Report of Independent Auditors
and Financial Statements for

MONTANA COMMUNITY FOUNDATION

June 30, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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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 financial statements of Montana Community Foundation, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

REPORT OF INDEPENDENT AUDITORS
(continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana Community Foundation as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
November 21, 2016

MONTANA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2016	June 30, 2015
ASSETS		
Cash and cash equivalents	**$ 2,769,897**	$ 2,829,555
Accrued interest receivable	**129,223**	121,523
Prepaid expenses and other	**42,666**	32,130
Beneficial interest in pooled income fund	**625,489**	682,106
Pooled investments	**74,951,525**	75,186,425
Cash surrender value of life insurance	**279,993**	269,256
Property and equipment, net of accumulated depreciation of $143,530 and $244,544, respectively	**88,843**	91,319
Total assets	**$ 78,887,636**	$ 79,212,314

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable	**$ 17,810**	$ 44,684
Accrued expenses	**104,018**	53,660
Capital lease payable	**10,873**	7,414
Grants and distributions payable	**948,607**	779,534
Planned gift liabilities	**1,889,173**	2,073,533
Funds held as agency endowments	**8,881,999**	9,074,214
Total liabilities	**11,852,480**	12,033,039
NET ASSETS		
Unrestricted net assets		
Unrestricted - for operating purposes	**922,003**	1,100,697
Unrestricted - deficit in endowment assets	**(26,038)**	(6,041)
Total unrestricted net assets	**895,965**	1,094,656
Temporarily restricted net assets	**12,773,886**	15,293,554
Permanently restricted net assets	**53,365,305**	50,791,065
Total net assets	**67,035,156**	67,179,275
Total liabilities and net assets	**$ 78,887,636**	$ 79,212,314

See accompanying notes.

	Year Ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions				
Contributions	$ 116,140	$ 1,042,154	$ 2,425,449	$ 3,583,743
Intrafund grants from charitable funds	249,997	18,270	3,560	271,827
Total contributions	366,137	1,060,424	2,429,009	3,855,570
Revenue and other additions				
Administrative fees	177,101	-	-	177,101
Interest and dividends	36,560	1,284,723	158,034	1,479,317
Realized and unrealized gains (losses) on investments	(5,351)	79,508	30,108	104,265
Change in deficit in endowments	(19,997)	19,997	-	-
Change in value of beneficial interest in pooled income fund	-	-	(56,617)	(56,617)
Change in value of planned gift liabilities	-	-	16,752	16,752
Total revenue and other additions	188,313	1,384,228	148,277	1,720,818
Net assets released from restrictions	4,961,625	(4,961,625)	-	-
Total support, revenue, other additions, and net assets released from restrictions	5,516,075	(2,516,973)	2,577,286	5,576,388
EXPENSES				
Grants and philanthropic distributions				
Grants	3,485,578	-	-	3,485,578
Intrafund grants to charitable funds	271,827	-	-	271,827
Transfer of assets under management	2,039	2,695	-	4,734
Total grant and philanthropic distributions	3,759,444	2,695	-	3,762,139
Endowment expenses				
Investment fees	352,650	-	-	352,650
Total endowment expenses	352,650	-	-	352,650
Operating and administrative expenses				
General and administrative	783,076	-	-	783,076
Development and fund-raising	421,615	-	-	421,615
Program support	397,981	-	-	397,981
Total operating and administrative expenses	1,602,672	-	-	1,602,672
Total expenses	5,714,766	2,695	-	5,717,461
Adjustments to net assets	-	-	(3,046)	(3,046)
INCREASE (DECREASE) IN NET ASSETS	(198,691)	(2,519,668)	2,574,240	(144,119)
NET ASSETS, beginning of year	1,094,656	15,293,554	50,791,065	67,179,275
NET ASSETS, end of year	$ 895,965	$ 12,773,886	$ 53,365,305	$ 67,035,156

See accompanying notes.

