



**REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS  
MONTANA COMMUNITY FOUNDATION  
June 30, 2013 and 2012**

**MOSS-ADAMS<sub>LLP</sub>**

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, 2013 and 2012, 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.

**REPORT OF INDEPENDENT AUDITORS**  
**(continued)**

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.

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, 2013 and 2012, 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 12, 2014

**MONTANA COMMUNITY FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

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**ASSETS**

	June 30,	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	<b>\$ 3,011,981</b>	\$ 2,759,239
Accrued interest receivable	<b>129,336</b>	154,257
Prepaid expenses and other	<b>47,843</b>	28,301
Beneficial interest in pooled income fund	<b>836,055</b>	816,117
Pooled investments	<b>60,764,222</b>	55,647,930
Cash surrender value of life insurance	<b>245,892</b>	181,836
Property and equipment, net of accumulated depreciation of \$215,231 and \$193,757, respectively	<b>60,404</b>	70,428
Total assets	<b><u>\$ 65,095,733</u></b>	<b><u>\$ 59,658,108</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	<b>\$ 12,624</b>	\$ 40,134
Accrued expenses	<b>17,174</b>	28,419
Grants and distributions payable	<b>803,773</b>	698,439
Planned gift liabilities	<b>1,914,350</b>	2,064,510
Funds held as agency endowments	<b>7,579,478</b>	6,872,186
Total liabilities	<b><u>10,327,399</u></b>	<b><u>9,703,688</u></b>
<b>NET ASSETS</b>		
Unrestricted net assets		
Unrestricted - for operating purposes	<b>853,235</b>	727,204
Unrestricted - deficit in endowment assets	<b>(84,043)</b>	(530,522)
Total unrestricted net assets	<b>769,192</b>	196,682
Temporarily restricted net assets	<b>8,360,046</b>	6,312,153
Permanently restricted net assets	<b>45,639,096</b>	43,445,585
Total net assets	<b><u>54,768,334</u></b>	<b><u>49,954,420</u></b>
Total liabilities and net assets	<b><u>\$ 65,095,733</u></b>	<b><u>\$ 59,658,108</u></b>

## MONTANA COMMUNITY FOUNDATION STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions				
Contributions	\$ 70,416	\$ 806,808	\$ 1,500,576	\$ 2,377,800
Intrafund grants from endowment funds	51,093	24,794	8,357	84,244
Total contributions	<u>121,509</u>	<u>831,602</u>	<u>1,508,933</u>	<u>2,462,044</u>
Revenue and other additions				
Administrative fees	126,635	-	-	126,635
Interest and dividends	44,408	1,345,189	141,068	1,530,665
Realized and unrealized gains and losses on investments	(20,270)	4,073,017	576,902	4,629,649
Change in deficit in endowments	446,479	(446,479)	-	-
Change in value of beneficial interest in pooled income fund	-	-	19,938	19,938
Change in value of planned gift liabilities	-	-	(23,112)	(23,112)
Total revenue and other additions	<u>597,252</u>	<u>4,971,727</u>	<u>714,796</u>	<u>6,283,775</u>
Net assets released from restrictions	<u>3,755,832</u>	<u>(3,755,832)</u>	-	-
Total support, revenue, other additions, and net assets released from restrictions	<u>4,474,593</u>	<u>2,047,497</u>	<u>2,223,729</u>	<u>8,745,819</u>
<b>EXPENSES</b>				
Grants and philanthropic distributions				
Grants	2,149,771	-	-	2,149,771
Intrafund grants to endowment funds	84,244	-	-	84,244
Transfer of assets under management	1,825	(820)	30,642	31,647
Total grant and philanthropic distributions	<u>2,235,840</u>	<u>(820)</u>	<u>30,642</u>	<u>2,265,662</u>
Endowment expenses				
Investment fees	288,926	-	-	288,926
Total endowment expenses	<u>288,926</u>	<u>-</u>	<u>-</u>	<u>288,926</u>
Operating and administrative expenses				
General and administrative	514,633	-	-	514,633
Development and fund-raising	45,570	-	-	45,570
Program support	817,114	-	-	817,114
Total operating and administrative expenses	<u>1,377,317</u>	<u>-</u>	<u>-</u>	<u>1,377,317</u>
Total expenses	<u>3,902,083</u>	<u>(820)</u>	<u>30,642</u>	<u>3,931,905</u>
Reclassification of net assets	-	(424)	424	-
<b>INCREASE IN NET ASSETS</b>	<u>572,510</u>	<u>2,047,893</u>	<u>2,193,511</u>	<u>4,813,914</u>
<b>NET ASSETS</b> , beginning of year	<u>196,682</u>	<u>6,312,153</u>	<u>43,445,585</u>	<u>49,954,420</u>
<b>NET ASSETS</b> , end of year	<u>\$ 769,192</u>	<u>\$ 8,360,046</u>	<u>\$ 45,639,096</u>	<u>\$ 54,768,334</u>

