

**MONTANA COMMUNITY FOUNDATION**  
**REPORT OF INDEPENDENT AUDITORS**  
**AND FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Montana Community Foundation

We have audited the accompanying statement of financial position of Montana Community Foundation (the Foundation) (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Montana Community Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Spokane, Washington  
January 17, 2012

**MONTANA COMMUNITY FOUNDATION  
STATEMENT OF FINANCIAL POSITION**

**ASSETS**

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,241,368	\$ 967,419
Accrued interest receivable	149,493	154,089
Prepaid expenses	17,696	12,329
Beneficial interest in pooled income fund	873,201	716,643
Pooled investments	57,358,334	49,711,306
Cash surrender value of life insurance	169,761	159,638
Property and equipment, net of accumulated depreciation of \$172,429 and \$131,278 for 2011 and 2010, respectively	<u>55,910</u>	<u>97,062</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 60,865,763</u></b>	<b><u>\$ 51,818,486</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 35,383	\$ 9,992
Accrued expenses	22,190	19,929
Grants and distributions payable	576,772	820,824
Planned gift liabilities	2,471,409	2,501,885
Funds held as agency endowments	<u>7,033,798</u>	<u>6,152,396</u>
<b>Total liabilities</b>	<b><u>10,139,552</u></b>	<b><u>9,505,026</u></b>
<b>NET ASSETS</b>		
Unrestricted net assets		
Unrestricted - for operating purposes	622,153	590,551
Unrestricted - deficit in endowment assets	<u>(71,582)</u>	<u>(1,669,031)</u>
<b>Total unrestricted net assets</b>	<b>550,571</b>	<b>(1,078,480)</b>
Temporarily restricted net assets	8,353,924	4,826,537
Permanently restricted net assets	<u>41,821,716</u>	<u>38,565,403</u>
<b>Total net assets</b>	<b><u>50,726,211</u></b>	<b><u>42,313,460</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 60,865,763</u></b>	<b><u>\$ 51,818,486</u></b>

**MONTANA COMMUNITY FOUNDATION  
STATEMENT OF ACTIVITIES**

	Year Ended June 30, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions				
Contributions	\$ 90,255	\$ 1,216,482	\$ 1,571,142	\$ 2,877,879
Intrafund grants from endowment funds	44,261	25,138	165,117	234,516
Total contributions	<u>134,516</u>	<u>1,241,620</u>	<u>1,736,259</u>	<u>3,112,395</u>
Revenue and other additions				
Administrative fees	212,591	-	-	212,591
Interest and dividends	39,555	1,102,814	156,749	1,299,118
Realized and unrealized gains (losses) on investments	(8,867)	5,844,142	1,684,619	7,519,894
Change in deficit in endowments	1,597,449	(1,597,449)	-	-
Change in value of beneficial interest in pooled income fund	-	-	156,558	156,558
Change in value of planned gift liabilities	-	-	(302,816)	(302,816)
Total revenue and other additions	<u>1,840,728</u>	<u>5,349,507</u>	<u>1,695,110</u>	<u>8,885,345</u>
Net assets released from restrictions	<u>3,039,783</u>	<u>(3,039,783)</u>	-	-
Total support, revenue, other additions, and net assets released from restrictions	<u>5,015,027</u>	<u>3,551,344</u>	<u>3,431,369</u>	<u>11,997,740</u>
<b>EXPENSES</b>				
Grants and philanthropic distributions				
Grants	2,068,231	-	-	2,068,231
Intrafund grants to endowment funds	111,720	1,098	121,698	234,516
Transfer of assets under management	2,200	16,230	59,987	78,417
Total grant and philanthropic distributions	<u>2,182,151</u>	<u>17,328</u>	<u>181,685</u>	<u>2,381,164</u>
Endowment expenses				
Investment fees	394,426	-	-	394,426
Total endowment expenses	<u>394,426</u>	<u>-</u>	<u>-</u>	<u>394,426</u>
Operating and administrative expenses				
General and administrative	550,251	-	-	550,251
Development and fund-raising	36,723	-	-	36,723
Program support	222,425	-	-	222,425
Total operating and administrative expenses	<u>809,399</u>	<u>-</u>	<u>-</u>	<u>809,399</u>
Total expenses	<u>3,385,976</u>	<u>17,328</u>	<u>181,685</u>	<u>3,584,989</u>
Reclassification of net assets	-	(6,629)	6,629	-
INCREASE IN NET ASSETS	1,629,051	3,527,387	3,256,313	8,412,751
NET ASSETS, beginning of year	<u>(1,078,480)</u>	<u>4,826,537</u>	<u>38,565,403</u>	<u>42,313,460</u>
NET ASSETS, end of year	<u>\$ 550,571</u>	<u>\$ 8,353,924</u>	<u>\$ 41,821,716</u>	<u>\$ 50,726,211</u>

