Report of Independent Auditors
and Financial Statements

Montana Community Foundation

June 30, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3-4
Statements of cash flows	5
Notes to financial statements	6-25

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Montana Community Foundation

We have audited the accompanying statements of financial position of Montana Community Foundation (Foundation) (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Community Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
November 9, 2012

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MONTANA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	**$ 2,759,239**	$ 2,241,368
Accrued interest receivable	**154,257**	149,493
Prepaid expenses and other	**28,301**	17,696
Beneficial interest in pooled income fund	**816,117**	873,201
Pooled investments	**55,647,930**	57,358,334
Cash surrender value of life insurance	**181,836**	169,761
Property and equipment, net of accumulated depreciation of $193,756 and $172,429	**70,428**	55,910
Total assets	**$ 59,658,108**	$ 60,865,763

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable	**$ 40,134**	$ 35,383
Accrued expenses	**28,419**	22,190
Grants and distributions payable	**698,439**	576,772
Planned gift liabilities	**2,064,510**	2,471,409
Funds held as agency endowments	**6,872,186**	7,033,798
Total liabilities	**9,703,688**	10,139,552
NET ASSETS		
Unrestricted net assets		
Unrestricted - for operating purposes	**727,204**	622,153
Unrestricted - deficit in endowment funds	**(530,522)**	(71,582)
Total unrestricted net assets	**196,682**	550,571
Temporarily restricted net assets	**6,312,153**	8,353,924
Permanently restricted net assets	**43,445,585**	41,821,716
Total net assets	**49,954,420**	50,726,211
Total liabilities and net assets	**$ 59,658,108**	$ 60,865,763

See accompanying notes.

	Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions				
Contributions	$ 65,743	$ 1,070,377	$ 1,439,428	$ 2,575,548
Intrafund grants from endowment funds	40,243	22,363	8,971	71,577
Total contributions	105,986	1,092,740	1,448,399	2,647,125
Revenue and other additions				
Administrative fees	130,195	-	-	130,195
Interest and dividends	60,069	1,200,498	159,132	1,419,699
Realized and unrealized gains and losses on investments	(10,097)	(1,401,895)	(203,205)	(1,615,197)
Change in deficit in endowment fund	(458,940)	458,940	-	-
Change in value of beneficial interest in pooled income fund	-	-	156,647	156,647
Change in value of planned gift liabilities	-	-	118,421	118,421
Total revenue and other additions	(278,773)	257,543	230,995	209,765
Net assets released from restrictions	3,388,709	(3,388,709)	-	-
Total support, revenue, other additions, and net assets released from restrictions	3,215,922	(2,038,426)	1,679,394	2,856,890
EXPENSES				
Grants and philanthropic distributions				
Grants	2,277,718	-	-	2,277,718
Intrafund grants to endowment funds	71,577	-	-	71,577
Transfer of assets under management	-	8,407	50,463	58,870
Total grants and philanthropic distributions	2,349,295	8,407	50,463	2,408,165
Endowment expenses				
Investment fees	274,401	-	-	274,401
Total endowment expenses	274,401	-	-	274,401
Operating and administrative expenses				
General and administrative	498,596	-	-	498,596
Development and fund-raising	55,230	-	-	55,230
Program support	392,289	-	-	392,289
Total operating and administrative expenses	946,115	-	-	946,115
Total expenses	3,569,811	8,407	50,463	3,628,681
Reclassification of net assets	-	5,062	(5,062)	-
Decrease in net assets	(353,889)	(2,041,771)	1,623,869	(771,791)
NET ASSETS, beginning of year	550,571	8,353,924	41,821,716	50,726,211
NET ASSETS, end of year	$ 196,682	$ 6,312,153	$ 43,445,585	$ 49,954,420

MONTANA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES

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

See accompanying notes.