MONTANA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions				
Contributions	$ 111,050	$ 3,283,754	$ 2,210,214	$ 5,605,018
Intrafund grants from charitable funds	395,259	47,267	2,911	445,437
Total contributions	506,309	3,331,021	2,213,125	6,050,455
Revenue and other additions				
Administrative fees	149,217	-	-	149,217
Interest and dividends	40,639	1,339,882	158,342	1,538,863
Realized and unrealized gains (losses) on investments	(19,284)	1,622,096	245,328	1,848,140
Change in deficit in endowments	(2,322)	2,322	-	-
Change in value of beneficial interest in pooled income fund	-	-	(155,740)	(155,740)
Change in value of planned gift liabilities	-	-	(170,566)	(170,566)
Total revenue and other additions	168,250	2,964,300	77,364	3,209,914
Net assets released from restrictions	4,500,211	(4,500,211)	-	-
Total support, revenue, other additions, and net assets released from restrictions	5,174,770	1,795,110	2,290,489	9,260,369
EXPENSES				
Grants and philanthropic distributions				
Grants	2,893,110	-	-	2,893,110
Intrafund grants to charitable funds	445,437	-	-	445,437
Transfer of assets under management	15,248	33,062	-	48,310
Total grant and philanthropic distributions	3,353,795	33,062	-	3,386,857
Endowment expenses				
Investment fees	362,054	-	-	362,054
Total endowment expenses	362,054	-	-	362,054
Operating and administrative expenses				
General and administrative	648,101	-	-	648,101
Development and fund-raising	303,925	-	-	303,925
Program support	377,741	-	-	377,741
Total operating and administrative expenses	1,329,767	-	-	1,329,767
Total expenses	5,045,616	33,062	-	5,078,678
Adjustments to net assets	-	(498,572)	498,572	-
INCREASE IN NET ASSETS	129,154	1,263,476	2,789,061	4,181,691
NET ASSETS, beginning of year	965,502	14,030,078	48,002,004	62,997,584
NET ASSETS, end of year	$ 1,094,656	$ 15,293,554	$ 50,791,065	$ 67,179,275

See accompanying notes.

	Years Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in net assets	**$ (144,119)**	$ 4,181,691
Adjustments to reconcile net assets to net cash from operating activities		
Realized and unrealized gains and losses	**(104,265)**	(1,848,140)
Depreciation	**26,527**	19,097
Change in value of beneficial interest in pooled income fund	**56,617**	155,740
Change in valuation of planned gift liabilities	**16,752**	170,566
Noncash contributions	**(356,429)**	(1,374,391)
Contributions to permanently restricted endowments	**(2,425,449)**	(2,210,214)
Transfer of assets under management	**4,734**	48,310
Change in operating assets and liabilities		
Interest receivable	**(7,700)**	(6,733)
Prepaid expenses	**(10,536)**	(3,799)
Accounts payable	**(26,874)**	(4,289)
Accrued expense	**50,358**	(18,077)
Grants payable	**169,073**	39,098
Funds held as agency endowments	**(192,215)**	449,079
Net cash from operating activities	**(2,943,526)**	(402,062)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of pooled investments	**27,815,863**	54,178,703
Purchase of pooled investments	**(27,135,046)**	(55,574,842)
Purchase of property and equipment	**(20,592)**	(50,000)
Net cash from investing activities	**660,225**	(1,446,139)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted endowments	**2,425,449**	2,210,214
Payments to annuitants and life income beneficiaries	**(197,072)**	(214,440)
Transfer of assets under management	**(4,734)**	(48,310)
Net cash from financing activities	**2,223,643**	1,947,464
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(59,658)**	99,263
Cash and cash equivalents, beginning of year	**2,829,555**	2,730,292
Cash and cash equivalents, end of year	**$ 2,769,897**	$ 2,829,555
SUPPLEMENTAL DISCLOSURES		
Noncash acquisition of property, plant, and equipment	**$ 6,082**	$ 8,135

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.

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 (GAAP).