**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
Total contributions	<u>208,150</u>	<u>619,685</u>	<u>1,112,035</u>	<u>1,939,870</u>
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 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)
Total revenue and other additions	<u>1,045,015</u>	<u>2,598,839</u>	<u>691,996</u>	<u>4,335,850</u>
Net assets released from restrictions	<u>2,937,534</u>	<u>(2,937,534)</u>	<u>-</u>	<u>-</u>
Total support, revenue, other additions, and net assets released from restrictions	<u>4,190,699</u>	<u>280,990</u>	<u>1,804,031</u>	<u>6,275,720</u>
<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
Total grant and philanthropic distributions	<u>2,153,587</u>	<u>146,754</u>	<u>47,656</u>	<u>2,347,997</u>
Endowment expenses				
Investment fees	339,957	-	-	339,957
Total endowment expenses	<u>339,957</u>	<u>-</u>	<u>-</u>	<u>339,957</u>
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
Total operating and administrative expenses	<u>837,825</u>	<u>-</u>	<u>-</u>	<u>837,825</u>
Total expenses	<u>3,331,369</u>	<u>146,754</u>	<u>47,656</u>	<u>3,525,779</u>
Reclassification of net assets	-	(108,187)	108,187	-
<b>INCREASE IN NET ASSETS</b>	<u>859,330</u>	<u>26,049</u>	<u>1,864,562</u>	<u>2,749,941</u>
<b>NET ASSETS</b> , beginning of year (restated)	<u>(1,937,810)</u>	<u>4,800,488</u>	<u>36,700,841</u>	<u>39,563,519</u>
<b>NET ASSETS</b> , end of year	<u>\$ (1,078,480)</u>	<u>\$ 4,826,537</u>	<u>\$ 38,565,403</u>	<u>\$ 42,313,460</u>

**MONTANA COMMUNITY FOUNDATION  
STATEMENT OF CASH FLOWS**

	Year Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	<b>\$ 8,412,751</b>	\$ 2,749,941
Adjustments to reconcile net assets to net cash from operating activities:		
Realized and unrealized gains and losses	<b>(7,519,894)</b>	(2,949,620)
Depreciation	<b>41,152</b>	59,089
Loss on disposal of equipment	<b>-</b>	6,619
Change in value of beneficial interest in pooled income fund	<b>(156,558)</b>	(10,731)
Change in valuation of planned gift liabilities	<b>302,816</b>	157,913
Noncash contributions	<b>(127,149)</b>	(218,988)
Contributions to permanently restricted endowments	<b>(1,571,142)</b>	(1,080,298)
Transfer of assets under management	<b>78,417</b>	49,711
Change in operating assets and liabilities:		
Interest receivable	<b>4,596</b>	18,468
Prepaid expenses	<b>(5,367)</b>	(12,329)
Accounts payable	<b>25,391</b>	(30,081)
Accrued expense	<b>2,261</b>	(535)
Grants payable	<b>(244,052)</b>	149,299
Funds held as agency endowments	<b>881,402</b>	184,362
	<b>124,624</b>	(927,180)
<b>Net cash from operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment securities	<b>30,050,145</b>	26,016,660
Purchase of investment securities	<b>(30,114,419)</b>	(25,989,323)
Purchase of equipment	<b>-</b>	(67,501)
	<b>(64,274)</b>	(40,164)
<b>Net cash from investing activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions to permanently restricted endowments	<b>1,571,142</b>	1,080,298
Payments to annuitants and life income beneficiaries	<b>(279,126)</b>	(278,836)
Transfer of assets under management	<b>(78,417)</b>	(49,711)
	<b>1,213,599</b>	751,751
<b>Net cash from financing activities</b>		
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,273,949</b>	(215,593)
Cash and cash equivalents, beginning of year	<b>967,419</b>	1,183,012
Cash and cash equivalents, end of year	<b>\$ 2,241,368</b>	\$ 967,419

## **MONTANA COMMUNITY FOUNDATION NOTES TO FINANCIAL STATEMENTS**

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### **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, 2011 and 2010, the Foundation held 457 and 454 endowment funds, respectively.