	Years Ended June 30, 2012	Years Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ (771,791)	$ 8,412,751
Adjustments to reconcile net assets to net cash from operating activities:		
Realized and unrealized gains and losses	1,615,197	(7,519,894)
Depreciation	21,327	41,152
Change in value of beneficial interest in pooled income fund	(156,647)	(156,558)
Change in valuation of planned gift liabilities	(118,421)	302,816
Noncash contributions	(154,167)	(127,149)
Contributions to permanently restricted endowments	(1,439,428)	(1,571,142)
Transfer of assets under management	58,870	78,417
Change in operating assets and liabilities:		
Interest receivable	(4,764)	4,596
Prepaid expenses	(10,605)	(5,367)
Accounts payable	4,751	25,391
Accrued expense	6,229	2,261
Grants payable	121,667	(244,052)
Funds held as agency endowments	(161,612)	881,402
Net cash from operating activities	(989,394)	124,624
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	37,446,254	30,050,145
Purchase of investment securities	(37,040,231)	(30,114,419)
Purchase of equipment	(35,845)	-
Net cash from investing activities	370,178	(64,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted endowments	1,439,428	1,571,142
Payments to annuitants and life income beneficiaries	(243,471)	(279,126)
Transfer of assets under management	(58,870)	(78,417)
Net cash from financing activities	1,137,087	1,213,599
NET CHANGE IN CASH AND CASH EQUIVALENTS	517,871	1,273,949
Cash and cash equivalents, beginning of year	2,241,368	967,419
Cash and cash equivalents, end of year	$ 2,759,239	$ 2,241,368

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, with communities to build unrestricted funds to meet changing needs, and with policy makers to implement systemic changes to improve the quality of life for Montanans. The majority of gifts received are endowment gifts, which are preserved in perpetuity. A portion of the net investment earnings are granted to Montana public benefit corporations or to award scholarships. The Foundation was incorporated on January 29, 1988, and began operations in July 1988. Effective January 1, 1989, the Foundation merged with Community Development Foundation, Inc., a community foundation formed for the purpose of assisting and promoting the well-being of the people living in the Yellowstone Basin by supporting various charitable activities.

Note 2 - Summary of Significant Accounting Policies

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

Fund accounting – The accounts of the Foundation are maintained in accordance with the principles of fund accounting. As such, contributions are classified into funds based upon their particular purpose and nature. For the purpose of investing funds, the Foundation pools them according to their purpose or whether they are considered permanently or temporarily restricted. At June 30, 2012 and 2011, the Foundation held 521 and 532 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)

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.

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 that 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Fair value measurement of investments (continued) – 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 included within Level 2.

Certain investments in hedge funds, private equity funds, or other private investments are valued utilizing unobservable inputs, and which 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 that 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.

Although the Foundation uses its best judgment in determining the fair value, the values presented herein are not necessarily indicative of the amount that 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.

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 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 benefit funds that are permanently restricted and therefore planned gift assets are invested in the Investment Pool.

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

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

Planned gift liabilities (split interest agreements) – The Foundation records an amount due to income beneficiaries of charitable gift annuities and charitable remainder trusts when it acts as trustee. The liability is based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Annual adjustments to the liability reflect revaluation of the present value of the estimated future payments to the income beneficiary and are recognized in the statements 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 fund. 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 not-for-profit organization. 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).

Change in deficit in endowment funds – Permanently restricted net assets cannot be expended; however, it is possible that market conditions will cause the current value of permanently restricted assets to fall below the value that are accounted for as permanent. When that happens, as it did in 2012 and 2011, 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 a change in deficit in endowment funds.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Reclassification of net assets – During the year ended June 30, 2012, in accordance with donor request, a permanently restricted scholarship endowment was repurposed to a nonpermanent, temporarily restricted fund to be fully granted out in the next few years. During the year ended June 30, 2011, there were a few endowments in which temporarily restricted net assets available for granting were reclassified to the permanent endowment balances of the endowment fund in accordance with donor request.

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.

Income taxes – The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundation complies with FASB ASC 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. As of June 30, 2012 and 2011, the Foundation had no uncertain tax positions requiring accrual. No interest and penalties were accrued for the years ended June 30, 2012 or 2011. The Foundation files an exempt organization return in the U.S. federal jurisdiction. The Foundation is no longer subject to income tax examinations by taxing authorities for years before 2009.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

Reclassifications – Certain amounts in the prior year financial statements may have been reclassified for comparative purposes to conform with the presentation of current year financial statements.

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 9, 2012, which is the date the financial statements were available to be issued.

