The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.

MONTANA STATE UNIVERSITY FOUNDATION

CONSOLIDATED FINANCIAL REPORT

June 30, 2016 and 2015

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

The Board of Governors
Montana State University Foundation, Inc.
Bozeman, Montana

We have audited the accompanying consolidated financial statements of the Montana State University Foundation, Inc., and its wholly owned subsidiaries, (collectively referred to as the Foundation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

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

Anderson ZurMuehlen & Co., P.C.

Bozeman, Montana
October 19, 2016

CONSOLIDATED FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 312,373	$ 944,317
RECEIVABLES		
Promises to give, net	70,834,503	16,216,971
Notes receivable	231,501	557,254
Other receivables	6,859,670	2,914,546
	77,925,674	19,688,771
INVESTMENTS		
Pooled investments	158,601,039	165,075,087
Real estate	141,050	342,750
Other investments	10,582,301	10,951,599
	169,324,390	176,369,436
PROPERTY AND EQUIPMENT, net	4,428,938	4,622,144
OTHER ASSETS	561,146	452,859
Total assets	$ 252,552,521	$ 202,077,527

Notes to Consolidated Financial Statements are an integral part of these statements.

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(CONTINUED)
June 30, 2016 and 2015

	2016	2015
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,066,431	$ 478,867
Accrued liabilities	468,011	376,624
Deposits	23,808	24,492
Trust and annuity obligations	5,116,111	5,312,444
Agency funds held for others	10,168,540	10,390,362
Notes payable	2,581,180	2,632,225
Bonds payable	5,325,000	7,025,000
Other liabilities	814,379	448,754
	25,563,460	26,688,768
NET ASSETS		
Unrestricted	(1,165,305)	2,143,059
Temporarily restricted	110,769,662	67,630,046
Permanently restricted	117,384,704	105,615,654
	226,989,061	175,388,759
Total liabilities and net assets	$ 252,552,521	$ 202,077,527

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 148,682	$ 66,876,299	$ 12,165,915	$ 79,190,896
Market loss on investments	(1,305,041)	(2,641,051)	(54,850)	(4,000,942)
Interest and dividends	119,137	449,115	372	568,624
Administrative fees	3,626,795	(3,147,705)	(284,318)	194,772
Dues and memberships	187,608	490,825	-	678,433
Rental income	531,503	47	-	531,550
Contract for services	1,619,402	-	-	1,619,402
Sales, services and other, net	154,969	231,427	39	386,435
Total revenues and support	5,083,055	62,258,957	11,827,158	79,169,170
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of program restrictions				
to support MSU	-	(5,003,916)	-	(5,003,916)
to support operations	-	(232,416)	-	(232,416)
Acquisition and operation of facilities	-	(9,776,992)	-	(9,776,992)
Satisfaction of scholarship restrictions	-	(4,111,566)	-	(4,111,566)
Net assets permanently restricted	-	(10,967)	10,967	-
Change in restrictions	(9,508)	9,508		-
Net assets released from restrictions	19,124,890	-	-	19,124,890
Total net assets released from restrictions	19,115,382	(19,126,349)	10,967	-
EXPENSES				
Program expenses:				
MSU support	15,271,168	-	-	15,271,168
Scholarships	4,117,148	-	-	4,117,148
Support expenses:				
Fundraising	3,259,371	-	-	3,259,371
Administration and general	3,263,584	-	-	3,263,584
Alumni relations	1,018,487	-	-	1,018,487
Subsidiary operations	577,985	-	-	577,985
Total expenses	27,507,743	-	-	27,507,743
Change in value of split interest agreements	942	7,008	(69,075)	(61,125)
Change in net assets	(3,308,364)	43,139,616	11,769,050	51,600,302
Net assets at beginning of year	2,143,059	67,630,046	105,615,654	175,388,759
Net assets at end of year	$ (1,165,305)	$ 110,769,662	$ 117,384,704	$ 226,989,061

Notes to Consolidated Financial Statements are an integral part of this statement.

