



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

MONTANA COMMUNITY FOUNDATION

June 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors
Montana Community Foundation
Helena, Montana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Montana Community Foundation, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montana Community Foundation as of June 30, 2019 and 2018, and the consolidated changes in the net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position and the consolidating schedule of statements of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Spokane, Washington
January 28, 2020

Montana Community Foundation
Consolidated Statements of Financial Position

ASSETS

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,023,587	\$ 2,523,146
Accrued interest receivable	57,871	49,646
Prepaid expenses and other	48,379	107,976
Beneficial interest in pooled income fund	380,829	383,038
Pooled investments	103,314,710	94,910,771
Cash surrender value of life insurance	193,762	268,686
Net property and equipment	2,196,351	2,292,781
Total assets	\$ 108,215,489	\$ 100,536,044

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 99,980	\$ 97,896
Accrued expenses	94,400	103,078
Other current liabilities	3,514	29,620
Grants and distributions payable	1,092,693	1,115,753
Planned gift liabilities	3,069,346	3,078,137
Long-term debt	1,609,750	1,653,307
Funds held as agency endowments	10,795,194	10,608,229
Total liabilities	16,764,877	16,686,020
NET ASSETS		
Without donor restrictions	298,395	103,312
With donor restrictions		
Time or purpose	4,184,630	4,181,184
Unappropriated earnings	11,659,829	11,895,953
Perpetuity	75,307,758	67,669,575
Total with donor restrictions	91,152,217	83,746,712
Total net assets	91,450,612	83,850,024
Total liabilities and net assets	\$ 108,215,489	\$ 100,536,044

Montana Community Foundation

Consolidated Statements of Activities

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions			
Contributions	\$ 107,576	\$ 7,641,075	\$ 7,748,651
Intrafund grants from charitable funds	333,548	72,509	406,057
Total contributions	<u>441,124</u>	<u>7,713,584</u>	<u>8,154,708</u>
Revenue and other additions			
Administrative fees	388,918	-	388,918
Net investment return	(203,107)	4,590,431	4,387,324
Change in value of beneficial interest in pooled income fund	-	(2,210)	(2,210)
Change in value of planned gift liabilities	-	(22,868)	(22,868)
Rental and other income	273,340	-	273,340
Total revenue and other additions	<u>459,151</u>	<u>4,565,353</u>	<u>5,024,504</u>
Net assets released from restrictions	<u>4,873,432</u>	<u>(4,873,432)</u>	<u>-</u>
Total support, revenue, other additions, and net assets released from restrictions	<u>5,773,707</u>	<u>7,405,505</u>	<u>13,179,212</u>
EXPENSES			
Grants and philanthropic distributions			
Grants	2,930,724	-	2,930,724
Intrafund grants to charitable funds	406,057	-	406,057
Transfer of assets under management	-	-	-
Total grant and philanthropic distributions	<u>3,336,781</u>	<u>-</u>	<u>3,336,781</u>
Operating and administrative expenses			
General and administrative	1,143,311	-	1,143,311
Development and fund-raising	528,236	-	528,236
Program support	570,296	-	570,296
Total operating and administrative expenses	<u>2,241,843</u>	<u>-</u>	<u>2,241,843</u>
Total expenses	<u>5,578,624</u>	<u>-</u>	<u>5,578,624</u>
INCREASE (DECREASE) IN NET ASSETS	195,083	7,405,505	7,600,588
NET ASSETS, beginning of year	<u>103,312</u>	<u>83,746,712</u>	<u>83,850,024</u>
NET ASSETS, end of year	<u>\$ 298,395</u>	<u>\$ 91,152,217</u>	<u>\$ 91,450,612</u>

Montana Community Foundation Consolidated Statements of Activities (continued)

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions			
Contributions	\$ 100,255	\$ 10,886,590	\$ 10,986,845
Intrafund grants from charitable funds	139,214	41,680	180,894
Total contributions	239,469	10,928,270	11,167,739
Revenue and other additions			
Administrative fees	351,616	-	351,616
Net investment return	(172,914)	5,721,316	5,548,402
Change in value of beneficial interest in pooled income fund	-	(128,638)	(128,638)
Change in value of planned gift liabilities	-	(172,080)	(172,080)
Rental and other income	219,118	-	219,118
Total revenue and other additions	397,820	5,420,598	5,818,418
Net assets released from restrictions	5,447,800	(5,447,800)	-
Total support, revenue, other additions, and net assets released from restrictions	6,085,089	10,901,068	16,986,157
EXPENSES			
Grants and philanthropic distributions			
Grants	3,768,003	-	3,768,003
Intrafund grants to charitable funds	180,944	-	180,944
Transfer of assets under management	-	1,811	1,811
Total grant and philanthropic distributions	3,948,947	1,811	3,950,758
Operating and administrative expenses			
General and administrative	1,140,664	-	1,140,664
Development and fund-raising	513,217	-	513,217
Program support	652,731	-	652,731
Total operating and administrative expenses	2,306,612	-	2,306,612
Total expenses	6,255,559	1,811	6,257,370
INCREASE (DECREASE) IN NET ASSETS	(170,470)	10,899,257	10,728,787
NET ASSETS, beginning of year (restated)	273,782	72,847,455	73,121,237
NET ASSETS, end of year	\$ 103,312	\$ 83,746,712	\$ 83,850,024