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, 2016 and 2015, the Foundation held 553 and 541 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Classification of net assets (continued)

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.

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 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, 2016 and 2015, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurement of investments (continued) – 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.

Investment funds valued using net asset value per share (NAV) or its equivalent as reported by investment managers, which are audited under AICPA guidelines and have trading activity and the quality to redeem at NAV on or near the reporting date, are evaluated outside of the fair value hierarchy in accordance with ASU 2015-07.

Certain investments in hedge funds, 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 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. An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the partnership and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurement of investments (continued) – 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.

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 – 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 three to ten years. The Foundation capitalizes expenditures for items over $5,000 that have a useful life over one year.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Change in deficit in endowments – 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, 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/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 statement of activity 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 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.

Adjustments to net assets – During the year ended June 30, 2016, in accordance with donor request and gift evidence provided, a gift to a donor designated endowment was adjusted as a gift to an agency endowment. During the year ended June 30, 2015, in accordance with donor request, a nonpermanent fund was made permanent to benefit the same charity.

Concentrations of risk –

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Changes in accounting principles – In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent.)*.

The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the (NAV practical expedient). ASU 2015-07 has been adopted for the year ended June 30, 2016; however, the retrospective approach requires that an investment for which fair value is measured using a NAV practical expedient be removed from the fair value hierarchy in all periods presented in the financial statements. Accordingly, the fair value hierarchy disclosures previously included in the footnotes are no longer required.

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 November 21, 2016, which is the date the financial statements were available to be issued. See Note 16 for disclosure of applicable subsequent events.

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, 2016 and 2015, the Foundation had deficiencies in eighteen funds totaling $26,038 and three funds totaling $6,041, respectively. These deficiencies reflect unfavorable market fluctuation during the reporting periods. They are reflected as a reduction to unrestricted net assets.

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%, with the exception of underwater funds that payout at 4%, 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.

Note 3 – Interpretation of Relevant Laws (continued)

Montana Charitable Gift Annuity Exemption Act (MCA 33-20-701) – Montana law requires charitable organizations that offer charitable gift annuities to meet certain requirements set forth by the Montana insurance commissioner. Annual registration is required.

Note 4 – Investments and Fair Value Measurements

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 1,573,123	$ -	$ -	$ 1,573,123
Equity securities				
Information techonology industry	7,998,855	-	-	7,998,855
Financials	7,360,910	-	-	7,360,910
Health care industry	7,213,691	-	-	7,213,691
Consumer discretionary industry	7,311,837	-	-	7,311,837
Industrials	6,379,455	-	-	6,379,455
Other	12,807,982	-	-	12,807,982
Total equity securities	49,072,730	-	-	49,072,730
Debt securities				
Corporate bonds	6,712,427	-	-	6,712,427
US Treasury securities	1,014,904	-	-	1,014,904
Municipal bonds	4,969,532	-	-	4,969,532
Collateralized mortgage obligations	21,766	-	-	21,766
Floating rate notes	509,267	-	-	509,267
Mortgage backed securities	4,534,992	-	-	4,534,992
Total debt securities	17,762,888	-	-	17,762,888
Other equity securities				
Mutual funds	1,868,714	-	-	1,868,714
Total other equity securities	1,868,714	-	-	1,868,714
Private equity				
Global opportunities	-	-	850,164	850,164
Total private equity	-	-	850,164	850,164
Total redeemable securities	70,277,455	-	850,164	71,127,619
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	94,697	94,697
Total nonredeemable securities	-	-	94,697	94,697
Total assets in the fair value hierarchy	$ 70,277,455	$ -	944,861	71,222,316
Investments measured at NAV practical expedient				3,729,209
Total				$ 74,951,525
Beneficial interest in pooled income fund			$ 625,489	$ 625,489