# MONTANA COMMUNITY FOUNDATION

## STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
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 endowments	(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
<b>EXPENSES</b>				
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 grant 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)
<b>NET ASSETS</b> , beginning of year	550,571	8,353,924	41,821,716	50,726,211
<b>NET ASSETS</b> , end of year	\$ 196,682	\$ 6,312,153	\$ 43,445,585	\$ 49,954,420

**MONTANA COMMUNITY FOUNDATION  
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 4,813,914	\$ (771,791)
Adjustments to reconcile net assets to net cash from operating activities		
Realized and unrealized gains and losses	(4,629,649)	1,615,197
Depreciation	21,474	21,327
Change in value of beneficial interest in pooled income fund	(19,938)	(156,647)
Change in valuation of planned gift liabilities	23,112	(118,421)
Noncash contributions	(630,907)	(154,167)
Contributions to permanently restricted endowments	(1,500,576)	(1,439,428)
Transfer of assets under management	31,647	58,870
Change in operating assets and liabilities		
Interest receivable	24,921	(4,764)
Prepaid expenses	(19,542)	(10,605)
Accounts payable	(27,510)	4,751
Accrued expense	(11,245)	6,229
Grants payable	105,334	121,667
Funds held as agency endowments	707,292	(161,612)
Net cash from operating activities	<u>(1,111,673)</u>	<u>(989,394)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment securities	29,179,133	37,446,254
Purchase of investment securities	(29,067,927)	(37,040,231)
Purchase of equipment	(11,451)	(35,845)
Net cash from investing activities	<u>99,755</u>	<u>370,178</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions to permanently restricted endowments	1,500,577	1,439,428
Payments to annuitants and life income beneficiaries	(204,270)	(243,471)
Transfer of assets under management	(31,647)	(58,870)
Net cash from financing activities	<u>1,264,660</u>	<u>1,137,087</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>252,742</b>	<b>517,871</b>
Cash and cash equivalents, beginning of year	<u>2,759,239</u>	<u>2,241,368</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,011,981</u></u>	<u><u>\$ 2,759,239</u></u>

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

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### **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. 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 (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, 2013 and 2012, the Foundation held 526 and 521 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.

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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Fair value measurement of investments (continued)** – 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)**

**Beneficial interest in pooled income fund (continued)** – 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 IRS 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** – 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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

**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 benefiting 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 endowment funds** – Permanently restricted net assets cannot be expended; however, it is possible that market conditions will cause the current value of permanently restricted assets to fall below the value that is accounted for as permanent. When that happens, as it did in 2012, 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, as it did in 2013, that amount is recognized as change in deficit in endowment funds.

**Intrafund grants to endowment funds** – This is the amount granted from one Foundation fund to another based on donor recommendations and Foundation approval. These grants are both expenses and revenues at the fund level. They are reported as intrafund grants to endowment funds and intrafund grants from endowment funds on the statement of activity for the purpose of reflecting all grant support from the Foundation’s funds. Although this is not in accordance with 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.