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 189,776	$ 11,330,513	$ 5,567,481	$ 17,087,770
Market gain (loss) on investments	(39,405)	478,582	(7,728)	431,449
Interest and dividends	150,029	730,953	673	881,655
Administrative fees	3,753,786	(3,175,309)	(347,028)	231,449
Dues and memberships	245,488	377,123	-	622,611
Rental income	675,495	54	-	675,549
Contract for services	1,342,153	-	-	1,342,153
Sales, services and other, net	182,620	240,986	216	423,822
Total revenues and support	6,499,942	9,982,902	5,213,614	21,696,458
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of program restrictions				
to support MSU	-	(3,943,404)	-	(3,943,404)
to support operations	-	(31,572)	-	(31,572)
Acquisition and operation of facilities	-	(8,152,853)	-	(8,152,853)
Satisfaction of scholarship restrictions	-	(3,227,916)	-	(3,227,916)
Net assets permanently restricted	-	(9,686)	9,686	-
Net assets temporarily restricted	(90,000)	90,000	-	-
Net assets released from restrictions	15,355,745	-	-	15,355,745
Total net assets released from restrictions	15,265,745	(15,275,431)	9,686	-
EXPENSES				
Program expenses:				
MSU support	12,128,566	-	-	12,128,566
Scholarships	3,266,816	-	-	3,266,816
Support expenses:				
Fundraising	2,566,168	-	-	2,566,168
Administration and general	3,836,964	-	-	3,836,964
Alumni relations	1,149,927			1,149,927
Subsidiary operations	687,467	-	-	687,467
Total expenses	23,635,908	-	-	23,635,908
Change in value of split interest agreements	(23,069)	(15,945)	(14,096)	(53,110)
Change in net assets	(1,893,290)	(5,308,474)	5,209,204	(1,992,560)
Net assets at beginning of year	4,036,349	72,938,520	100,406,450	177,381,319
Net assets at end of year	$ 2,143,059	$ 67,630,046	$ 105,615,654	$ 175,388,759

Notes to Consolidated Financial Statements are an integral part of this statement.

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 51,600,302	$ (1,992,560)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	267,942	266,955
Noncash contributions	(6,319,889)	(3,053,295)
Unrealized loss on investments	6,075,121	2,243,886
Permanently restricted contributions	(12,165,915)	(5,567,481)
Change in operating assets and liabilities:		
Notes receivable	325,753	(6,287)
Promises to give, net	(54,617,532)	4,095,628
Other receivables	(3,945,124)	9,664
Other assets	(108,287)	(33,221)
Accounts payable	587,564	152,265
Accrued liabilities	91,387	9,148
Deposits	(684)	155
Other liabilities	365,625	109,453
Annuity obligations	(196,333)	(938,782)
Agency funds held for others	(221,822)	(553,938)
Net cash flows from operating activities	(18,261,892)	(5,258,410)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(74,736)	(90,236)
Proceeds from investments, net	7,628,571	3,492,608
Net cash flows from investing activities	7,553,835	3,402,372

Notes to Consolidated Financial Statements are an integral part of these statements.

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(51,045)	(48,356)
Payments on bonds payable	(1,700,000)	(2,975,000)
Permanently restricted gains and other changes	(338,757)	(344,181)
Permanently restricted contributions	12,165,915	5,567,481
Net cash flows from financing activities	10,076,113	2,199,944
Net change in cash and cash equivalents	(631,944)	343,906
Cash and cash equivalents, beginning of year	944,317	600,411
Cash and cash equivalents, end of year	$ 312,373	$ 944,317
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Cash paid for interest	$ 210,116	$ 223,107

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Montana State University Foundation, Inc. (MSU Foundation) was incorporated in 1946 in the state of Montana as a not-for-profit corporation. Effective December 31, 2011, the MSU Alumni Association merged into the MSU Foundation. The merged organization is doing business as the Montana State University Alumni Foundation whose mission is to create lifelong relationships and strengthen its resources to advance Montana State University (MSU) located in Bozeman, Montana. Accordingly, the primary activities of the MSU Foundation include alumni relations, fundraising, and asset management in support of MSU.