Note 3 – Interpretation of Relevant Laws

Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Montana Code Annotated [MCA] 72-30-101) – The Board of Directors, in consultation with its legal counsel, determined it holds net assets that meet the definition of endowment funds under UPMIFA. As a result, the Foundation classifies contributions made to endowment funds as permanently restricted net assets. The value is established on the date of contribution. Earnings on endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Foundation unless required to be added to the corpus and then the earnings are classified as permanently restricted.

From time to time, the fair value of endowment funds may fall below the amount classified as permanently restricted net assets. At June 30, 2012 and 2011, the Foundation had deficiencies in 141 funds totaling $530,522 and 45 funds totaling $71,582, respectively. These deficiencies reflect unfavorable market fluctuation during the reporting periods. The change is reflected as a reduction to unrestricted net assets.

Note 3 – Interpretation of Relevant Laws (continued)

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

The payout policy calculates the amount of money distributed annually from the Foundation's endowed funds. The current payout policy is 4% of the three-year daily average fund balance calculated each December 31. The payout policy is subject to annual review and modification by the Board of Directors. Changes to the payout policy are guided by the standards described in UPMIFA.

Qualified endowment credit (MCA 15-30-165) – Montana law provides for a tax credit against Montana income tax liability for individuals and businesses in exchange for planned gifts made by an individual tax payer to a qualified endowment or a direct gift made by a business to a qualified endowment.

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

Note 4 - Investments and Fair Value Measurements

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

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 961,678	$ -	$ -	$ 961,678
Equity securities				
Information techonology industry	5,895,491	-	-	5,895,491
Health care industry	3,901,847	-	-	3,901,847
Consumer discretionary industry	3,787,924	-	-	3,787,924
Industrials	3,617,041	-	-	3,617,041
Other	11,278,333	-	-	11,278,333
Total equity securities	28,480,636	-	-	28,480,636
Debt securities				
Corporate bonds	5,261,977	-	-	5,261,977
US Treasury securities	91,993	-	-	91,993
Municipal bonds	5,167,901	-	-	5,167,901
Collateralized mortgage obligations	568,581	-	-	568,581
Mortgage backed securities	5,085,417	-	-	5,085,417
Total debt securities	16,175,869	-	-	16,175,869
Other equity securities				
Mutual funds	4,791,583	-	-	4,791,583
Exchange traded precious metal commodity funds	333,041	-	-	333,041
Total other equity securities	5,124,624	-	-	5,124,624
Hedge fund investments				
Equity long/short	-	1,048,367	-	1,048,367
Global opportunities	-	1,823,822	499,850	2,323,672
Distressed debt	-	777,955	205,658	983,613
Total hedge fund investments	-	3,650,144	705,508	4,355,652
Private equity				
Global opportunities	-	-	369,471	369,471
Total private equity	-	-	369,471	369,471
Total redeemable securities	50,742,807	3,650,144	1,074,979	55,467,930

Note 4 - Investments and Fair Value Measurements (continued)

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	$ -	$ -	$ 180,000	$ 180,000
Total nonredeemable securities	-	-	180,000	180,000
Total	$ 50,742,807	$ 3,650,144	$ 1,254,979	$ 55,647,930
Beneficial interest in pooled income fund		$ 816,117		

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 1,910,209	$ -	$ -	$ 1,910,209
Equity securities				
Information techonology industry	6,026,370	-	-	6,026,370
Consumer discretionary industry	4,257,762	-	-	4,257,762
Financial industry	4,094,001	-	-	4,094,001
Health care industry	3,995,745	-	-	3,995,745
Other	14,378,134	-	-	14,378,134
Total equity securities	32,752,012	-	-	32,752,012
Debt securities				
Corporate bonds	3,406,194	-	-	3,406,194
US Treasury securities	622,586	-	-	622,586
Municipal bonds	5,086,899	-	-	5,086,899
Floating rate notes	1,130,149	-	-	1,130,149
Collateralized mortgage obligations	794,743	-	-	794,743
Mortgage backed securities	4,549,729	-	-	4,549,729
Total debt securities	15,590,300	-	-	15,590,300
Other equity securities				
Mutual funds	3,987,414	-	-	3,987,414
Exchange traded precious metal commodity funds	109,822	-	-	109,822
Total other equity securities	4,097,236	-	-	4,097,236