Note 4 – Investments and Fair Value Measurements (continued)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 695,953	$ -	$ -	$ 695,953
Equity securities				
Information techonology industry	8,368,111	-	-	8,368,111
Financials	10,802,471	-	-	10,802,471
Health care industry	6,593,058	-	-	6,593,058
Consumer discretionary industry	6,694,489	-	-	6,694,489
Industrials	7,455,227	-	-	7,455,227
Other	10,802,471	-	-	10,802,471
Total equity securities	50,715,827	-	-	50,715,827
Debt securities				
Corporate bonds	5,995,337	-	-	5,995,337
US Treasury securities	753,175	-	-	753,175
Government agency notes	787,385	-	-	787,385
Municipal bonds	3,974,000	-	-	3,974,000
Collateralized mortgage obligations	48,317	-	-	48,317
Asset backed securities	49,652	-	-	49,652
Mortgage backed securities	3,700,557	-	-	3,700,557
Total debt securities	15,308,423	-	-	15,308,423
Other equity securities				
Mutual funds	5,746,023	-	-	5,746,023
Total other equity securities	5,746,023	-	-	5,746,023
Total redeemable securities	72,466,226	-	-	72,466,226
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	98,799	98,799
Total nonredeemable securities	-	-	98,799	98,799
Total	$ 72,466,226	$ -	98,799	72,565,025
Investments measured at NAV practical expedient				2,621,400
Total				$ 75,186,425
Beneficial interest in pooled income fund			$ 682,106	$ 682,106

The following table presents information regarding funds with fair value that is determined using the NAV (or its equivalent) provided by the fund as of June 30, 2016:

	Fair Value
Hedge fund investments	
Equity long/short	$ 7,048
Private equity	
Global opportunities	3,722,161
	$ 3,729,209

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) provided by the fund as of June 30, 2015:

	Fair Value
Hedge fund investments	
Equity long/short	$ 7,873
Global opportunities	24,717
Total hedge fund investments	32,590
Private equity	
Global opportunities	2,588,810
	$ 2,621,400

Investment returns for the years ended June 30:

	2016	2015
Realized and unrealized gains and losses, net	**$ 104,265**	$ 1,848,140
Interest and dividends	**1,479,317**	1,538,863
Total investment gain	**$ 1,583,582**	$ 3,387,003

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.

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2016 and 2015, and are included in the lines realized and unrealized gains and losses on investments in the statement of activities for the years ended June 30, 2016 and 2015.

	Hedge Funds	Private Equity		Interest in
	Distressed Debt	Global Opportunities	Commercial Real Estate	Pooled Income Fund
Beginning balance at July 1, 2014	$ 329,421	$ -	$ 227,375	$ 1,073,774
Total realized gains	104,737	-	-	-
Total unrealized gains (losses)	(139,422)	-	(148,576)	-
Purchases	-	-	20,000	-
Sales	(294,736)	-	-	-
Transfers out of Level 3	-	-	-	(235,928)
Present value adjustment	-	-	-	(155,740)
Ending balance at June 30, 2015	-	-	98,799	682,106
Total unrealized gains (losses)	-	(34,836)	(24,102)	-
Purchases	-	885,000	20,000	-
Present value adjustment	-	-	-	(56,617)
Ending balance at June 30, 2016	$ -	$ 850,164	$ 94,697	$ 625,489

Note 4 – Investments and Fair Value Measurements (continued)

	Fair Value at June 30, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	$ 7,048	$ -	Monthly to quarterly	45 days	(1)
Total hedge fund investments	7,048	-			
Private equity					
Global opportunities	4,572,325	1,615,000	Illiquid	n/a	(1)
Commercial real estate	94,697	50,000	Illiquid for 3 years	n/a	(1)
Total private equity	4,667,022	1,665,000			
Total	$ 4,674,070	$ 1,665,000			

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

Note 5 – Capital Leases

The Foundation entered in to a capital lease for a copier in December 2014 that ends with a $1 bargain purchase option on December 20, 2019. The Foundation also entered in to a capital lease for a copier in October 2015 that ends with a $1 bargain purchase option on October 22, 2018. The leased assets are reported as part of property and equipment on the statement of financial position and include the following capitalized amounts as of June 30:

	2016	2015
Equipment	**$ 14,217**	$ 8,135
Less accumulated depreciation	**(3,488)**	(949)
Net capitalized amount	**$ 10,729**	$ 7,186

Depreciation expense of $2,539 and $949 was recorded for the capital leases for the years ended June 30, 2016 and 2015, respectively.