Montana Community Foundation

Consolidated Statements of Functional Expenses

	Year Ended June 30, 2019		
	Program Services		
	Grants and Philanthropic Distributions	Program Services	Total Program Services
Salaries and wages	\$ -	\$ 271,107	\$ 271,107
Retirement expenses	-	15,697	15,697
Employee other benefits	-	14,455	14,455
Payroll taxes	-	20,521	20,521
Total salaries and related expenses	-	321,780	321,780
Grants expense	2,930,724	-	2,930,724
Intrafund grants to endowment funds	406,057	-	406,057
Legal services	-	-	-
Accounting services	-	-	-
Lobbying services	-	-	-
Other services	-	116,297	116,297
Advertising and promotion	-	26,455	26,455
Office expenses	-	3,944	3,944
Printing and publications	-	3,568	3,568
Information technology	-	10,526	10,526
Occupancy	-	27,279	27,279
Travel expenses	-	15,773	15,773
Interest expense	-	-	-
Insurance	-	175	175
Advocacy	-	2,698	2,698
Conferences and meetings	-	19,205	19,205
Dues and other fees	-	4,253	4,253
Meals and entertainment	-	868	868
Program	-	3,322	3,322
Gift annuity reserve payments	-	-	-
Other expenses	-	14,153	14,153
Total operating expenses	3,336,781	248,516	3,585,297
Total expenses before depreciation	3,336,781	570,296	3,907,077
Depreciation expense	-	-	-
Total expenses	\$ 3,336,781	\$ 570,296	\$ 3,907,077

Montana Community Foundation
Consolidated Statements of Functional Expenses (continued)

Year Ended June 30, 2019

Support Services			
General and Administrative	Development and Fundraising	Total Support Services	Total Expenses
\$ 429,493	\$ 364,811	\$ 794,304	\$ 1,065,411
25,096	19,628	44,724	60,421
32,845	36,069	68,914	83,369
32,039	25,277	57,316	77,837
<u>519,473</u>	<u>445,785</u>	<u>965,258</u>	<u>1,287,038</u>
-	-	-	2,930,724
-	-	-	406,057
2,295	6,697	8,992	8,992
57,542	-	57,542	57,542
15,450	-	15,450	15,450
28,460	500	28,960	145,257
13,239	10,220	23,459	49,914
9,548	2,449	11,997	15,941
14,105	2,335	16,440	20,008
88,591	11,183	99,774	110,300
99,207	24,769	123,976	151,255
19,320	18,221	37,541	53,314
68,443	-	68,443	68,443
12,981	-	12,981	13,156
-	-	-	2,698
56,277	3,295	59,572	78,777
28,457	779	29,236	33,489
4,100	1,963	6,063	6,931
-	-	-	3,322
7,581	-	7,581	7,581
1,812	40	1,852	16,005
<u>527,408</u>	<u>82,451</u>	<u>609,859</u>	<u>4,195,156</u>
1,046,881	528,236	1,575,117	5,482,194
<u>96,430</u>	<u>-</u>	<u>96,430</u>	<u>96,430</u>
<u>\$ 1,143,311</u>	<u>\$ 528,236</u>	<u>\$ 1,671,547</u>	<u>\$ 5,578,624</u>

See accompanying notes.

Montana Community Foundation

Consolidated Statements of Functional Expenses

	Year Ended June 30, 2018		
	Program Services		
	Grants and Philanthropic Distributions	Program Services	Total Program Services
Salaries and wages	\$ -	\$ 344,818	\$ 344,818
Retirement expenses	-	18,626	18,626
Employee other benefits	-	23,916	23,916
Payroll taxes	-	24,362	24,362
Total salaries and related expenses	-	411,722	411,722
Grants expense	3,768,003	-	3,768,003
Intrafund grants to endowment funds	180,944	-	180,944
Transfer of assets under management	1,811	-	1,811
Legal services	-	-	-
Accounting services	-	-	-
Other services	-	102,850	102,850
Advertising and promotion	-	29,242	29,242
Office expenses	-	4,851	4,851
Printing and publications	-	7,654	7,654
Information technology	-	11,604	11,604
Occupancy	-	27,798	27,798
Travel expenses	-	19,940	19,940
Interest expense	-	-	-
Insurance	-	-	-
Conferences and meetings	-	24,849	24,849
Dues and other fees	-	7,878	7,878
Meals and entertainment	-	2,016	2,016
Program	-	585	585
Other expenses	-	1,742	1,742
Total operating expenses	3,950,758	241,009	4,191,767
Total expenses before depreciation	3,950,758	652,731	4,603,489
Depreciation expense	-	-	-
Total expenses	\$ 3,950,758	\$ 652,731	\$ 4,603,489

Montana Community Foundation
Consolidated Statements of Functional Expenses (continued)

Year Ended June 30, 2018

Support Services			
General and Administrative	Development and Fundraising	Total Support Services	Total Expenses
\$ 391,118	\$ 348,052	\$ 739,170	\$ 1,083,988
24,606	19,464	44,070	62,696
34,675	26,564	61,239	85,155
31,121	25,450	56,571	80,933
<u>481,520</u>	<u>419,530</u>	<u>901,050</u>	<u>1,312,772</u>
-	-	-	3,768,003
-	-	-	180,944
-	-	-	1,811
6,798	7,531	14,329	14,329
52,893	-	52,893	52,893
66,280	244	66,524	169,374
26,887	9,961	36,848	66,090
12,605	2,586	15,191	20,042
24,806	3,112	27,918	35,572
69,109	14,075	83,184	94,788
115,029	29,008	144,037	171,835
20,782	18,321	39,103	59,043
72,230	-	72,230	72,230
12,616	-	12,616	12,616
37,737	6,072	43,809	68,658
35,573	776	36,349	44,227
2,905	1,405	4,310	6,326
-	-	-	585
4,384	596	4,980	6,722
<u>560,634</u>	<u>93,687</u>	<u>654,321</u>	<u>4,846,088</u>
1,042,154	513,217	1,555,371	6,158,860
<u>98,510</u>	<u>-</u>	<u>98,510</u>	<u>98,510</u>
<u>\$ 1,140,664</u>	<u>\$ 513,217</u>	<u>\$ 1,653,881</u>	<u>\$ 6,257,370</u>