Note 4 - Investments and Fair Value Measurements (continued)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Hedge fund investments				
Equity long/short	$ -	$ 832,261	$ -	$ 832,261
Global opportunities	-	1,377,195	-	1,377,195
Distressed debt	-	320,301	265,835	586,136
Total hedge fund investments	-	2,529,757	265,835	2,795,592
Private equity				
Global opportunities	-	-	162,985	162,985
Total private equity	-	-	162,985	162,985
Total redeemable securities	54,349,757	2,529,757	428,820	57,308,334
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	50,000	50,000
Total nonredeemable securities	-	-	50,000	50,000
Total	$ 54,349,757	$ 2,529,757	$ 478,820	$ 57,358,334
Beneficial interest in pooled income fund		$ 873,201		

Investment returns for the years ended June 30:

	2012	2011
Realized and unrealized gains and losses, net	**$ (1,615,197)**	$ 7,519,894
Interest and dividends	**1,419,699**	1,299,118
Total investment gain	**$ (195,498)**	$ 8,819,012

Note 4 - Investments and Fair Value Measurements (continued)

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

	Hedge Funds		Private Equity	
	Global Opportunities	Distressed Debt	Global Opportunities	Commercial Real Estate
Beginning balance at July 1, 2010	$ -	$ 245,879	$ -	$ -
Total realized gains	-	-	-	-
Total unrealized gains (losses)	-	19,956	2,985	(10,000)
Purchases and sales, net	-	-	160,000	60,000
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Actuarial adjustment	-	-	-	-
Ending balance at June 30, 2011	-	265,835	162,985	50,000
Total realized gains	-	-	-	-
Total unrealized gains (losses)	(150)	(60,177)	6,486	(7,500)
Purchases	500,000	-	200,000	137,500
Sales	-	-	-	-
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Actuarial adjustment	-	-	-	-
Ending balance at June 30, 2012	$ 499,850	$ 205,658	$ 369,471	$ 180,000

Note 4 - Investments and Fair Value Measurements (continued)

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2012 and 2011, and are included in the lines *Realized and unrealized gains and losses on investments* in the statements of activities for the years ended June 30, 2012 and 2011.

	Fair Value at June 30, 2012	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	$ 1,048,367	$ -	Monthly to quarterly	45 days	(1)
Global opportunities	2,323,672	-	Monthly to quarterly	10 - 95 days	(1)
Distressed debt	983,613	-	Monthly to annually	45 - 95 days	(1)
Total hedge fund investments	4,355,652	-			
Private equity					
Global opportunities	369,471	-	Quarterly, after one year lock out	30-45 days	(1)
Commercial real estate	180,000	362,500	Illiquid for seven years	n/a	(1)
Total private equity	549,471	362,500			
Total	$ 4,905,123	$ 362,500			

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

Note 5 – Planned Gifts

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

	2012	2011
Permanent net assets, balance beginning of year	**$ 4,847,282**	$ 3,978,420
Contributions	**406,094**	487,324
Interest and dividends	**159,132**	156,749
Realized/unrealized gains, net	**(194,306)**	1,001,333
Decrease in value of planned gift liability	**614,254**	250,974
Total income	**985,174**	1,896,380
Payments to income beneficiaries	**243,471**	279,126
Termination/maturity of planned gifts	**764,550**	630,287
Administrative fees	**54,621**	67,398
Investment management fees	**41,094**	50,707
Total expense	**1,103,736**	1,027,518
Permanent net assets, balance end of year	**$ 4,728,720**	$ 4,847,282

Note 6 – Funds Held As Agency Endowments

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

	2012	2011
Balance beginning of year	**$ 7,033,798**	$ 6,152,396
Contributions	**309,570**	376,416
Interest and dividends	**181,957**	172,933
Realized/unrealized gains (losses), net	**(230,895)**	1,121,962
Total income	**260,632**	1,671,311
Distributions of earnings	**218,609**	212,619
Administrative fees	**70,509**	80,089
Investment management fees	**43,018**	48,863
Transfer of assets under management	**90,108**	448,338
Total expense	**422,244**	789,909
Balance end of year	**$ 6,872,186**	$ 7,033,798

Note 7 – Administrative Fees

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

	2012	2011
Permanent and temporary funds	**$ 621,640**	$ 837,876
Planned gifts	**54,621**	67,398
Agency funds	**70,509**	80,089
Fees for services	**6,800**	83,639
	$ 753,570	$ 1,069,002

Note 7 – Administrative Fees (continued)

Fees charged to agency funds and charges for services were reported as administrative fee revenue in the statements of activities. Fees charged to planned gifts were reflected in the change in value of planned gift liabilities in the statements 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 statements of activities.