Note 5 – Capital Leases (continued)

The following is a schedule by year of future minimum payments required under the leases, together with the present value of the net minimum lease payments:

2017	$ 4,595
2018	4,595
2019	2,845
2020	904
Total contractual payments	12,939
Less amount representing interest	(2,066)
Present value of minimum lease payments	$ 10,873
Current portion	$ 3,477
Long-term portion	7,396
Total present value of obligations under capital lease	$ 10,873

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 total permanently restricted net assets) had the following changes during the years ended June 30:

	2016	2015
Permanent net assets, balance beginning of year	**$ 5,981,619**	$ 5,629,435
Contributions	**1,101,150**	1,064,845
Interest and dividends	**157,588**	158,342
Realized/unrealized gains, net	**28,870**	221,238
Change in value of planned gift liability	**274,835**	(8,685)
Total income	**1,562,443**	1,435,740
Payments to income beneficiaries	**197,072**	214,440
Termination/maturity of planned gifts	**797,830**	765,935
Administrative fees	**70,185**	57,367
Investment management fees	**47,443**	45,814
Total expense	**1,112,530**	1,083,556
Permanent net assets, balance end of year	**$ 6,431,532**	$ 5,981,619

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:

	2016	2015
Balance beginning of year	**$ 9,074,214**	$ 8,625,135
Contributions	**165,635**	444,606
Interest and dividends	**192,493**	208,245
Realized/unrealized gains, net	**15,424**	279,781
Total income	**373,552**	932,632
Distributions of earnings	**372,033**	337,759
Administrative fees	**94,362**	89,178
Investment management fees	**54,370**	56,616
Transfer of assets under management	**45,002**	-
Total expense	**565,767**	483,553
Balance end of year	**$ 8,881,999**	$ 9,074,214

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:

	2016	2015
Permanent and temporary funds	**$ 843,007**	$ 780,562
Planned gifts	**70,185**	57,367
Agency funds	**94,362**	89,178
Fees for services	**11,971**	2,922
	$ 1,019,525	$ 930,029

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 9 – Net Assets Released From Restriction

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

	2016	2015
Payment of grants	**$ 2,572,184**	$ 1,755,253
Payment of intrafund grants	**271,827**	381,129
Payment of administrative and investment manager fees	**1,204,226**	1,141,791
Annual endowment distributions	**892,023**	1,118,193
Endowment expenses	**466**	212
Special projects expenses	**20,899**	103,633
	$ 4,961,625	$ 4,500,211

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:

	2016	2015
Grants	**$ 3,485,578**	$ 2,893,110
Distributions to agencies	**368,135**	337,759
Intrafund grants to charitable funds	**271,827**	445,437
	$ 4,125,540	$ 3,676,306

Note 11 – Endowment Funds

The Foundation has no Board-designated endowments as of June 30, 2016 or 2015. Donor restricted endowment net assets composition as of June 30 is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
June 30, 2016	**$ (26,038)**	**$ 8,601,441**	**$ 46,933,773**	**$ 55,509,176**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2015	$ (6,041)	$ 10,605,562	$ 44,809,446	$ 55,408,967

