REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

MONTANA COMMUNITY FOUNDATION

JUNE 30, 2014 AND 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Montana Community Foundation
Helena, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Montana Community Foundation, which comprise the statements of financial position as of June 30, 2014 and 2013, 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, 2014 and 2013, 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
February 20, 2015

MONTANA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	**$ 2,730,292**	$ 3,011,981
Accrued interest receivable	**114,790**	129,336
Prepaid expenses and other	**28,331**	47,843
Beneficial interest in pooled income fund	**1,073,774**	836,055
Pooled investments	**70,169,411**	60,764,222
Cash surrender value of life insurance	**256,009**	245,892
Property and equipment, net of accumulated depreciation of $235,931 and $215,231, respectively	**53,002**	60,404
Total assets	**$ 74,425,609**	$ 65,095,733

LIABILITIES AND NET ASSETS

	June 30, 2014	June 30, 2013
LIABILITIES		
Accounts payable	**$ 48,973**	$ 12,624
Accrued expenses	**71,737**	17,174
Grants and distributions payable	**740,436**	803,773
Planned gift liabilities	**1,941,744**	1,914,350
Funds held as agency endowments	**8,625,135**	7,579,478
Total liabilities	**11,428,025**	10,327,399
NET ASSETS		
Unrestricted net assets		
Unrestricted - for operating purposes	**969,221**	853,235
Unrestricted - deficit in endowment assets	**(3,719)**	(84,043)
Total unrestricted net assets	**965,502**	769,192
Temporarily restricted net assets	**14,030,078**	8,360,046
Permanently restricted net assets	**48,002,004**	45,639,096
Total net assets	**62,997,584**	54,768,334
Total liabilities and net assets	**$ 74,425,609**	$ 65,095,733

 See accompanying notes.

	Year Ended June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions				
Contributions	$ 83,198	$ 2,159,929	$ 1,599,839	$ 3,842,966
Intrafund grants from charitable funds	104,483	21,023	40,959	166,465
Total contributions	187,681	2,180,952	1,640,798	4,009,431
Revenue and other additions				
Administrative fees	138,110	-	-	138,110
Interest and dividends	50,504	1,377,331	136,627	1,564,462
Realized and unrealized gains and losses on investments	6,693	6,560,439	816,948	7,384,080
Change in deficit in endowments	80,324	(80,324)	-	-
Change in value of beneficial interest in pooled income fund	-	-	237,719	237,719
Change in value of planned gift liabilities	-	-	(198,305)	(198,305)
Total revenue and other additions	275,631	7,857,446	992,989	9,126,066
Net assets released from restrictions	4,638,424	(4,638,424)	-	-
Total support, revenue, other additions, and net assets released from restrictions	5,101,736	5,399,974	2,633,787	13,135,497
EXPENSES				
Grants and philanthropic distributions				
Grants	2,797,821	-	-	2,797,821
Intrafund grants to charitable funds	166,465	-	-	166,465
Transfer of assets under management	-	-	-	-
Total grant and philanthropic distributions	2,964,286	-	-	2,964,286
Endowment expenses				
Investment fees	323,574	-	-	323,574
Total endowment expenses	323,574	-	-	323,574
Operating and administrative expenses				
General and administrative	600,927	-	-	600,927
Development and fund-raising	94,681	-	-	94,681
Program support	922,779	-	-	922,779
Total operating and administrative expenses	1,618,387	-	-	1,618,387
Total expenses	4,906,247	-	-	4,906,247
Reclassification of net assets	821	270,058	(270,879)	-
INCREASE IN NET ASSETS	196,310	5,670,032	2,362,908	8,229,250
NET ASSETS, beginning of year	769,192	8,360,046	45,639,096	54,768,334
NET ASSETS, end of year	$ 965,502	$ 14,030,078	$ 48,002,004	$ 62,997,584

MONTANA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions				
Contributions	$ 70,416	$ 806,808	$ 1,500,576	$ 2,377,800
Intrafund grants from charitable funds	51,093	24,794	8,357	84,244
Total contributions	121,509	831,602	1,508,933	2,462,044
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	597,252	4,971,727	714,796	6,283,775
Net assets released from restrictions	3,755,832	(3,755,832)	-	-
Total support, revenue, other additions, and net assets released from restrictions	4,474,593	2,047,497	2,223,729	8,745,819
EXPENSES				
Grants and philanthropic distributions				
Grants	2,149,771	-	-	2,149,771
Intrafund grants to charitable funds	84,244	-	-	84,244
Transfer of assets under management	1,825	(820)	30,642	31,647
Total grant and philanthropic distributions	2,235,840	(820)	30,642	2,265,662
Endowment expenses				
Investment fees	288,926	-	-	288,926
Total endowment expenses	288,926	-	-	288,926
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	1,377,317	-	-	1,377,317
Total expenses	3,902,083	(820)	30,642	3,931,905
Reclassification of net assets	-	(424)	424	-
INCREASE IN NET ASSETS	572,510	2,047,893	2,193,511	4,813,914
NET ASSETS, beginning of year	196,682	6,312,153	43,445,585	49,954,420
NET ASSETS, end of year	$ 769,192	$ 8,360,046	$ 45,639,096	$ 54,768,334