Note 8 - Net Assets Released From Restriction

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

	2012	2011
Payment of grants	**$ 1,606,468**	$ 1,594,345
Payment of interfund grants	**57,127**	112,818
Payment of administrative and investment manager fees	**894,119**	821,945
Distributions of earnings	**666,449**	473,886
Endowment expenses	**2,599**	36,789
Special projects expenses	**161,947**	-
	$ 3,388,709	$ 3,039,783

Note 9 – Grants

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

	2012	2011
Grants	**$ 2,277,718**	$ 2,068,231
Distributions to agencies	**218,609**	212,619
Intrafund grants	**71,577**	234,516
	$ 2,567,904	$ 2,515,366

Note 10 – Endowment Funds

The Foundation has no Board-designated endowments as of June 30, 2012 and 2011. Donor restricted endowment net assets composition as of June 30 is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
June 30, 2012	**$ (530,522)**	**$ 3,495,132**	**$ 38,716,865**	**$ 41,681,475**
June 30, 2011	$ (71,582)	$ 5,443,447	$ 36,974,434	$ 42,346,299

Note 10 – Endowment Funds (continued)

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

	June 30, 2012			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	$ (71,582)	$ 5,443,447	$ 36,974,434	$ 42,346,299
Investment return				
Investment income	-	1,075,864	-	1,075,864
Net unrealized and realized gains/ losses	-	(1,360,904)	(8,899)	(1,369,803)
Change in deficit in endowments	(458,940)	458,940		-
Total investment return	(458,940)	173,900	(8,899)	(293,939)
Contributions	-	122,228	1,033,334	1,155,562
Termination/maturity of planned gifts	-	-	764,550	764,550
Intrafund grants to endowment funds	-	22,363	8,971	31,334
Transfers of assets under management	-	(8,407)	(50,463)	(58,870)
Reclassification of net assets	-	(551)	(5,062)	(5,613)
Appropriation for expenditure	-	(2,257,848)	-	(2,257,848)
Endowment net assets, June 30, 2012	$ (530,522)	$ 3,495,132	$ 38,716,865	$ 41,681,475

Note 10 – Endowment Funds (continued)

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

Note 11 – Net Assets

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

	2012	2011
Temporarily restricted net assets		
Special projects	**$ 2,817,021**	$ 2,910,477
Unappropriated earnings	**3,495,132**	5,443,447
	$ 6,312,153	$ 8,353,924

Note 11 – Net Assets (continued)

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

	2012	2011
Permanently restricted net assets		
Endowments	**$ 38,716,865**	$ 36,974,434
Irrevocable planned gifts	**4,728,720**	4,847,282
	$ 43,445,585	$ 41,821,716

Note 12 – Retirement Plan

The Foundation has established a simplified employee pension plan for employees. The Foundation contributes 6% of the participants' annual salaries per year. The Foundation's pension plan expense was $17,418 and $17,025 for the years ended June 30, 2012 and 2011, respectively.

Note 13 – Lease Obligations

The Foundation leases office space under operating lease agreements. The agreement for its primary office location expires in June 2014. This lease also obligates the Foundation for its pro-rata share of taxes, insurance, and common area maintenance. Another satellite office location had an operating lease from October 2011 to September 2012. Rent expense for the years ended June 30, 2012 and 2011, was $40,665 and $37,710, respectively.

Future minimum lease payments as of June 30, 2012, are as follows:

2013	$ 35,385
2014	34,425
	$ 69,810

Note 14 – Transfer of Assets under Management

In fiscal years 2012 and 2011, the Foundation transferred endowment assets to other organizations totaling $58,870 and $78,417, respectively, which is shown as a reduction in the net asset category in which the endowments were held.