#### ***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.

**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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**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. Amounts available for granting 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 Notes 7 and 8).

**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, 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, 2011, there were a few endowments in which temporarily restricted net assets available for granting were reclassified to the permanent endowment balances of the endowment fund in accordance with donor request. 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 were 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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**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, 2011 and 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 January 17, 2012, 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, 2011 and 2010, the Foundation had deficiencies in 45 funds totaling \$71,582 and 204 funds totaling \$1,669,031, respectively. These deficiencies reflect unfavorable market fluctuation during the reporting periods. They are reflected as a reduction to unrestricted net assets in the period incurred.

**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 4.0% (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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Investments and Fair Value Measurements**

Investments are carried at fair value and consist of the following as of June 30, 2011 and 2010:

	June 30, 2011			Total
	Level 1	Level 2	Level 3	
Pooled investments - redeemable securities				
Cash and cash equivalents	\$ 1,910,209	\$ -	\$ -	\$ 1,910,209
Equity securities				
Information technology industry	6,026,370	-	-	6,026,370
Consumer discretionary industry	4,257,762	-	-	4,257,762
Financial industry	4,094,001	-	-	4,094,001
Health care industry	3,995,745	-	-	3,995,745
Other	14,378,134	-	-	14,378,134
Total equity securities	34,662,221	-	-	34,662,221
Debt securities				
Corporate bonds	3,406,194	-	-	3,406,194
US Treasury securities	622,586	-	-	622,586
Municipal bonds	5,086,899	-	-	5,086,899
Floating rate notes	1,130,149	-	-	1,130,149
Collateralized mortgage obligations	794,743	-	-	794,743
Mortgage backed securities	4,549,729	-	-	4,549,729
Total debt securities	15,590,300	-	-	15,590,300
Other equity securities				
Mutual funds	3,987,414	-	-	3,987,414
Exchange traded precious metal commodity funds	109,822	-	-	109,822
Total other equity securities	4,097,236	-	-	4,097,236
Hedge fund investments				
Equity long/short	-	832,261	-	832,261
Global opportunities	-	1,377,195	-	1,377,195
Distressed debt	-	320,301	265,835	586,136
Total hedge fund investments	-	2,529,757	265,835	2,795,592
Private equity				
Global opportunities	-	-	162,985	162,985
Total private equity	-	-	162,985	162,985
Total redeemable securities	\$ 54,349,757	\$ 2,529,757	\$ 428,820	\$ 57,308,334
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	\$ -	\$ -	\$ 50,000	\$ 50,000
Total nonredeemable securities	\$ -	\$ -	\$ 50,000	\$ 50,000
Total pooled investments	\$ 54,349,757	\$ 2,529,757	\$ 478,820	\$ 57,358,334
Cash surrender value of life insurance	\$ -	\$ 169,761	\$ -	\$ 169,761
Beneficial interest in pooled income fund	\$ -	\$ 873,201	\$ -	\$ 873,201

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Investments and Fair Value Measurements (Continued)**

	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	590,515	-	-	590,515
Alternative investment	-	1,011,287	245,879	1,257,166
<b>Total pooled investments</b>	<b>\$ 31,724,904</b>	<b>\$ 17,740,523</b>	<b>\$ 245,879</b>	<b>\$ 49,711,306</b>
Cash surrender value of life insurance	\$ -	\$ 159,638	\$ -	\$ 159,638
Beneficial interest in pooled income fund	\$ -	\$ 716,643	\$ -	\$ 716,643

Investment returns for the years ended June 30:

	2011	2010
Realized and unrealized gains and losses, net	<b>\$ 7,519,894</b>	\$ 2,949,620
Interest and dividends	<b>1,299,118</b>	1,344,292
<b>Total investment gain</b>	<b>\$ 8,819,012</b>	<b>\$ 4,293,912</b>

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.

	Equity Long/Short	Global Opportunities	Distressed Debt	Private Equity	Commercial Real Estate
Beginning balance at July 1, 2010	\$ -	\$ -	\$ 245,879	\$ -	\$ -
Total realized gains (losses)	-	-	-	-	-
Total unrealized gains (losses)	-	-	19,956	2,985	(10,000)
Purchases and sales, net	-	-	-	160,000	60,000
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Actuarial adjustment	-	-	-	-	-
<b>Ending balance at June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 265,835</b>	<b>\$ 162,985</b>	<b>\$ 50,000</b>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Investments and Fair Value Measurements (Continued)**

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2011, and are included in the lines *Realized and unrealized gains and losses on investments* in the statement of activities for the year ended June 30, 2011.