**Reclassification of net assets** – During the year ended June 30, 2013, in accordance with donor request, a portion of an endowment payout was reinvested to principal of the same endowment. During the year ended June 30, 2012, in accordance with donor request, a small, permanently restricted scholarship endowment was repurposed to a nonpermanent, temporarily restricted fund to be fully granted out in the next few years.

**Concentrations of risk –**

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

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

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Income taxes** – The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundation complies with 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, 2013 and 2012, the Foundation had no uncertain tax positions requiring accrual.

**Accounting estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** – Certain items in the 2012 financial statements have been reclassified to conform with the 2013 presentation. Such reclassifications had no effect on previously reported net income (loss).

**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 12, 2014, 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, 2013 and 2012, the Foundation had deficiencies in 42 funds totaling \$84,043 and 141 funds totaling \$530,522, 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 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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Interpretation of Relevant *Laws* (continued)**

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

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

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

Investments are carried at fair value and consist of the following as of June 30, 2013 and 2012:

	June 30, 2013			Total
	Level 1	Level 2	Level 3	
<b>Pooled investments - redeemable securities</b>				
Cash and cash equivalents	\$ 993,728	\$ -	\$ -	\$ 993,728
Equity securities				
Information technology industry	5,727,522	-	-	5,727,522
Financials	5,270,726	-	-	5,270,726
Health care industry	5,165,312	-	-	5,165,312
Consumer discretionary industry	5,235,588	-	-	5,235,588
Industrials	4,567,963	-	-	4,567,963
Other	9,171,063	-	-	9,171,063
Total equity securities	35,138,174	-	-	35,138,174
Debt securities				
Corporate bonds	4,855,523	-	-	4,855,523
US Treasury securities	214,340	-	-	214,340
Municipal bonds	4,157,010	-	-	4,157,010
Collateralized mortgage obligations	279,916	-	-	279,916
Mortgage backed securities	4,090,060	-	-	4,090,060
Total debt securities	13,596,849	-	-	13,596,849
Other equity securities				
Mutual funds	5,905,078	-	-	5,905,078
Total other equity securities	5,905,078	-	-	5,905,078
Hedge fund investments				
Equity long/short	-	1,111,917	-	1,111,917
Global opportunities	-	2,295,135	-	2,295,135
Distressed debt	-	854,516	245,821	1,100,337
Total hedge fund investments	-	4,261,568	245,821	4,507,389
Private equity				
Global opportunities	-	407,386	-	407,386
Total private equity	-	407,386	-	407,386
Total redeemable securities	55,633,829	4,668,954	245,821	60,548,604
<b>Pooled investments - nonredeemable securities</b>				
Private equity				
Commercial real estate	-	-	215,618	215,618
Total nonredeemable securities	-	-	215,618	215,618
Total	\$ 55,633,829	\$ 4,668,954	\$ 461,439	\$ 60,764,222
<b>Cash surrender value of life insurance</b>		\$ 245,892		
<b>Beneficial interest in pooled income fund</b>			\$ 836,055	

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

	June 30, 2012			Total
	Level 1	Level 2	Level 3	
<b>Pooled investments - redeemable securities</b>				
Cash and cash equivalents	\$ 961,678	\$ -	\$ -	\$ 961,678
Equity securities				
Information technology 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
<b>Pooled investments - nonredeemable securities</b>				
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
<b>Cash surrender value of life insurance</b>		\$ 181,836		
<b>Beneficial interest in pooled income fund</b>			\$ 816,117	

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

Investment returns for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Realized and unrealized gains and losses, net	<b>\$ 4,629,649</b>	\$ (1,615,197)
Interest and dividends	<b>1,530,665</b>	1,419,699
Total investment gain	<b><u>\$ 6,160,314</u></b>	<b><u>\$ (195,498)</u></b>