Montana Community Foundation Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in net assets	\$ 7,600,588	\$ 10,728,787
Adjustments to reconcile net assets to net cash from operating activities		
Cash surrendered from life insurance	74,924	(23,629)
Realized and unrealized gains and losses	(3,454,123)	(4,673,955)
Depreciation	96,430	98,510
Change in value of beneficial interest in pooled income fund	2,210	128,638
Change in valuation of planned gift liabilities	22,868	172,080
Noncash contributions	(1,524,282)	(1,818,730)
Contributions to permanently restricted endowments	(5,375,599)	(8,956,938)
Change in operating assets and liabilities		
Interest receivable	(8,225)	9,238
Prepaid expenses	59,597	54,983
Accounts payable	2,084	36,362
Accrued expense	(8,678)	28,656
Grants payable	(23,060)	44,119
Other current liabilities	(26,106)	22,359
Funds held as agency endowments	186,965	817,954
Net cash from operating activities	<u>(2,374,407)</u>	<u>(3,331,566)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	44,411,254	46,821,107
Purchase of investment securities	(47,608,157)	(53,641,018)
Net cash from investing activities	<u>(3,196,903)</u>	<u>(6,819,911)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principle payments	(43,557)	(40,274)
Contributions to permanently restricted endowments	5,375,599	8,956,938
Payments to annuitants and life income beneficiaries	(260,291)	(194,502)
Net cash from financing activities	<u>5,071,751</u>	<u>8,722,162</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(499,559)</u>	<u>(1,429,315)</u>
Cash and cash equivalents, beginning of year	<u>2,523,146</u>	<u>3,952,461</u>
Cash and cash equivalents, end of year	<u>\$ 2,023,587</u>	<u>\$ 2,523,146</u>
SUPPLEMENTAL DISCLOSURES		
Interest expense	\$ 68,443	\$ 100,497

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 1 – General Purpose and Activities

Montana Community Foundation (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. Each year a prudent spending rate is applied to the Foundation's endowments, and the spendable portion of these endowments are granted to Montana public benefit charities or to award scholarships. The Foundation was incorporated on January 29, 1988.

On September 13, 2016, the Foundation created 33 S. Last Chance Gulch, LLC. The Foundation holds a 100% interest in 33 S. Last Chance Gulch, LLC.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of consolidation – The consolidated financial statements include the accounts of Montana Community Foundation and its wholly owned subsidiary, 33 S. Last Chance Gulch, LLC (33 S LCG). All significant intercompany balances and transactions have been eliminated in consolidation.

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 net assets with donor restrictions. At June 30, 2019 and 2018, the Foundation held 635 and 615 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 consolidated financial position and activities according to two classes of net assets: without donor restriction and with donor restriction.

Net assets without donor restrictions – Resources that are not restricted by donor-imposed stipulations. Generally, these assets represent the operating assets of the Foundation.

Net assets with donor restrictions – Resources that are either limited by donor stipulations that expire with the passage of time, upon completion of charitable goals, or restricted in perpetuity. This category consists of undistributed earnings on permanent endowment funds and time restricted funds held for specific projects. The corpus of contributions to permanent endowments is never spent. In some cases, the terms of the gift agreement require appreciated earnings to also be held in perpetuity.

Montana Community Foundation

Notes to Consolidated Financial Statements

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.

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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2019 and 2018, the Foundation had no uncertain tax positions requiring accrual.

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.

Inputs are used in applying the valuation techniques and broadly refer to the assumptions the Foundation uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, periodicals, newspapers, provisions within agreements with investment managers, and other factors. An investment's level within the fair value hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

Investments in cash equivalents, mutual funds, debt securities, and certain domestic and international equities are valued based on quoted market prices, and are therefore, typically classified within Level 1.

Montana Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Investments in cash management funds, where cash deposits are invested in a diversified network of banks are classified within Level 2.

Investment funds valued using net asset value per share (NAV) or its equivalent as reported by investment managers, and have trading activity and the ability to redeem at NAV on or near the reporting date, are evaluated outside of the fair value hierarchy.

Certain investments in private equity funds or other private investments are valued utilizing unobservable inputs, and have had no trading activity or cannot be redeemed at NAV or its equivalent on or near the reporting date are therefore, classified within Level 3. These assets are presented in the accompanying consolidated financial statements at fair value. The Foundation's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the Foundation's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the Foundation, through its monitoring activities, agrees with the fair market value as determined by the investment managers.

The general partners of the underlying investment partnerships generally value their investments at fair value and in accordance with accounting principles generally accepted in the United States of America. Investments with no readily available market are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant.

Although the Foundation uses its best judgment in determining the fair value, the values presented herein are not necessarily indicative of the amount the Foundation could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon redemption of the investments.

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.

Beneficial interest in pooled income fund is valued under the income approach, based on the underlying assets held in trust as reported by the trust adjusted by a discounted cash flow analysis that considers the expected future value of the fund after payment of beneficiary payments of interest and dividends earned by the respective interest in the fund. The primary unobservable inputs for the beneficial interest in pooled income fund are the reported fair value of assets contained in the fund reported by the trustee, the applicable internal revenue service discount rate at period end, a five-year average rate of return and mortality table applicable to the original gift.

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Pooled investments – The Foundation pools its funds for the purposes of investing. The Foundation uses two investment pools; one holds endowment and agency funds (Investment Pool) and the second holds all other funds that are with donor restrictions or without donor restrictions (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 with donor restrictions and, therefore, planned gift assets are invested in the Investment Pool.

Property and equipment – Property 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 3 to 30 years. The Foundation capitalizes expenditures for items over \$5,000 that have a useful life over one year.

Grants and distributions payable – Grants are recognized as liabilities at the time they are authorized for expenditure regardless of the year 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 consolidated 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 1.2% to 8.0%, 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.

Montana Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 Foundation's endowment for 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).

Intrafund grants to/from charitable 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 charitable funds and intrafund grants from charitable funds on the consolidated statement of activities for the purpose of reflecting all grant support from the Foundation's funds. Although this is not in accordance with GAAP, the amounts are deemed immaterial for elimination and have no impact on the total change in net assets.