Basis of Consolidation

The consolidated financial statements include the accounts of the MSU Foundation and its wholly-owned subsidiaries (collectively the Foundation), Advanced Technology, Inc. (ATI), and Montana State University Innovation Campus (MSUIC). ATI owns and operates a real estate development in Bozeman engaged in leasing office and production facilities to various businesses, with an emphasis on leasing to high technology enterprises, and in developing real estate. MSUIC is a University-related Research Park providing a place where people and ideas come together to support start-up activities for large research and development companies. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Classification of Net Assets

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted Net Assets*—Net assets that are not subject to donor-imposed stipulations and donor-restricted contributions whose restrictions are met in the same reporting period.
- *Temporarily Restricted Net Assets*—Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- *Permanently Restricted Net Assets*—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The income earned from the investment of these assets is available for use by the Foundation in accordance with donor restrictions.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. In addition, certain donor agreements impose restrictions on otherwise unrestricted net assets or impose permanent restrictions on unused temporarily restricted investment earnings. These are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition

Revenue is recognized when it is earned and realized or realizable. In determining whether these two elements are present, with respect to membership income, the Foundation considers whether (i) persuasive evidence of an arrangement between the Foundation and the member exists, (ii) service has been provided to the member, (iii) the price of the membership is fixed or determinable, and (iv) collectability of the membership is reasonably assured.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date contributed.

It is the policy of the Foundation to report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions specifying how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Foundation recognizes all membership dues as exchange transactions. The following summarizes the Foundation's types of membership dues and related revenue recognition:

Annual Memberships – recognized in the period when the payment is received, at which time membership is deemed earned and realizable.

Term Memberships – the Foundation previously offered three-year term memberships. Term memberships are recognized as revenue over their stated period, starting on the day the initial payment is received. Deferred revenue related to these memberships is presented in the accompanying consolidated statements of financial position with other liabilities.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Lifetime Memberships – revenue is recognized when the payment is received, at which time membership is deemed earned and realizable.

Quarterback Club Memberships – recognized in the period when the payment is received, at which time membership is deemed earned and realizable. Quarterback Club memberships are recorded as temporarily restricted support as they support the football program at MSU (net of member benefits).

Sales (including sales of real estate), services and other income are recognized as revenue upon sale or as the services are provided.

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs, using the market value approach. GAAP establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels:

Level 1: Quoted market prices available through public exchange venues for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs for the asset or liability due to little or no market activity at the measurement date.

The Foundation’s policy for determining the timing of significant transfers between Levels 1, 2, and 3 is at the end of the reporting period. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Promises to give:	Valued by discounting the related cash flows, using the 5-year treasury rate as of the last day of the fiscal year.
Equity securities:	Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.
Mutual funds:	Valued at market traded price of shares.
Debt securities:	Valued at market traded prices.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value (Continued)

Real estate: Valued at the lesser of most recent appraised value or listed sale value.

Alternative investments: Valued at the net asset value (NAV) of shares held at year-end.

Split interest agreements: Valued annually using present value techniques, which factor in payment terms, actuarial life expectancy tables, and Internal Revenue Service discount rates at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash Equivalents

For purposes of the consolidated statements of cash flows, the Foundation defines cash and cash equivalents as all interest-bearing deposits and debt securities with original maturities of three months or less to be cash equivalents, unless held as part of pooled assets. The Foundation maintains its cash deposits at various financial institutions whose cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to $250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits.

Investments

The Foundation aggregates most of its investments to maximize total return. These are split into the Short-Term Investment Pool, which focuses on liquidity, and the Long-Term Investment Pool, which focuses on long-term growth, together the "Pool". All investments held within the Pool are stated at fair value.

Pooled investments are managed by third-party investment managers engaged by the Foundation, and are monitored by management and the Investment Committee of the Board of Governors. The Pool invests in equity and debt securities and alternative investments. Annual changes in market value are recorded as market gain or loss in the consolidated statements of activities. Though the fair values of the investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Investments are stated at fair value. Investments are classified within the level of lowest significant input considered in determining fair value. Investments classified within Level 3, whose fair value measurement considers several inputs, may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)
Alternative investments include institutional funds, private equity funds, and limited liability companies. Institutional funds are multi-strategy, commingled equity, and bond funds. Private equity funds are primarily comprised of investments in limited partnerships. The partnerships generally represent restricted investment securities whose values have been estimated by the managing partner of the partnership in the absence of readily ascertainable market values.

Investments in real estate represent real estate received from donors. Real estate is recorded at its estimated fair value based upon third-party valuations. Realized gains or losses on sales of real estate are recognized upon disposition on a specific identification basis.

