

From time to time, the fair value of endowment funds may fall below the amount classified as permanently restricted net assets. At June 30, 2010, the Foundation had deficiencies in 204 funds totaling \$1,669,031. These deficiencies reflect unfavorable market fluctuation during the reporting periods. They are reflected as a reduction to unrestricted net assets.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 3 - Interpretation of Relevant Laws (Continued)**

***Foundation's investment and payout policies – endowment funds:***

The Foundation has adopted investment and spending policies for endowment assets that are designed and intended to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the Foundation's endowment assets. The Foundation's investment and payout policies work together to achieve these objectives. The investment policy attempts to establish an achievable return objective through diversification of and prescribed allocation among asset classes, restrictions on asset quality, and limitations on concentrations of holdings by sector and company. The current long-term return objective is 5.5% plus inflation. Actual returns in any given year may vary from this objective. To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and income (interest and dividends). The Foundation's asset allocation places a greater emphasis on equity-based investments in order to achieve its long-term return objectives within prudent risk parameters.

The payout policy calculates the amount of money distributed annually from the Foundation's endowed funds. The current payout policy is 5.5% (gross of administrative and investment management fees) of the three year daily average fund balance calculated each December 31. The payout policy is subject to annual review and modification by the Board of Directors. Changes to the payout policy are guided by the standards described in UPMIFA.

***Qualified endowment credit (MCA 15-30-165):***

Montana law provides for a tax credit against Montana income tax liability for individuals and businesses in exchange for planned gifts made by an individual tax payer to a qualified endowment or a direct gift made by a business to a qualified endowment.

***Montana Charitable Gift Annuity Exemption Act (MCA 33-20-701):***

Montana law requires charitable organizations that offer charitable gift annuities to meet certain requirements set forth by the Montana insurance commissioner. Annual registration is required.

**Note 4 - Investments**

Investments are carried at fair value and consist of the following as of June 30, 2010:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Pooled investments:			
Cash and cash equivalents	\$ 815,685	\$ 815,685	\$ -
Global equities	31,143,753	30,318,704	(825,049)
Global bonds	15,468,234	16,729,236	1,261,002
Mutual funds	511,503	470,633	(40,870)
Alternative investment	1,311,358	1,377,048	65,690
	<u>\$ 49,250,533</u>	<u>\$ 49,711,306</u>	<u>\$ 460,773</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Investments (Continued)**

Alternative investments are less liquid than the Foundation's other investments. In order to achieve the Foundation's investment objectives regarding return and risk, investment in alternative investments is desirable.

Investment returns for the year ended June 30, 2010:

Realized and unrealized gains and losses, net	\$ 2,949,620
Interest and dividends	<u>1,344,292</u>
Total investment gain	<u>\$ 4,293,912</u>

**Note 5 - Fair Value of Financial Instruments**

The following tables present the fair value of financial instruments according to valuation levels determined by accounting principles generally accepted in the United States of America:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 815,685	\$ -	\$ -	\$ 815,685
Global equities	30,318,704	-	-	30,318,704
Global bonds	-	16,729,236	-	16,729,236
Mutual funds	470,633	-	-	470,633
Alternative investment	<u>-</u>	<u>1,131,169</u>	<u>245,879</u>	<u>1,377,048</u>
Total pooled investments	<u>\$ 31,605,022</u>	<u>\$ 17,860,405</u>	<u>\$ 245,879</u>	<u>\$ 49,711,306</u>
Cash surrender value of life insurance	-	159,638	-	159,638
Beneficial interest in pooled income fund	-	716,643	-	716,643

Fair market valuation of alternative investments is based on information provided by fund managers, external investment advisors and market factors.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Fair Value of Financial Instruments (Continued)**

Following is a reconciliation of activity for the year ended June 30, 2010, of assets measured at fair value based upon significant unobservable information:

	<u>Alternative Investment</u>
Balance, beginning of year	\$ 157,491
Purchases	59,999
Sales	(30,000)
Realized and unrealized gains and losses	<u>58,389</u>
Balance, end of year	<u>\$ 245,879</u>

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at net asset value (NAV) at June 30, 2010:

	<u>Fair Value at June 30, 2010</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Strategies and Other Restrictions</u>
Private equity	\$ 1,377,048	None	1 day to 1 year	1 to 45 days	(1)

<sup>(1)</sup> The fair values of the investments in this category have been estimated using the NAV per share of investments.

While the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investment existed, or had such investment been liquidated.