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.

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 consolidated 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 Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Accounting estimates – The preparation of consolidated financial statements in accordance 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Availability and liquidity – The following represents Montana Community Foundation’s financial assets at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,023,587	\$ 2,523,146
Accrued interest receivable	57,871	49,646
Prepaid expenses and other	48,379	107,976
Beneficial interest in pooled income fund	380,829	383,038
Pooled investments	103,314,710	94,910,771
Cash surrender value of life insurance	193,762	268,686
Total financial assets	<u>106,019,138</u>	<u>98,243,263</u>
Less amounts not available to be used within one year:		
Funds held as agency endowments	10,795,194	10,608,229
Beneficial interest in pooled income fund	380,829	383,038
Cash surrender value of life insurance	193,762	268,686
Total net assets with donor restrictions	<u>86,652,217</u>	<u>83,746,712</u>
Total amounts not available to be used within one year:	<u>98,022,002</u>	<u>95,006,665</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,997,136</u>	<u>\$ 3,236,598</u>

Montana Community Foundation’s operating budgeted expenses for fiscal year ending June 30, 2020, are approximately \$1,980,000. The Foundation currently has an operating reserve of \$247,000, with the goal to increase this to \$800,000 in the next five years. As part of its liquidity plan, non-endowment funds used for granting purposes are invested in short-term investments.

New accounting pronouncements – *Presentation of Financial Statements of Not-for-Profit Entities*: The Foundation adopted Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities* during the year ended June 30, 2019. The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows.

The standard requires the Foundation to reclassify its net assets from three categories into two categories and recognition of underwater endowment funds as a reduction of net assets with donor restrictions. It also requires enhanced disclosures for board designations, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

Montana Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Net assets have been reclassified for the beginning of 2018 due to the adoption of ASU 2016-14 as follows:

Net Asset Classification June 30, 2017	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Unrestricted	\$ 253,938	\$ -	\$ 253,938
Temporarily restricted	-	14,624,857	14,624,857
Permanently restricted	-	58,242,442	58,242,442
Net assets as previously presented	253,938	72,867,299	73,121,237
Reclassification			
Underwater endowments	19,844	(19,844)	-
Net assets as reported after adoption of ASU 2016-14	<u>\$ 273,782</u>	<u>\$ 72,847,455</u>	<u>\$ 73,121,237</u>

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to be in accordance with the presentation in the current-year financial statements. Total net assets and changes in net assets are unchanged due to these reclassifications.

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

The Foundation has evaluated subsequent events through January 28, 2020, which is the date the consolidated financial statements were available to be issued. On August 14, 2019, the Foundation received a gift of property in Manhattan, Montana. The Foundation sold the property in January 2020 for approximately \$254,000.

Montana Community Foundation

Notes to Consolidated Financial Statements

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 net assets with donor restrictions. The value is established on the date of contribution. Earnings on endowment funds are classified as net assets with donor restrictions until appropriated for expenditure by the Foundation unless required to be added to the corpus and then the earnings are classified as net assets with donor restrictions.

From time to time, the fair value of endowment funds may fall below the amount classified as net assets with donor restrictions. At June 30, 2019 and 2018, the Foundation had deficiencies in 17 funds totaling \$20,066 and 34 funds totaling \$14,313, respectively. These deficiencies reflect unfavorable market fluctuation during the reporting periods. They are reflected as a reduction to net assets with donor restrictions.

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 payout policy was 4.5% for both years, with the exception of underwater funds that payout at 4.0%, of the three year daily average fund balance calculated each December 31 for the years reported. 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 Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements

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

	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Pooled investments - redeemable securities				
Cash and cash equivalents	\$ 1,678,431	\$ -	\$ -	\$ 1,678,431
Equity securities				
Domestic common stocks	4,141,088	-	-	4,141,088
Foreign stocks	518,812	-	-	518,812
Total equity securities	4,659,900	-	-	4,659,900
Debt securities				
Corporate bonds	2,186,431	-	-	2,186,431
US Treasury securities	1,922,712	-	-	1,922,712
Government agency notes	6,530,247	-	-	6,530,247
Municipal bonds	447,267	-	-	447,267
Total debt securities	11,086,657	-	-	11,086,657
Other equity securities				
Mutual funds	22,745,229	-	-	22,745,229
Total other equity securities	22,745,229	-	-	22,745,229
Private equity				
Global opportunities	-	-	1,598,416	1,598,416
Total private equity	-	-	1,598,416	1,598,416
Public equity				
Cash management	-	2,944,988	-	2,944,988
Total public equity	-	2,944,988	-	2,944,988
Private investments				
Natural resources	-	-	187,290	187,290
Diversifiers	-	-	438,341	438,341
Total private investments	-	-	625,631	625,631
Total redeemable securities	40,170,217	2,944,988	2,224,047	45,339,252
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	20,315	20,315
Total nonredeemable securities	-	-	20,315	20,315
Total	\$ 40,170,217	\$ 2,944,988	\$ 2,244,362	45,359,567
Investments measured at NAV practical expedient				57,955,143
Total				\$ 103,314,710
Beneficial interest in pooled income fund			\$ 380,829	\$ 380,829

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements (continued)