Property and Equipment
Buildings, land improvements, and equipment are stated at cost. The Foundation capitalizes all property and equipment with original cost of $5,000 or more and more than two years of useful life. Depreciation expense for the years ended June 30, 2016 and 2015, amounted to $267,942 and $266,955, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and equipment	5 – 10 years
Computers and software	3 – 10 years

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed
Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount exceeds the future cash flows, the assets are considered to be impaired and the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Administrative Fees
Administrative fees include an Investment Management Fee and a Gift Service Fee. The Investment Management Fee is an annual 2% fee (charged quarterly) to the endowment and quasi-endowment funds. The Gift Service Fee is a one-time 5% fee assessed on all gifts received. These fees are shown as a separate unrestricted revenue line item in the consolidated statements of activities.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Support Expenses

Fundraising and Alumni Relations expenses include costs directly attributable to those functions. Directly-attributable expenses include wages and benefits, travel, services, and events. Administrative and general expenses include directly attributable expenses as well as indirect expenses that support all programs and operations of the Foundation. Indirect expenses include facility services, supplies, information technology, brand development, and professional development.

Split-Interest Agreements

The Foundation has entered into several Charitable Gift Annuity Agreements and Charitable Remainder Trusts (Split Interest Agreements) for which the Foundation is the trustee.

Under these agreements, the donor contributes assets in exchange for regular distributions for a specified period of time to the donor or other beneficiaries. Distributions are based on the value of the assets contributed and terms specified in the agreement. At the end of the specified time, the remaining assets are available to the Foundation for a charitable purpose as specified by the donor.

The Foundation has segregated these assets as separate and distinct funds, independent from other funds and not to be applied to payment of the debts and obligations of the Foundation or any other purpose other than annuity benefits specified in the agreements.

Assets are recorded at fair value. Liabilities incurred in the exchange portion of the agreement are also recognized based on each arrangement's terms and actuarial assumptions. The Foundation has elected the fair value option to measure these liabilities. Accordingly, the liabilities are revalued annually using present value techniques, which factor in actuarial life expectancy tables and Internal Revenue Service discount rates at year-end.

The difference between the fair value of the assets received and the liability to the designated beneficiaries is recognized as contribution revenue, based on the stated percentage interest of the remainder value that will be retained by the Foundation. During the term of the arrangement, annuity benefits, amortizations, and revaluations in the assets and liabilities are recognized in the accompanying consolidated statements of activities as "Changes in value of split interest agreements." These changes are classified as permanently restricted, temporarily restricted, or unrestricted net assets, depending on restriction on the remainder asset.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c)(3), by a determination letter dated September 11, 1958, and has been ruled by the Internal Revenue Service not to be a private foundation. Income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income, as well as income specifically categorized as unrelated by law. Certain investments in alternative investments, as described above, generate unrelated business income. Net unrelated business income is subject to income taxes.

The Foundation and its subsidiaries are generally no longer subject to examinations by federal tax authorities for years before 2013.

With respect to ATI, deferred income tax assets and liabilities are recognized for the estimated future consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Deferred Revenue

The Foundation offered three-year term memberships. Term memberships are recognized as revenue over their stated period, starting on the day the payment is received. Deferred income related to these memberships is presented in the accompanying consolidated statements of financial position with other liabilities.

Use of Estimates

Management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation of the current-year consolidated financial statements. No change in previously reported change in net assets occurred as a result of such reclassifications.

Subsequent Events

Management has evaluated subsequent events through October 19, 2016, the date which the consolidated financial statements were available to be issued.

NOTE 2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015, are available for the following purposes:

	2016	2015
MSU programs	$ 34,095,721	$ 30,528,159
MSU students	14,517,937	18,445,481
MSU facilities	59,305,791	15,759,485
Charitable trusts and gift annuities	2,850,213	2,896,921
Total temporarily restricted net assets	$ 110,769,662	$ 67,630,046

NOTE 3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015, are restricted for:

	2016	2015
Investments held in perpetuity, the income from which is expendable to support:		
MSU programs	$ 43,385,762	$ 36,929,517
MSU students	67,951,268	62,577,587
MSU facilities	2,160,047	2,224,608
	113,497,077	101,731,712
Charitable trusts and gift annuities	3,806,849	3,807,333
Paid-up life insurance policies that will provide proceeds upon death of insured for an endowment	19,728	15,559
Land required to be used as a recreation area	61,050	61,050
	$ 117,384,704	$ 105,615,654

NOTE 4. ENDOWMENT

The Foundation’s endowment consists of numerous individual funds that have been permanently restricted by donors. These funds are held by the Foundation to provide income for the maintenance of the organization and its charitable purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 4. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Governors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the prudent spending of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations made to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the Foundation and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation or deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the Foundation; and
(7) The investment policies of the Foundation.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution value. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2016 and 2015, total funds with deficiencies amounted to $975,767 and $67,863, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that are designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Accordingly the Foundation’s investment policy is designed to produce investment returns that exceed the sum of its spending policy, investment fees, and estimated long-term inflation.