**Note 6 - Planned Gifts**

The Foundation's irrevocable interest in gift annuities, charitable remainder trusts and pooled income funds is as follows at June 30, 2010:

Permanent net assets, balance beginning of year	<u>\$ 3,655,316</u>
Contributions	368,446
Interest and dividends	159,951
Realized/unrealized gains, net	363,027
Decrease in value of planned gift liability	<u>253,352</u>
Total income	<u>1,144,776</u>
Payments to income beneficiaries	278,836
Termination/maturity	430,736
Administrative and investment management fees	<u>112,100</u>
Total expense	<u>821,672</u>
Permanent net assets, balance end of year	<u>\$ 3,978,420</u>

**Note 7 - Funds Held As Agency Endowments**

The following is a reconciliation of changes in funds held as agency endowments during the year ended June 30, 2010:

Balance beginning of year	<u>\$ 5,968,034</u>
Contributions	111,731
Interest and dividends	181,872
Realized/unrealized gains, net	<u>468,122</u>
Total income	<u>761,725</u>
Distributions of earnings	211,094
Administrative and investment management fees	125,034
Transfer of assets under management	<u>241,235</u>
Total expense	<u>577,363</u>
Balance end of year	<u>\$ 6,152,396</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 8 - Administrative and Investment Fees**

The Foundation charges administrative fees for its services and for the professional management of assets. For the year ended June 30, 2010, those amounts were charged as follows:

Permanent and temporary funds	\$ 691,097
Planned gifts	112,100
Agency funds	125,034
Fees for services	64,086
	<u>992,317</u>
	<u>\$ 992,317</u>

Of these amounts, \$125,034 of fees for agency funds and \$64,086 of fees for services was reported as administrative fee revenue in the statement of activities, \$112,100 was reported as part of the change in value of planned gifts, and \$691,097 was released from restriction to cover administrative expenses.

**Note 9 - Net Assets Released From Restriction**

As restrictions are met, assets are released and reclassified from temporarily restricted assets to unrestricted assets. The released assets are used for grant making and the payment of administrative and investment management fees. Uses of released net assets were as follows for the year ended June 30, 2010:

Payment of grants	\$ 1,772,917
Payment of administrative and investment manager fees	802,289
Distributions of earnings	356,457
Endowment expenses	5,871
	<u>2,937,534</u>
	<u>\$ 2,937,534</u>

**Note 10 - Grants**

The Foundation supports charitable work by making grants, distributing earnings to nonprofits under agency agreements, and transferring distributable earnings among the Foundation's own funds. Under generally accepted accounting principles, distributions to nonprofits under agency agreements are recorded as reductions in funds held as agency endowments. Grants made from one Foundation fund to another are shown as intrafund grants. The following is summary of total charitable support as of the year ended June 30, 2010:

Grants	\$ 2,152,766
Distributions to agencies	211,094
Intrafund grants	145,520
	<u>2,509,380</u>
	<u>\$ 2,509,380</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 11 - Endowment Funds**

Donor restricted endowment net assets composition as of June 30, 2010, is as follows. The Foundation has no Board-designated endowments as of June 30, 2010.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2010	\$ (1,669,031)	\$ 2,392,219	\$ 34,586,983	\$ 35,310,171

Change in donor restricted endowment net assets for the fiscal year ended June 30, 2010:

	<u>Unrestricted Deficit in Endowment Assets</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009 as originally stated	\$ -	\$ (966,763)	\$ 33,842,912	\$ 32,876,149
Restatements	<u>(2,477,411)</u>	<u>3,274,798</u>	<u>(797,387)</u>	<u>-</u>
Endowment net assets, July 1, 2009 restated	<u>(2,477,411)</u>	<u>2,308,035</u>	<u>33,045,525</u>	<u>32,876,149</u>
Investment return:				
Investment income	-	1,054,141	-	1,054,141
Net unrealized and realized gains/ losses	-	2,083,162	316,201	2,399,363
Change in deficit in endowments	<u>808,380</u>	<u>(808,380)</u>	<u>-</u>	<u>-</u>
Total investment return	<u>808,380</u>	<u>2,328,923</u>	<u>316,201</u>	<u>3,453,504</u>
Contributions	-	132,496	728,513	861,009
Transfers	-	(2,055)	496,744	494,689
Appropriation for expenditure	<u>-</u>	<u>(2,375,180)</u>	<u>-</u>	<u>(2,375,180)</u>
Endowment net assets, June 30, 2010	<u>\$ (1,669,031)</u>	<u>\$ 2,392,219</u>	<u>\$ 34,586,983</u>	<u>\$ 35,310,171</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 12 - Net Assets**

Temporarily restricted net assets at June 30, 2010, are available for the following purposes:

Special projects	\$ 2,434,318
Unappropriated earnings	<u>2,392,219</u>
	<u>\$ 4,826,537</u>

Permanently restricted net assets at June 30, 2010, are available for the following purposes:

Endowments	\$ 34,586,983
Irrevocable planned gifts	<u>3,978,420</u>
	<u>\$ 38,565,403</u>

**Note 13 - Retirement Plan**

The Foundation has established a simplified employee pension plan for employees. The Foundation contributes 6% of the participants' annual salaries per year. The Foundation's pension plan expense was \$13,712 for the year ended June 30, 2010.