	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Pooled investments - redeemable securities				
Cash and cash equivalents	\$ 2,389,411	\$ -	\$ -	\$ 2,389,411
Equity securities				
Domestic common stocks	5,371,938	-	-	5,371,938
Foreign stocks	1,205,858	-	-	1,205,858
Total equity securities	6,577,796	-	-	6,577,796
Debt securities				
Corporate bonds	1,636,788	-	-	1,636,788
US Treasury securities	2,039,905	-	-	2,039,905
Government agency notes	5,880,494	-	-	5,880,494
Municipal bonds	646,233	-	-	646,233
Total debt securities	10,203,420	-	-	10,203,420
Other equity securities				
Mutual funds	18,631,425	-	-	18,631,425
Total other equity securities	18,631,425	-	-	18,631,425
Private equity				
Global opportunities	-	-	1,398,768	1,398,768
Total private equity	-	-	1,398,768	1,398,768
Public equity				
Cash management	-	2,513,214	-	2,513,214
Total public equity	-	2,513,214	-	2,513,214
Private investments				
Natural resources	-	-	95,146	95,146
Diversifiers	-	-	145,162	145,162
Total private investments	-	-	240,308	240,308
Total redeemable securities	37,802,052	2,513,214	1,639,076	41,954,342
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	29,895	29,895
Total nonredeemable securities	-	-	29,895	29,895
Total	\$ 37,802,052	\$ 2,513,214	\$ 1,668,971	41,984,237
Investments measured at NAV practical expedient				52,926,534
Total				\$ 94,910,771
Beneficial interest in pooled income fund			\$ 383,038	\$ 383,038

Montana Community Foundation Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements (continued)

The following table presents information regarding funds with fair value that is determined using the NAV (or its equivalent), per the practical expedient, provided by the fund as of June 30:

	<u>2019</u>	<u>2018</u>
Hedge fund investments		
Diversifying strategy	\$ 2,851,118	\$ 2,892,042
Growth strategy	8,894,956	8,305,245
Public equity investments		
Developed Ex US equity	13,495,353	13,211,783
Global equity	9,033,178	8,897,398
US equity	11,967,456	11,105,199
Private equity		
Global opportunities	5,589,017	5,237,961
Private investments		
Secondaries	4,518,564	1,324,849
Nonredeemable securities		
Commodities	<u>1,605,501</u>	<u>1,952,057</u>
	<u>\$ 57,955,143</u>	<u>\$ 52,926,534</u>

Investment returns for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Realized and unrealized gains and losses, net	\$ 3,459,877	\$ 4,449,213
Interest and dividends	<u>927,447</u>	<u>1,099,189</u>
Total investment gain	<u>\$ 4,387,324</u>	<u>\$ 5,548,402</u>

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2019 and 2018, and are included in the lines realized and unrealized gains and losses on investments in the consolidated statement of activities for the years ended June 30, 2019 and 2018.

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements (continued)

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 assets measured at fair value for the period ended June 30, 2019 and 2018, were as follows:

	Private Investments		Private Equity		Beneficial Interest in Pooled Income Fund
	Natural Resources	Diversifiers	Global Opportunities	Commercial Real Estate	
Beginning balance at July 1, 2017	\$ 32,530	\$ 2,615	\$ 657,568	\$ 74,773	\$ 511,676
Total realized gains	-	-	-	-	-
Total realized losses	-	-	-	-	-
Total unrealized gains (losses)	(8,711)	70,960	184,242	(44,878)	-
Purchases	71,327	71,587	556,958	-	-
Sales	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Present value adjustment	-	-	-	-	(128,638)
Ending balance at June 30, 2018	95,146	145,162	1,398,768	29,895	383,038
Total realized gains	-	-	-	-	-
Total realized losses	-	-	-	-	-
Total unrealized gains (losses)	46,657	194,243	59,648	(9,580)	-
Purchases	45,487	98,936	140,000	-	-
Sales	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Present value adjustment	-	-	-	-	(2,209)
Ending balance at June 30, 2019	<u>\$ 187,290</u>	<u>\$ 438,341</u>	<u>\$ 1,598,416</u>	<u>\$ 20,315</u>	<u>\$ 380,829</u>

Montana Community Foundation Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements (continued)

Redemption, funding commitments, restrictions, and other information associated with the nature and valuation of applicable investment are as follows:

	Fair Value at June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	\$ -	\$ -	Monthly to quarterly	45 days	(1)
Diversifying strategy	2,851,118	-	Daily to quarterly	1-45 days	(1)
Growth strategy	5,480,570	-	Quarterly	45 - 95 days	(1)
Growth strategy	1,904,764	-	Annually	90 days	(1)
Growth strategy	1,509,622	-	Bi-Annually	60 days	(1)
Total hedge fund investments	<u>11,746,074</u>	<u>-</u>			
Public equity					
Cash management	2,944,988	-	Daily	1 day	(2)
Developed Ex US Equity	13,495,353	-	Monthly	10 - 31 days	(2)
Global equity	9,033,178	-	Daily - Quarterly	1 - 31 days	(2)
US Equity	11,967,456	-	Monthly	10 - 31 days	(2)
Total public equity investments	<u>37,440,975</u>	<u>-</u>			
Private equity					
Global opportunities	7,187,433	437,500	Quarterly	30-45 days	(3)
Commercial real estate	20,315	50,000	Illiquid for 3 years	n/a	(3)
Total private equity investments	<u>7,207,748</u>	<u>487,500</u>			
Private investments					
Natural resources	187,290	285,413	Illiquid	n/a	(3)
Opportunistic	2,669,553	1,857,995	Illiquid	n/a	(3)
Diversifiers	438,341	229,111	Illiquid	n/a	(3)
Private equity	947,867	2,729,100	Illiquid	n/a	(3)
Venture capital	901,144	640,772	Illiquid	n/a	(3)
Total private investments	<u>5,144,195</u>	<u>5,742,391</u>			
Nonredeemable securities					
Commodities	1,605,501	-	Daily	1 day	(4)
Total commodities	<u>1,605,501</u>	<u>-</u>			
Total	<u>\$ 63,144,493</u>	<u>\$ 6,229,891</u>			

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Measurements (continued)