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

	<u>Hedge Funds</u>		<u>Private Equity</u>		Beneficial Interest in Pooled Income Fund
	<u>Global Opportunities</u>	<u>Distressed Debt</u>	<u>Global Opportunities</u>	<u>Commercial Real Estate</u>	
Beginning balance at July 1, 2011	\$ -	\$ 265,835	\$ 162,985	\$ 50,000	\$ 873,201
Total realized gains	-	-	-	-	-
Total unrealized gains (losses)	(150)	(60,177)	6,486	(7,500)	-
Purchases and sales, net	500,000	-	200,000	137,500	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Present value adjustment	-	-	-	-	(57,084)
Ending balance at June 30, 2012	499,850	205,658	369,471	180,000	816,117
Total realized gains	-	-	-	-	-
Total unrealized gains (losses)	9,581	40,163	37,915	(54,382)	-
Purchases	-	-	-	90,000	-
Sales	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	(509,431)	-	(407,386)	-	-
Present value adjustment	-	-	-	-	19,938
Ending balance at June 30, 2013	<u>\$ -</u>	<u>\$ 245,821</u>	<u>\$ -</u>	<u>\$ 215,618</u>	<u>\$ 836,055</u>

During the year ended June 30, 2013, both hedge funds and private equity funds were transferred from a Level 3 measurement to a Level 2 due to changes in liquidity of the fund. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2013 and 2012, 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, 2013 and 2012.

	Fair Value at June 30, 2013	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	\$ 1,111,917	\$ -	Monthly to quarterly	45 days	(1)
Global opportunities	2,295,135	-	Monthly to quarterly	10 - 95 days	(1)
Distressed debt	<u>1,100,337</u>	<u>-</u>	Monthly to annually	45 - 95 days	(1)
Total hedge fund investments	<u>4,507,389</u>	<u>-</u>			
Private equity					
Global opportunities	407,386	-	Quarterly	30-45 days	(1)
Commercial real estate	<u>215,618</u>	<u>222,500</u>	Illiquid for 5 years	n/a	(1)
Total private equity	<u>623,004</u>	<u>222,500</u>			
Total	<u>\$ 5,130,393</u>	<u>\$ 222,500</u>			

(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.

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Planned Gifts**

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

	<u>2013</u>	<u>2012</u>
Permanent net assets, balance beginning of year	<b>\$ 4,728,720</b>	\$ 4,847,282
Contributions	<b>637,830</b>	406,094
Interest and dividends	<b>140,728</b>	159,132
Realized/unrealized gains (losses), net	<b>548,781</b>	(194,306)
Decrease in value of planned gift liability	<b>281,689</b>	614,254
Total income	<b>1,609,028</b>	985,174
Payments to income beneficiaries	<b>204,270</b>	243,471
Termination/maturity of planned gifts	<b>1,298,097</b>	764,550
Administrative fees	<b>52,743</b>	54,621
Investment management fees	<b>37,850</b>	41,094
Total expense	<b>1,592,960</b>	1,103,736
Permanent net assets, balance end of year	<b><u>\$ 4,744,788</u></b>	<b><u>\$ 4,728,720</u></b>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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

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

	<u>2013</u>	<u>2012</u>
Balance beginning of year	<u>\$ 6,872,186</u>	<u>\$ 7,033,798</u>
Contributions	257,409	309,570
Interest and dividends	184,074	181,957
Realized/unrealized gains (losses), net	<u>680,422</u>	<u>(230,895)</u>
Total income	<u>1,121,905</u>	<u>260,632</u>
Distributions of earnings	246,297	218,609
Administrative fees	73,783	70,509
Investment management fees	45,216	43,018
Transfer of assets under management	<u>49,317</u>	<u>90,108</u>
Total expense	<u>414,613</u>	<u>422,244</u>
Balance end of year	<u><u>\$ 7,579,478</u></u>	<u><u>\$ 6,872,186</u></u>

**Note 7 – Administrative and Investment Fees**

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

	<u>2013</u>	<u>2012</u>
Permanent and temporary funds	<u>\$ 652,038</u>	<u>\$ 621,640</u>
Planned gifts	52,743	54,621
Agency funds	73,783	70,509
Fees for services	<u>6,750</u>	<u>6,800</u>
	<u><u>\$ 785,314</u></u>	<u><u>\$ 753,570</u></u>