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

	June 30, 2016			
	Unrestricted Deficit in Endowment Assets	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, July 1, 2015	**$ (6,041)**	**$ 10,605,562**	**$ 44,809,446**	**$ 55,408,967**
Investment return				
Investment income	**-**	**1,164,770**	**-**	**1,164,770**
Net unrealized and realized gains/ losses	**-**	**89,431**	**1,683**	**91,114**
Change in deficit in endowments	**(19,997)**	**19,997**	**-**	**-**
Total investment return	**(19,997)**	**1,274,198**	**1,683**	**1,255,884**
Contributions	**-**	**29,075**	**1,324,299**	**1,353,374**
Termination/maturity of planned gifts	**-**	**-**	**797,831**	**797,831**
Intrafund grants to endowment funds	**-**	**18,270**	**3,560**	**21,830**
Transfers of assets under management	**-**	**(2,695)**	**-**	**(2,695)**
Adjustments to net assets	**-**	**-**	**(3,046)**	**(3,046)**
Appropriation for expenditure	**-**	**(3,322,969)**	**-**	**(3,322,969)**
Total contributions	**-**	**(3,278,319)**	**2,122,644**	**(1,155,675)**
Endowment net assets, June 30, 2016	**$ (26,038)**	**$ 8,601,441**	**$ 46,933,773**	**$ 55,509,176**

Note 11 – Endowment Funds (continued)

	June 30, 2015			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ (3,719)	$ 10,807,418	$ 42,372,569	$ 53,176,268
Investment return				
Investment income	-	1,249,527	-	1,249,527
Net unrealized and realized gains/ losses	-	1,634,219	24,090	1,658,309
Change in deficit in endowments	(2,322)	2,322	-	-
Total investment return	(2,322)	2,886,068	24,090	2,907,836
Contributions	-	188,326	1,145,369	1,333,695
Termination/maturity of planned gifts	-	-	765,935	765,935
Intrafund grants to endowment funds	-	36,641	2,911	39,552
Transfers of assets under management	-	(33,062)	-	(33,062)
Adjustments to net assets	-	1,512	498,572	500,084
Appropriation for expenditure	-	(3,281,341)	-	(3,281,341)
Total contributions	-	(3,087,924)	2,412,787	(675,137)
Endowment net assets, June 30, 2015	$ (6,041)	$ 10,605,562	$ 44,809,446	$ 55,408,967

Note 12 – Net Assets

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

	2016	2015
Temporarily restricted net assets		
Special projects	**$ 4,172,445**	$ 4,687,992
Unappropriated earnings	**8,601,441**	10,605,562
	$ 12,773,886	$ 15,293,554

Note 12 – Net Assets (continued)

Permanently restricted net assets consist of the following at June 30:

	2016	2015
Endowments	**$ 46,933,773**	$ 44,809,446
Irrevocable planned gifts	**6,431,532**	5,981,619
	$ 53,365,305	$ 50,791,065

Note 13 – Retirement Plan

The Foundation has established a simplified employee pension plan for employees. The Foundation contributes 6% of the participants' annual salaries per year. The Foundation's pension plan expense was $42,698 and $28,080 for the years ended June 30, 2016 and 2015, respectively.

Note 14 – Lease Obligations

The Foundation leases office space under operating lease agreements. In Helena, the Foundation's offices are on a month-to-month lease. A satellite office location in Bigfork has a month-to-month lease. The Foundation's office in Missoula has a two year lease that expires June 30, 2017, that obligates the Foundation for office and furniture rent. Rent expense for the years ended June 30, 2016 and 2015, was $72,062 and $40,290, respectively. Future minimum lease payments are as follows:

2017	$ 22,946

Note 15 – Transfer of Assets under Management

In fiscal 2016 and 2015, the Foundation transferred charitable assets to other organizations totaling $4,734 and $48,310, respectively, which is shown as a reduction in the net asset category in which the endowments were held.

Note 16 – Subsequent Events

Subsequent to year end, the Foundation established a wholly owned subsidiary for the sole purpose of purchasing and managing a building (commonly known as Aspen Court) located at 33 S. Last Chance Gulch in Helena, Montana. The building was purchased 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 unrestricted funds. 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. Future aggregate annual maturities of the loan are as follows:

2017	$ 16,831
2018	37,299
2019	42,402
2020	44,239
2021	46,157
Thereafter	1,533,072
	$ 1,720,000