	Fair Value at June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	\$ -	\$ -	Monthly to quarterly	45 days	(1)
Diversifying strategy	2,892,042	-	Daily to quarterly	1-45 days	(1)
Growth strategy	6,184,701	-	Quarterly	45 - 95 days	(1)
Growth strategy	2,120,544	-	Annually	90 days	(1)
Total hedge fund investments	11,197,287	-			
Public equity					
Cash management	2,513,214	-	Daily	1 day	(2)
Developed Ex US Equity	13,211,783	-	Monthly	10 - 31 days	(2)
Global equity	8,897,398	-	Daily - Quarterly	1 - 31 days	(2)
US Equity	11,105,199	-	Monthly	10 - 31 days	(2)
Total public equity investments	35,727,594	-			
Private equity					
Global opportunities	6,636,729	725,450	Quarterly	30-45 days	(3)
Commercial real estate	29,895	56,780	Illiquid for 3 years	n/a	(3)
Total private equity investments	6,666,624	782,230			
Private investments					
Natural resources	95,146	396,143	Illiquid	n/a	(3)
Opportunistic	1,214,404	1,581,566	Illiquid	n/a	(3)
Diversifiers	145,162	1,425,798	Illiquid	n/a	(3)
Private equity	85,137	896,486	Illiquid	n/a	(3)
Venture capital	25,308	733,500	Illiquid	n/a	(3)
Total private investments	1,565,157	5,033,493			
Nonredeemable securities					
Commodities	1,952,057	-	Daily	1 day	(4)
Total commodities	1,952,057	-			
Total	\$ 57,108,719	\$ 5,815,723			

- (1) Hedge funds include investment vehicles and accounts that typically invest primarily in publicly-traded securities using strategies such as long/short equity, market neutral equity, long/short credit, global macro, and managed futures. Hedge Fund investments serve as a means to mitigate equity risk and provide diversified returns.
- (2) Public equities include investment vehicles or accounts that typically use long-only or long-biased strategies, including long-biased long/short strategies, to invest primarily in publicly-traded securities. Public equity investments serve as a means to generate asset growth.
- (3) Private investments and equities include investment vehicles and accounts that typically invest in securities acquired through private transactions. Typical strategies include venture capital, private equity, natural resources private equity, and real estate. Private investments serve as a means to enhance asset growth.
- (4) Commodities include long-only commodity futures strategy to serve as a spending source during periods of inflation.

Montana Community Foundation Notes to Consolidated Financial Statements

Note 5 – Long-Term Debt

33 S. Last Chance Gulch, LLC purchased a building for \$2,150,000 in October 2016 and was funded with a \$1,720,000 ten-year loan at 4.25% and additional down payment made from available board discretionary funds without donor restriction. The loan is collateralized by the building and guaranteed by the Foundation. The loan requires monthly principal and interest payments of \$9,320 with a balloon payment at maturity on October 3, 2026.

The following schedule presents the minimum principal payments due in future years:

2020	\$ 43,392
2021	46,166
2022	48,167
2023	50,254
2024	52,432
Thereafter	<u>1,369,339</u>
Total principal payments	<u><u>\$ 1,609,750</u></u>

Note 6 – 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 net assets with donor restrictions) had the following changes during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions, balance beginning of year	<u>\$ 9,090,152</u>	<u>\$ 7,600,536</u>
Contributions	1,516,909	2,124,826
Interest and dividends	172,828	120,441
Realized/unrealized gains, net	440,104	644,236
Transfers from reserve	7,581	-
Change in value of planned gift liability	<u>443,939</u>	<u>325,412</u>
Total income	<u>2,581,361</u>	<u>3,214,915</u>
Payments to income beneficiaries	260,291	194,502
Termination/maturity of planned gifts	1,433,920	1,018,074
Administrative fees	166,037	100,601
Investment management fees	<u>50,270</u>	<u>412,122</u>
Total expense	<u>1,910,518</u>	<u>1,725,299</u>
Net assets with donor restrictions, balance end of year	<u><u>\$ 9,760,995</u></u>	<u><u>\$ 9,090,152</u></u>

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 7 – 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>2019</u>	<u>2018</u>
Balance beginning of year	\$ 10,608,229	\$ 9,790,275
Contributions	321,306	557,885
Interest and dividends	123,042	120,971
Realized/unrealized gains, net	<u>348,716</u>	<u>689,604</u>
Total income	<u>793,064</u>	<u>1,368,460</u>
Distributions of earnings	408,031	398,805
Administrative fees	129,276	110,763
Investment management fees	32,209	34,626
Transfer of assets under management	<u>36,583</u>	<u>6,312</u>
Total expense	<u>606,099</u>	<u>550,506</u>
Balance end of year	<u>\$ 10,795,194</u>	<u>\$ 10,608,229</u>

Note 8 – 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>2019</u>	<u>2018</u>
Permanent and temporary funds	\$ 1,081,160	\$ 1,131,008
Planned gifts	166,037	100,601
Agency funds	<u>129,276</u>	<u>110,763</u>
	<u>\$ 1,376,473</u>	<u>\$ 1,342,372</u>

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

Montana Community Foundation Notes to Consolidated Financial Statements

Note 9 – Net Assets Released from Restriction

As restrictions are met, assets are released and reclassified from with donor restriction to without donor restriction. 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:

	2019	2018
Payment of grants and scholarships	\$ 1,698,519	\$ 2,532,864
Payment of intrafund grants	547,876	290,277
Payment of administrative and investment manager fees	1,300,491	1,238,602
Annual endowment distributions	1,232,205	1,232,667
Endowment expenses	2,967	12,572
Special projects expense and other	91,374	140,818
	\$ 4,873,432	\$ 5,447,800

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 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:

	2019	2018
Grants	\$ 2,930,724	\$ 3,768,003
Distributions to agencies	408,031	398,805
Intrafund grants to charitable funds	406,057	180,944
	\$ 3,744,812	\$ 4,347,752

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 11 – Endowment Funds

The Foundation has no Board-designated endowments as of June 30, 2019 and 2018. Donor restricted endowment net assets composition as of June 30 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2019	\$ -	\$ 77,206,592	\$ 77,206,592
June 30, 2018	\$ -	\$ 70,475,376	\$ 70,475,376

At June 30, 2018, funds with original gift values of \$864,901, fair values of \$850,588, and deficiencies of \$14,313 were reported in net assets with donor restrictions. This amounts were fully recovered during the year ended June 30, 2019, due to favorable market fluctuations.