	<u>Level 3 Alternative Investment</u>
Beginning balance at July 1, 2009	\$ 157,491
Purchases	59,999
Sales	(30,000)
Realized and unrealized gains and losses	<u>58,389</u>
Ending balance at June 30, 2010	<u>\$ 245,879</u>

	<u>Fair Value at June 30, 2011</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Strategies and Other Restrictions</u>
Hedge fund investments					
Equity long/short	\$ 832,261	\$ -	Monthly to quarterly	45 days	(1)
Global opportunities	1,377,195	-	Monthly to quarterly	10 - 95 days	(1)
Distressed debt	<u>586,136</u>	-	Monthly to annually	45 - 95 days	(1)
Total hedge fund investments	<u>2,795,592</u>	-			
Private equity					
Global opportunities	162,985	-	Quarterly	30-45 days	(1)
Commercial real estate	<u>50,000</u>	450,000	Illiquid for 7 years	n/a	(1)
Total private equity	<u>212,985</u>	450,000			
Total	<u>\$ 3,008,577</u>	<u>\$ 450,000</u>			

	<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>
Hedge fund investments	\$ 1,257,166	None	1 day to 1 year	1 to 45 days	(1)

<sup>(1)</sup> The hedge fund and private equity allocations are intended to reduce risk by mitigating volatility of the equity markets and target positive and stable absolute returns.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Planned Gifts**

The Foundation's irrevocable interest in gift annuities, charitable remainder trusts, life insurance policies, and pooled income funds (which are a portion of the total permanently restricted net assets) had the following changes during the years ended June 30:

	<u>2011</u>	<u>2010</u>
Balance beginning of year	<u>\$ 3,978,420</u>	<u>\$ 3,655,316</u>
Contributions	487,324	368,446
Interest and dividends	156,749	159,951
Realized/unrealized gains, net	1,001,333	363,027
Decrease in value of planned gift liability	<u>250,974</u>	<u>253,352</u>
Total income	<u>1,896,380</u>	<u>1,144,776</u>
Payments to income beneficiaries	279,126	278,836
Termination/maturity	630,287	430,736
Administrative and investment management fees	<u>118,105</u>	<u>112,100</u>
Total expense	<u>1,027,518</u>	<u>821,672</u>
Balance end of year	<u>\$ 4,847,282</u>	<u>\$ 3,978,420</u>

**Note 6 - Funds Held As Agency Endowments**

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

	<u>2011</u>	<u>2010</u>
Balance beginning of year	<u>\$ 6,152,396</u>	<u>\$ 5,968,034</u>
Contributions	376,416	111,731
Interest and dividends	172,933	181,872
Realized/unrealized gains, net	<u>1,121,962</u>	<u>468,122</u>
Total income	<u>1,671,311</u>	<u>761,725</u>
Distributions of earnings	214,700	211,094
Administrative and investment management fees	128,952	125,034
Transfer of assets under management	<u>446,257</u>	<u>241,235</u>
Total expense	<u>789,909</u>	<u>577,363</u>
Balance end of year	<u>\$ 7,033,798</u>	<u>\$ 6,152,396</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Administrative and Investment Fees**

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

	<u>2011</u>	<u>2010</u>
Permanent and temporary funds	\$ 738,306	\$ 691,097
Planned gifts	118,105	112,100
Agency funds	128,952	125,034
Fees for services	83,639	64,086
	<u>\$ 1,069,002</u>	<u>\$ 992,317</u>

Fees charged to agency funds and charges for services were reported as administrative fee revenue in the statement of activities. Fees charged to planned gifts were reflected in the change in value of planned gift liabilities in the statement of activities. Amounts for fees charged to permanent endowment and temporary special projects funds were released from restriction to cover administrative expenses and are part of the total net assets released from restriction in the statement of activities.