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

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 8 – Net Assets Released From Restriction**

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

	<u>2013</u>	<u>2012</u>
Payment of grants	\$ 1,369,968	\$ 1,606,468
Payment of interfund grants	61,221	57,127
Payment of administrative and investment manager fees	944,306	894,119
Distributions of earnings	779,554	666,449
Endowment expenses	457	2,599
Special projects expenses	600,326	161,947
	<u>\$ 3,755,832</u>	<u>\$ 3,388,709</u>

**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:

	<u>2013</u>	<u>2012</u>
Grants	\$ 2,149,771	\$ 2,277,718
Distributions to agencies	246,297	218,609
Intrafund grants	84,244	71,577
	<u>\$ 2,480,312</u>	<u>\$ 2,567,904</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 10 – Endowment Funds**

The Foundation has no Board-designated endowments as of June 30, 2013 and 2012. Donor restricted endowment net assets composition as of June 30 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2013</b>	<b>\$ (84,043)</b>	<b>\$ 5,864,057</b>	<b>\$ 40,894,308</b>	<b>\$ 46,674,322</b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2012	\$ (530,522)	\$ 3,495,132	\$ 38,716,865	\$ 41,681,475

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

	<u>June 30, 2013</u>			
	<u>Unrestricted Deficit in Endowment Assets</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ (530,522)	\$ 3,495,132	\$ 38,716,865	\$ 41,681,475
Investment return				
Investment income	-	1,127,038	340	1,127,378
Net unrealized and realized gains	-	4,097,795	28,121	4,125,916
Change in deficit in endowments	446,479	(446,479)	-	-
Total investment return	446,479	4,778,354	28,461	5,253,294
Contributions	-	61,637	862,746	924,383
Termination/maturity of planned gifts	-	-	1,298,097	1,298,097
Intrafund grants to endowment funds	-	24,794	8,357	33,151
Transfers of assets under management	-	820	(20,642)	(19,822)
Reclassification of net assets	-	(424)	424	-
Appropriation for expenditure	-	(2,496,256)	-	(2,496,256)
Endowment net assets, June 30, 2013	<b>\$ (84,043)</b>	<b>\$ 5,864,057</b>	<b>\$ 40,894,308</b>	<b>\$ 46,674,322</b>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 10 – Endowment Funds (continued)**

	June 30, 2012			Total
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	
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 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	<u>\$ (530,522)</u>	<u>\$ 3,495,132</u>	<u>\$ 38,716,865</u>	<u>\$ 41,681,475</u>

**Note 11 – Net Assets**

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

	<u>2013</u>	<u>2012</u>
Temporarily restricted net assets		
Special projects	<b>\$ 2,495,989</b>	\$ 2,817,021
Unappropriated earnings	<b>5,864,057</b>	3,495,132
	<u><b>\$ 8,360,046</b></u>	<u>\$ 6,312,153</u>

**MONTANA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – Net Assets (continued)**

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

Permanently restricted net assets	<u>2013</u>	<u>2012</u>
Endowments	<b>\$ 40,894,308</b>	\$ 38,716,865
Irrevocable planned gifts	<b>4,744,788</b>	4,728,720
	<b><u>\$ 45,639,096</u></b>	<b><u>\$ 43,445,585</u></b>

**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 \$18,748 and \$17,418 for the years ended June 30, 2013 and 2012, 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 has an operating lease from November 1, 2012, to November 1, 2013, after which the agreement will become a month-to-month lease. Rent expense for the years ended June 30, 2013 and 2012, was \$42,055 and \$40,665, respectively.

Future minimum lease payments as of June 30, 2013, are as follows:

2014	\$ 35,925
2015	-
2016	-
2017	-
	<u>\$ 35,925</u>

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

In fiscal 2013 and 2012, the Foundation transferred endowment assets to other organizations totaling \$31,647 and \$58,870, respectively, which is shown as a reduction in the net asset category in which the endowments were held.