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

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2018	\$ -	\$ 70,475,376	\$ 70,475,376
Investment return			
Investment income	-	841,248	841,248
Net unrealized and realized gains/ losses	-	2,853,438	2,853,438
Change in deficit in endowments	-	(5,753)	(5,753)
Total investment return	-	3,688,933	3,688,933
Contributions	-	5,375,599	5,375,599
Termination/maturity of planned gifts	-	1,433,920	1,433,920
Net assets released from restrictions	-	(4,128,589)	(4,128,589)
Reclassification of net assets	-	361,353	361,353
Total contributions	-	3,042,283	3,042,283
Endowment net assets, June 30, 2019	\$ -	\$ 77,206,592	\$ 77,206,592

Montana Community Foundation
Notes to Consolidated Financial Statements

Note 11 – Endowment Funds (continued)

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	\$ -	\$ 61,109,148	\$ 61,109,148
Investment return			
Investment income	-	790,281	790,281
Net unrealized and realized gains/ losses	-	4,115,072	4,115,072
Change in deficit in endowments	-	(5,531)	(5,531)
Total investment return	-	4,899,822	4,899,822
Contributions	-	7,118,178	7,118,178
Termination/maturity of planned gifts	-	1,018,074	1,018,074
Intrafund grants to endowment funds	-	34,121	34,121
Transfers of assets under management	-	1,811	1,811
Appropriation for expenditure	-	(3,705,778)	(3,705,778)
Total contributions	-	4,466,406	4,466,406
Endowment net assets, June 30, 2018	\$ -	\$ 70,475,376	\$ 70,475,376

In fiscal 2019 and 2018, the Foundation transferred charitable assets to other organizations totaling \$0 and \$1,811, respectively, which is shown as a reduction in the net asset category in which the funds were held.

Montana Community Foundation

Notes to Consolidated Financial Statements

Note 12 – Net Assets

Net assets with donor restrictions at June 30 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Net assets with a time or purpose donor restriction		
Special projects	\$ 4,184,630	\$ 4,181,184
Unappropriated earnings	<u>11,659,829</u>	<u>11,895,953</u>
	<u>\$ 15,844,459</u>	<u>\$ 16,077,137</u>
Net assets with donor restrictions in perpetuity		
Endowments	\$ 65,546,763	\$ 58,579,423
Irrevocable planned gifts	<u>9,760,995</u>	<u>9,090,152</u>
	<u>\$ 75,307,758</u>	<u>\$ 67,669,575</u>

Note 13 – Retirement Plan

The Foundation has established a simplified employee pension plan for employees. The Foundation contributes up to 6% of the participants' annual salaries per year. The Foundation's pension plan expense was \$60,421 and \$62,696 for the years ended June 30, 2019 and 2018, respectively.

Note 14 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building	\$ 2,367,623	\$ 2,367,623
Computer	22,615	22,615
Computer software	140,637	140,637
Furniture and fixtures	2,590	2,590
Office equipment	<u>14,217</u>	<u>14,217</u>
	2,547,682	2,547,682
Less accumulated depreciation	<u>351,331</u>	<u>254,901</u>
	<u>\$ 2,196,351</u>	<u>\$ 2,292,781</u>

Depreciation expense for financial statement purposes was \$96,430 and \$98,510 for the years ended June 30, 2019 and 2018, respectively.

Supplementary Information

Montana Community Foundation Consolidating Schedule of Financial Position

ASSETS					
	MCF	33 S. Last Chance Gulch, LLC.	Eliminating Entries	June 30,	
				2019	2018
ASSETS					
Cash and cash equivalents	\$ 1,791,420	\$ 232,167	\$ -	\$ 2,023,587	\$ 2,523,146
Accrued interest receivable	57,871	-	-	57,871	49,646
Prepaid expenses and other	48,379	-	-	48,379	107,976
Beneficial interest in pooled income fund	380,829	-	-	380,829	383,038
Pooled investments	103,314,710	-	-	103,314,710	94,910,771
Cash surrender value of life insurance	193,762	-	-	193,762	268,686
Net property and equipment	15,104	2,181,247	-	2,196,351	2,292,781
Total assets	\$ 105,802,075	\$ 2,413,414	\$ -	\$ 108,215,489	\$ 100,536,044
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 94,649	\$ 5,331	\$ -	\$ 99,980	\$ 97,896
Accrued expenses	94,400	-	-	94,400	103,078
Other current liabilities	3,206	308	-	3,514	29,620
Due to/from	(914,145)	914,145	-	-	-
Grants and distributions payable	1,092,693	-	-	1,092,693	1,115,753
Planned gift liabilities	3,069,346	-	-	3,069,346	3,078,137
Long-term debt	-	1,609,750	-	1,609,750	1,653,307
Funds held as agency endowments	10,795,194	-	-	10,795,194	10,608,229
Total liabilities	14,235,343	2,529,534	-	16,764,877	16,686,020
NET ASSETS					
Without donor restrictions	414,515	(116,120)	-	298,395	103,312
With donor restrictions					
Time or purpose	4,184,630	-	-	4,184,630	4,181,184
Unappropriated earnings	11,659,829	-	-	11,659,829	11,895,953
Perpetuity	75,307,758	-	-	75,307,758	67,669,575
Total with donor restrictions	91,152,217	-	-	91,152,217	83,746,712
Total net assets	91,566,732	(116,120)	-	91,450,612	83,850,024
Total liabilities and net assets	\$ 105,802,075	\$ 2,413,414	\$ -	\$ 108,215,489	\$ 100,536,044