**Note 14 - Lease Obligations**

The Foundation leases office space under an operating lease agreement. A new agreement was entered in to for its new office location in August 2009 expiring in June 2014. The lease also obligates the Foundation for its pro-rata share of taxes, insurance, and common area maintenance. Rent expense for the year ended June 30, 2010, was \$35,696.

Future minimum lease payments as of June 30, 2010, are as follows:

2011	\$ 34,500
2012	34,425
2013	34,425
2014	<u>34,425</u>
	<u>\$ 137,775</u>

**Note 15 - Transfer of Assets under Management**

In fiscal 2010, the Foundation transferred endowment assets to other organizations totaling \$49,711, which is shown as a reduction in the net asset category in which the endowments were held.

**Note 16 - Subsequent Events**

As of April 30, 2011, market gains have significantly improved the deficit in endowment assets in which management has noted only 20 endowments had deficits totaling just \$33,061, as compared to June 30, 2010, when the Foundation had deficiencies in 204 funds, totaling \$1,669,031. Investments are exposed to various risks such as interest rate, market and credit and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the statement of financial position.

**Note 17 - Restatement to 2009 Statement of Financial Position and Changes in Net Assets**

During the year ended June 30, 2010, the Foundation corrected the following errors in the accounting methods used in prior periods and as a result, restated its net assets as of July 1, 2009:

- Certain planned gift assets that had been recorded as temporarily restricted net assets were reclassified as permanently restricted net assets to more accurately reflect the donor's intention according to the gift agreement.
  - As a result, temporarily restricted net assets were decreased \$3,590,255 and permanently restricted net assets were increased \$3,590,255.
- The deficit in endowment assets, reflecting the amount of those endowments whose current value was below the permanently restricted recorded balance, had been recorded in temporarily restricted net assets. This was corrected by reclassifying the deficit to unrestricted net assets.
  - As a result, unrestricted net assets were decreased \$2,477,411 and temporarily restricted net assets were increased \$2,477,411.
- Certain endowments' realized and unrealized gains and losses that had been recorded as temporarily restricted net assets were reclassified as permanently restricted net assets in accordance with the related endowment agreements that dictate these earnings accrue to the permanently restricted net asset portion of the endowment.
  - As a result, permanently restricted net assets were decreased \$797,388 and temporarily restricted net assets were increased \$797,388.
- The presentation of the beneficial interest in the pooled income fund was corrected to be accounted for on a discounted cash flow method and an increase was recognized as a result of the change in valuation.
  - As a result, permanently restricted net assets were increased \$65,062.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 17 - Restatement to 2009 Statement of Financial Position and Changes in Net Assets (Continued)**

The effect on the Foundation's previously issued 2009 statement of financial position ended 2009 changes in net assets is presented as follows:

	Previously Reported	Increase (Decrease)	Restated
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,183,012	\$ -	\$ 1,183,012
Accrued interest receivable	172,557	-	172,557
Beneficial interest in pooled income fund	-	705,912	705,912
Pooled investments	47,580,032	(955,038)	46,624,994
Cash surrender value of life insurance	163,095	-	163,095
Property and equipment, net of accumulated depreciation	88,650	-	88,650
	<u>\$ 49,187,346</u>	<u>\$ (249,126)</u>	<u>\$ 48,938,220</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 40,073	\$ -	\$ 40,073
Accrued expenses	20,464	-	20,464
Grants and distributions payable	671,525	-	671,525
Planned gift liabilities	2,988,793	(314,188)	2,674,605
Funds held as agency endowments	5,968,034	-	5,968,034
	<u>9,688,889</u>	<u>(314,188)</u>	<u>9,374,701</u>
<b>NET ASSETS</b>			
Unrestricted net assets			
Unrestricted - for operating purposes	539,601	-	539,601
Unrestricted - deficit in endowment assets	-	(2,477,411)	(2,477,411)
	<u>539,601</u>	<u>(2,477,411)</u>	<u>(1,937,810)</u>
Temporarily restricted net assets	5,115,944	(315,456)	4,800,488
Permanently restricted net assets	33,842,912	2,857,929	36,700,841
	<u>39,498,457</u>	<u>65,062</u>	<u>39,563,519</u>
	<u>\$ 49,187,346</u>	<u>\$ (249,126)</u>	<u>\$ 48,938,220</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 17 - Restatement to 2009 Statement of Financial Position and Changes in Net Assets (Continued)**

The effect on the increase in net assets for the year ended June 30, 2009, would have been:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
<b>Increase in net assets</b>			
Unrestricted	<u>\$ (282,012)</u>	<u>\$ (2,423,007)</u>	<u>\$ (2,705,019)</u>
Temporarily restricted	(9,174,459)	3,839,687	(5,334,772)
Permanently restricted	<u>1,088,382</u>	<u>(1,337,095)</u>	<u>(248,713)</u>
Total increase in net assets	<u>\$ (8,368,089)</u>	<u>\$ 79,585</u>	<u>\$ (8,288,504)</u>