**Note 8 - 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 years ended June 30:

	<u>2011</u>	<u>2010</u>
Payment of grants	\$ 1,594,345	\$ 1,773,147
Payment of interfund grants	112,818	23,714
Payment of administrative and investment manager fees	821,945	755,183
Distributions of earnings	473,886	379,619
Endowment expenses	36,789	5,871
	<u>\$ 3,039,783</u>	<u>\$ 2,937,534</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - 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 accounting principles generally accepted in the United States of America, 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 years ended June 30:

	<b>2011</b>	<b>2010</b>
Grants	<b>\$ 2,068,231</b>	\$ 2,152,766
Distributions to agencies	<b>212,619</b>	211,094
Intrafund grants	<b>234,516</b>	145,520
	<b>\$ 2,515,366</b>	\$ 2,509,380

**Note 10 - Endowment Funds**

The Foundation has no Board-designated endowments as of June 30, 2011 and 2010. Donor restricted endowment net assets composition as of June 30 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
June 30, 2011	<b>\$ (71,582)</b>	<b>\$ 5,443,447</b>	<b>\$ 36,974,434</b>	<b>\$ 42,346,299</b>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2010	\$ (1,669,031)	\$ 2,392,219	\$ 34,586,983	\$ 35,310,171

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 10 - Endowment Funds (Continued)**

Change in donor restricted endowment net assets for the fiscal years ended June 30:

	June 30, 2011			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	<u>\$ (1,669,031)</u>	<u>\$ 2,392,219</u>	<u>\$ 34,586,983</u>	<u>\$ 35,310,171</u>
Investment return:				
Investment income		1,007,327	-	1,007,327
Net unrealized and realized gains/ losses		5,644,679	683,286	6,327,965
Change in deficit in endowments	<u>1,597,449</u>	<u>(1,597,449)</u>		-
Total investment return	<u>1,597,449</u>	<u>5,054,557</u>	<u>683,286</u>	<u>7,335,292</u>
Contributions	-	83,431	1,083,817	1,167,248
Termination/maturity of planned gifts	-	-	630,287	630,287
Intrafund grants to endowment funds	-	24,040	43,419	67,459
Transfer of assets under management	-	(16,230)	(59,987)	(76,217)
Reclassification of net assets	-	(6,629)	6,629	-
Appropriation for expenditure	-	<u>(2,087,941)</u>	-	<u>(2,087,941)</u>
Endowment net assets, June 30, 2011	<u>\$ (71,582)</u>	<u>\$ 5,443,447</u>	<u>\$ 36,974,434</u>	<u>\$ 42,346,299</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 10 - Endowment Funds (Continued)**

	June 30, 2010			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
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	-	132,175	696,776	828,951
Termination/maturity of planned gifts	-	-	430,736	430,736
Intrafund grants to endowment funds	-	(114,315)	31,736	(82,579)
Transfer of assets under management	-	(2,055)	(47,656)	(49,711)
Reclassification of net assets	-	(174,899)	113,665	(61,234)
Appropriation for expenditure	<u>-</u>	<u>(2,085,645)</u>	<u>-</u>	<u>(2,085,645)</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 11 - Net Assets**

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

	<u>2011</u>	<u>2010</u>
Special projects	\$ 2,910,477	\$ 2,434,318
Unappropriated endowment earnings	<u>5,443,447</u>	<u>2,392,219</u>
	<u>\$ 8,353,924</u>	<u>\$ 4,826,537</u>

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

	<u>2011</u>	<u>2010</u>
Endowments	\$ 36,974,434	\$ 34,586,983
Irrevocable planned gifts	<u>4,847,282</u>	<u>3,978,420</u>
	<u>\$ 41,821,716</u>	<u>\$ 38,565,403</u>

**Note 12 - 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 \$17,025 and \$13,712 for the years ended June 30, 2011 and 2010, respectively.

**Note 13 - Lease Obligations**

The Foundation leases office space under operating lease agreements. The agreement for its primary office location expires in June 2014. This lease also obligates the Foundation for its pro-rata share of taxes, insurance, and common area maintenance. A satellite office location has an operating lease that expired in September 2011 and now is a month-to-month lease. Rent expense for the years ended June 30, 2011 and 2010, was \$37,710 and \$35,696, respectively.

Future minimum lease payments as of June 30, 2011, are as follows:

2012	\$ 35,400
2013	34,425
2014	34,425
2015	<u>-</u>
	<u>\$ 104,250</u>

**Note 14 - Transfer of Assets under Management**

In fiscal years 2011 and 2010, the Foundation transferred endowment assets to other organizations totaling \$78,417 and \$49,711, respectively, which is shown as a reduction in the net asset category in which the endowments were held.