Montana Community Foundation

Consolidating Schedule of Activities

	Year Ended June 30, 2019					
	MCF Unrestricted	33 S. Last Chance Golch, LLC	Eliminating Entries	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions						
Contributions	\$ 107,576	\$ -	\$ -	\$ 107,576	\$ 7,641,075	\$ 7,748,651
Intrafund grants from charitable funds	333,548	-	-	333,548	72,509	406,057
Total contributions	441,124	-	-	441,124	7,713,584	8,154,708
Revenue and other additions						
Administrative fees	388,918	-	-	388,918	-	388,918
Net investment return	(177,492)	316	(25,931)	(203,107)	4,596,185	4,393,078
Change in deficit in endowments	-	-	-	-	(5,754)	(5,754)
Change in value of beneficial interest in pooled income fund	-	-	-	-	(2,210)	(2,210)
Change in value of planned gift liabilities	-	-	-	-	(22,868)	(22,868)
Rental and other income	23,374	306,693	(56,727)	273,340	-	273,340
Total revenue and other additions	234,800	307,009	(82,658)	459,151	4,565,353	5,024,504
Net assets released from restrictions	4,873,432	-	-	4,873,432	(4,873,432)	-
Total support, revenue, other additions, and net assets released from restrictions	5,549,356	307,009	(82,658)	5,773,707	7,405,505	13,179,212
EXPENSES						
Grants and philanthropic distributions						
Grants	2,930,724	-	-	2,930,724	-	2,930,724
Intrafund grants to charitable funds	406,057	-	-	406,057	-	406,057
Transfer of assets under management	-	-	-	-	-	-
Total grant and philanthropic distributions	3,336,781	-	-	3,336,781	-	3,336,781
Operating and administrative expenses						
General and administrative	956,064	269,905	(82,658)	1,143,311	-	1,143,311
Development and fund-raising	528,236	-	-	528,236	-	528,236
Program support	570,296	-	-	570,296	-	570,296
Total operating and administrative expenses	2,054,596	269,905	(82,658)	2,241,843	-	2,241,843
Total expenses	5,391,377	269,905	(82,658)	5,578,624	-	5,578,624
Adjustment to net assets	-	-	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	157,979	37,104	-	195,083	7,405,505	7,600,588
NET ASSETS, beginning of year	256,536	(153,224)	-	103,312	83,746,712	83,850,024
NET ASSETS, end of year	\$ 414,515	\$ (116,120)	\$ -	\$ 298,395	\$ 91,152,217	\$ 91,450,612

Montana Community Foundation Consolidating Schedule of Activities

	Year Ended June 30, 2018					Total
	MCF Unrestricted	33 S. Last Chance Gulch, LLC	Eliminating Entries	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE						
Contributions						
Contributions	\$ 100,255	\$ -	\$ -	\$ 100,255	\$ 10,886,590	\$ 10,986,845
Intrafund grants from charitable funds	139,214	-	-	139,214	41,680	180,894
Total contributions	<u>239,469</u>	<u>-</u>	<u>-</u>	<u>239,469</u>	<u>10,928,270</u>	<u>11,167,739</u>
Revenue and other additions						
Administrative fees	351,616	-	-	351,616	-	351,616
Net investment return	(144,647)	-	(28,267)	(172,914)	5,721,316	5,548,402
Change in value of beneficial interest in pooled income fund	-	-	-	-	(128,638)	(128,638)
Change in value of planned gift liabilities	-	-	-	-	(172,080)	(172,080)
Rental and other income	-	272,560	(53,442)	219,118	-	219,118
Total revenue and other additions	<u>206,969</u>	<u>272,560</u>	<u>(81,709)</u>	<u>397,820</u>	<u>5,420,598</u>	<u>5,818,418</u>
Net assets released from restrictions	<u>5,447,800</u>	<u>-</u>	<u>-</u>	<u>5,447,800</u>	<u>(5,447,800)</u>	<u>-</u>
Total support, revenue, other additions, and net assets released from restrictions	<u>5,894,238</u>	<u>272,560</u>	<u>(81,709)</u>	<u>6,085,089</u>	<u>10,901,068</u>	<u>16,986,157</u>
EXPENSES						
Grants and philanthropic distributions						
Grants	3,768,003	-	-	3,768,003	-	3,768,003
Intrafund grants to charitable funds	180,944	-	-	180,944	-	180,944
Transfer of assets under management	-	-	-	-	1,811	1,811
Total grant and philanthropic distributions	<u>3,948,947</u>	<u>-</u>	<u>-</u>	<u>3,948,947</u>	<u>1,811</u>	<u>3,950,758</u>
Operating and administrative expenses						
General and administrative	920,295	302,078	(81,709)	1,140,664	-	1,140,664
Development and fund-raising	513,217	-	-	513,217	-	513,217
Program support	652,731	-	-	652,731	-	652,731
Total operating and administrative expenses	<u>2,086,243</u>	<u>302,078</u>	<u>(81,709)</u>	<u>2,306,612</u>	<u>-</u>	<u>2,306,612</u>
Total expenses	<u>6,035,190</u>	<u>302,078</u>	<u>(81,709)</u>	<u>6,255,559</u>	<u>1,811</u>	<u>6,257,370</u>
Adjustment to net assets	-	-	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(140,952)	(29,518)	-	(170,470)	10,899,257	10,728,787
NET ASSETS, beginning of year (restated)	<u>397,488</u>	<u>(123,706)</u>	<u>-</u>	<u>273,782</u>	<u>72,847,455</u>	<u>73,121,237</u>
NET ASSETS, end of year	<u>\$ 256,536</u>	<u>\$ (153,224)</u>	<u>\$ -</u>	<u>\$ 103,312</u>	<u>\$ 83,746,712</u>	<u>\$ 83,850,024</u>