	Years Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	**$ 8,229,250**	$ 4,813,914
Adjustments to reconcile net assets to net cash from operating activities		
Realized and unrealized gains and losses	**(7,384,080)**	(4,629,649)
Depreciation	**20,700**	21,474
Change in value of beneficial interest in pooled income fund	**(237,719)**	(19,938)
Change in valuation of planned gift liabilities	**198,305**	23,112
Noncash contributions	**(351,050)**	(630,906)
Contributions to permanently restricted endowments	**(1,599,839)**	(1,500,576)
Transfer of assets under management	**-**	31,647
Change in operating assets and liabilities		
Interest receivable	**14,546**	24,921
Prepaid expenses	**19,512**	(19,542)
Accounts payable	**36,349**	(27,510)
Accrued expense	**54,563**	(11,245)
Grants payable	**(63,337)**	105,334
Funds held as agency endowments	**1,045,657**	707,292
Net cash from operating activities	**(17,143)**	(1,111,672)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	**25,007,471**	29,179,133
Purchase of investment securities	**(26,662,635)**	(29,067,927)
Purchase of equipment	**(13,298)**	(11,451)
Net cash from investing activities	**(1,668,462)**	99,755
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted endowments	**1,599,839**	1,500,576
Payments to annuitants and life income beneficiaries	**(195,923)**	(204,270)
Transfer of assets under management	**-**	(31,647)
Net cash from financing activities	**1,403,916**	1,264,659
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(281,689)**	252,742
Cash and cash equivalents, beginning of year	**3,011,981**	2,759,239
Cash and cash equivalents, end of year	**$ 2,730,292**	$ 3,011,981

Note 1 - General Purpose and Activities

Montana Community Foundation (Foundation) is a Montana public benefit corporation whose mission is to cultivate a culture of giving so Montana communities can flourish. It accomplishes this by working with donors who want to provide long-term support for charitable services, communities to build unrestricted funds to meet changing needs, and policy makers to implement systemic changes to improve the quality of life for Montanans. The majority of gifts received are endowment gifts, which are preserved in perpetuity. Each year a prudent spending rate is applied to the Foundation's endowments, and the spendable portion of these endowments are granted to Montana public benefit charities or to award scholarships. The Foundation was incorporated on January 29, 1988.

Note 2 – Summary of Significant Accounting Policies

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

Fund accounting – The accounts of the Foundation are maintained in accordance with the principles of fund accounting. As such, contributions are classified into funds based upon their particular purpose and nature. For the purpose of investing funds, the Foundation pools them according to their purpose or whether they are considered permanently or temporarily restricted. At June 30, 2014 and 2013, the Foundation held 530 and 526 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 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.

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

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.

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 benefitting nonprofit. The Foundation reports the funds as part of pooled investments.

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Change in deficit in 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 2014 and 2013, that amount is recognized as change in deficit in endowment funds.

Intrafund grants to charitable funds – This is the amount granted from one Foundation fund to another based on donor recommendations and Foundation approval. These grants are both expenses and revenues at the fund level. They are reported as intrafund grants to charitable funds and intrafund grants from charitable funds on the statement of activity for the purpose of reflecting all grant support from the Foundation's funds. Although this is not in accordance with GAAP, the amounts are deemed immaterial for elimination and have no impact on the change in net assets.

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

Reclassification of net assets – During the year ended June 30, 2014, a scholarship endowment, comprised of many sub-scholarship funds of local community banks that was no longer practical to administer, was repurposed and made available for community grants in areas throughout Montana. This exercise of variance power was done with the approval of the State of Montana Attorney General and the original donors to the fund, and met the needs of the Montana communities in a more impactful way. 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.

Concentrations of risk –

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2014 and 2013, the Foundation had no uncertain tax positions requiring accrual.

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

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

The Foundation has evaluated subsequent events through February 20, 2015, 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.

Note 3 – Interpretation of Relevant Laws (continued)

From time to time, the fair value of endowment funds may fall below the amount classified as permanently restricted net assets. At June 30, 2014 and 2013, the Foundation had deficiencies in 2 funds totaling $3,719 and 42 funds totaling $84,043, respectively. These deficiencies reflect unfavorable market fluctuation during the reporting periods. They are reflected as a reduction to unrestricted net assets.

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

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

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

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

Note 4 - Investments and Fair Value Measurements

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

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 1,708,368	$ -	$ -	$ 1,708,368
Equity securities				
Information techonology industry	6,981,602	-	-	6,981,602
Financials	7,379,288	-	-	7,379,288
Health care industry	6,274,604	-	-	6,274,604
Consumer discretionary industry	6,672,290	-	-	6,672,290
Industrials	5,788,543	-	-	5,788,543
Other	11,091,025	-	-	11,091,025
Total equity securities	44,187,352	-	-	44,187,352
Debt securities				
Corporate bonds	5,489,151	-	-	5,489,151
US Treasury securities	810,389	-	-	810,389
Municipal bonds	3,717,245	-	-	3,717,245
Collateralized mortgage obligations	67,680	-	-	67,680
Mortgage backed securities	3,303,773	-	-	3,303,773
Other	189,374	-	-	189,374
Total debt securities	13,577,612	-	-	13,577,612
Other equity securities				
Mutual funds	5,696,743	-	-	5,696,743
Total other equity securities	5,696,743	-	-	5,696,743
Hedge fund investments				
Equity long/short	-	1,190,054	-	1,190,054
Global opportunities	-	1,861,231	-	1,861,231
Distressed debt	-	931,398	329,421	1,260,819
Total hedge fund investments	-	3,982,683	329,421	4,312,104
Private equity				
Global opportunities	-	459,857	-	459,857
Total private equity	-	459,857	-	459,857
Total redeemable securities	65,170,075	4,442,540	329,421	69,942,036
Pooled investments - nonredeemable securities				
Private equity				
Commercial real estate	-	-	227,375	227,375
Total nonredeemable securities	-	-	227,375	227,375
Total	$ 65,170,075	$ 4,442,540	$ 556,796	$ 70,169,411
Beneficial interest in pooled income fund	$ -	$ -	$ 1,073,774	$ 1,073,774

Note 4 - Investments and Fair Value Measurements (continued)

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Pooled investments - redeemable securities				
Cash and cash equivalents	$ 993,728	$ -	$ -	$ 993,728
Equity securities				
Information techonology 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
Pooled investments - nonredeemable securities				
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
Beneficial interest in pooled income fund	$ -	$ -	$ 836,055	$ 836,055

Note 4 - Investments and Fair Value Measurements (continued)

Investment returns for the years ended June 30:

	2014	2013
Realized and unrealized gains and losses, net	**$ 7,384,080**	$ 4,629,649
Interest and dividends	**1,564,462**	1,530,665
Total investment gain	**$ 8,948,542**	$ 6,160,314

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.

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.

	Hedge Funds		Private Equity		Beneficial Interest in Pooled Income Fund
	Global Opportunities	Distressed Debt	Global Opportunities	Commercial Real Estate	
Beginning balance at July 1, 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	-	245,821	-	215,618	836,055
Total realized gains	-	-	-	-	-
Total unrealized gains (losses)	-	83,600	-	(125,743)	-
Purchases	-	-	-	137,500	-
Sales	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Present value adjustment	-	-	-	-	237,719
Ending balance at June 30, 2014	$ -	$ 329,421	$ -	$ 227,375	$ 1,073,774

Note 4 - Investments and Fair Value Measurements (continued)

Unrealized gains (losses) on investments all relate to assets still held at June 30, 2014 and 2013, 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, 2014 and 2013.

	Fair Value at June 30, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Hedge fund investments					
Equity long/short	$ 1,190,054	$ -	Monthly to quarterly	45 days	(1)
Global opportunities	1,861,231	-	Monthly to quarterly	10 - 95 days	(1)
Distressed debt	1,260,819	-	Monthly to annually	45 - 95 days	(1)
Total hedge fund investments	4,312,104	-			
Private equity					
Global opportunities	459,857	-	Quarterly	30-45 days	(1)
Commercial real estate	227,375		Illiquid for 5 years	n/a	(1)
Total private equity	687,232	-			
Total	$ 4,999,336	$ -			

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

Note 5 – 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:

	2014	2013
Permanent net assets, balance beginning of year	**$ 4,744,788**	$ 4,728,720
Contributions	**633,371**	637,830
Interest and dividends	**136,312**	140,728
Realized/unrealized gains (losses), net	**773,379**	548,781
Decrease in value of planned gift liability	**330,429**	281,689
Total income	**1,873,491**	1,609,028
Payments to income beneficiaries	**195,923**	204,270
Termination/maturity of planned gifts	**697,829**	1,298,097
Administrative fees	**55,516**	52,743
Investment management fees	**39,576**	37,850
Total expense	**988,844**	1,592,960
Permanent net assets, balance end of year	**$ 5,629,435**	$ 4,744,788

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:

	2014	2013
Balance beginning of year	**$ 7,579,478**	$ 6,872,186
Contributions	**218,233**	257,409
Interest and dividends	**188,840**	184,074
Realized/unrealized gains, net	**1,073,503**	680,422
Total income	**1,480,576**	1,121,905
Distributions of earnings	**271,885**	246,297
Administrative fees	**82,494**	73,783
Investment management fees	**50,328**	45,216
Transfer of assets under management	**30,212**	49,317
Total expense	**434,919**	414,613
Balance end of year	**$ 8,625,135**	$ 7,579,478

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:

	2014	2013
Permanent and temporary funds	**$ 720,148**	$ 652,038
Planned gifts	**55,516**	52,743
Agency funds	**82,494**	73,783
Fees for services	**6,300**	6,750
	$ 864,458	$ 785,314

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

Note 8 – Net Assets Released From Restriction

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

	2014	2013
Payment of grants	**$ 1,987,134**	$ 1,369,968
Payment of interfund grants	**148,913**	61,221
Payment of administrative and investment manager fees	**1,044,846**	944,306
Distributions of earnings	**810,688**	779,554
Endowment expenses	**610**	457
Special projects expenses	**646,233**	600,326
	$ 4,638,424	$ 3,755,832

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:

	2014	2013
Grants	**$ 2,797,821**	$ 2,149,771
Distributions to agencies	**271,885**	246,297
Intrafund grants to charitable funds	**166,465**	84,244
	$ 3,236,171	$ 2,480,312

Note 10 – Endowment Funds

The Foundation has no Board-designated endowments as of June 30, 2014 and 2013. Donor restricted endowment net assets composition as of June 30 is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
June 30, 2014	**$ (3,719)**	**$ 10,807,418**	**$ 42,372,569**	**$ 53,176,268**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2013	$ (84,043)	$ 5,864,057	$ 40,894,308	$ 46,674,322

Note 10 – Endowment Funds (continued)

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

	June 30, 2014			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2013	$ (84,043)	$ 5,864,057	$ 40,894,308	$ 46,674,322
Investment return				
Investment income	-	1,153,265	316	1,153,581
Net unrealized and realized gains/ losses	-	6,426,664	43,569	6,470,233
Change in deficit in endowments	80,324	(80,324)	-	-
Total investment return	80,324	7,499,605	43,885	7,623,814
Contributions	-	57,492	966,467	1,023,959
Termination/maturity of planned gifts	-	-	697,829	697,829
Intrafund grants to endowment funds	-	21,023	40,959	61,982
Transfers of assets under management	-	-	-	-
Reclassification of net assets	-	270,058	(270,879)	(821)
Appropriation for expenditure	-	(2,904,817)	-	(2,904,817)
Endowment net assets, June 30, 2014	$ (3,719)	$ 10,807,418	$ 42,372,569	$ 53,176,268

Note 10 – Endowment Funds (continued)

	June 30, 2013			
	Unrestricted Deficit in Endowment Assets	Temporarily Restricted	Permanently Restricted	Total
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/ losses	-	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	$ (84,043)	$ 5,864,057	$ 40,894,308	$ 46,674,322

Note 11 – Net Assets

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

	2014	2013
Temporarily restricted net assets		
Special projects	**$ 3,222,660**	$ 2,495,989
Unappropriated earnings	**10,807,418**	5,864,057
	$ 14,030,078	$ 8,360,046

Permanently restricted net assets	**2014**	2013
Endowments	**$ 42,372,569**	$ 40,894,308
Irrevocable planned gifts	**5,629,435**	4,744,788
	$ 48,002,004	$ 45,639,096

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 $14,768 and $18,748 for the years ended June 30, 2014 and 2013, respectively.

Note 13 – Lease Obligations and Subsequent Event

The Foundation leases office space under operating lease agreements. The agreement for its primary office location expired in June 2014. Subsequent to year end, the Foundation entered into a new lease for the same premises that expires June 2016 with monthly rent payments of $3,041. Future minimum lease payments amount to $36,492 for the years ending June 30, 2015 and 2016. 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 November 1, 2012, to November 1, 2013, after which the agreement became a month-to-month lease. Rent expense for the years ended June 30, 2014 and 2013, was $41,295 and $42,055, respectively.

Note 14 – Transfer of Assets under Management

In fiscal 2014 and 2013, the Foundation transferred endowment assets to other organizations totaling $-0- and $31,647, respectively, which is shown as a reduction in the net asset category in which the endowments were held.