NOTE 4. ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy 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 current yield (interest and dividends). The Foundation targets a diversified asset allocation, including fixed income, equity securities, private equity, real assets, and absolute return, to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy for 2016 and 2015 is a 12-quarter weighted average of the endowment's market value multiplied by the Foundation's spending rate of 4 percent. For both years, certain limits are applied: 1) the expendable amount cannot exceed 5 percent of the market value, and 2) assuming there is not a prohibition in the donor agreement against the use of the original gift, spending is curtailed when the value of the endowment drops to 80 percent of the original contribution amount.

In establishing this policy, the Foundation considered the donor's intent of the fund purpose as well as the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow. This is consistent with the donor's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net assets presented below include the endowments as defined above plus related earnings.

Endowment net asset composition by restriction as of June 30, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (799,111)	$ 4,314,173	$ 113,354,330	$ 116,869,392

Endowment net asset composition by restriction as of June 30, 2015, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ 353,998	$ 12,014,806	$ 101,561,039	$ 113,929,843

NOTE 4. ENDOWMENT (CONTINUED)

Changes in endowment net asset composition by restriction for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 353,998	$ 12,014,806	$ 101,561,039	$ 113,929,843
Investment return:				
Net appreciation (realized and unrealized), including interest and dividends	(59,245)	(1,800,399)	-	(1,859,644)
Net appreciation in excess of original gift value on permanently restricted funds	(955,489)	-	-	(955,489)
Contributions and other increases	-	-	11,782,324	11,782,324
Other changes:				
Reclassification of assets	(9,508)	(1,459)	10,967	-
Appropriation of endowment assets for expenditures	(85,572)	(3,765,021)	-	(3,850,593)
Fees	(43,295)	(2,133,754)	-	(2,177,049)
Endowment net assets, end of year	$ (799,111)	$ 4,314,173	$ 113,354,330	$ 116,869,392

Changes in endowment net asset composition by restriction for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 493,247	$ 16,561,278	$ 95,974,916	$ 113,029,441
Investment return:				
Net depreciation (realized and unrealized), including interest and dividends	22,152	1,064,900	-	1,087,052
Net depreciation in excess of original gift value on permanently restricted funds	18,337	-	-	18,337
Contributions and other increases	-	-	5,576,437	5,576,437
Other changes:				
Reclassification of assets	-	(9,686)	9,686	-
Appropriation of endowment assets for expenditures	(129,304)	(3,437,574)	-	(3,566,878)
Fees	(50,434)	(2,164,112)	-	(2,214,546)
Endowment net assets, end of year	$ 353,998	$ 12,014,806	$ 101,561,039	$ 113,929,843

NOTE 4. ENDOWMENT (CONTINUED)

Certain permanently restricted net assets held by the Foundation do not meet the definition of endowment under UPMIFA. The following table demonstrates the composition of permanently restricted net assets.

	2016	2015
Endowment net assets	$ 113,354,330	$ 101,561,039
Program related net assets	61,050	61,050
Split interest agreement net assets	3,969,324	3,993,565
Total permanently restricted net assets	$ 117,384,704	$ 105,615,654

NOTE 5. PROMISES TO GIVE

Promises to give are recorded at their fair value using a present value approach. This measurement of fair value uses significant unobservable inputs (Level 3 inputs), including estimated timing of receipts and collectability. This calculation includes an applied discount rate of 1.01% at June 30, 2016, and 1.63% at June 30, 2015, which is management's estimate of a risk-free rate of return. The accretion of the discount in subsequent years is reported as additional contribution in the net asset class in which the original pledge was recorded. Payments are due based on the underlying donor agreement. Uncollectible promises are charged to bad debt (administration and general expense) once all attempts at collection have been exhausted.

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2016 and 2015, are scheduled to be received as follows:

	2016	2015
In less than one year	$ 33,957,502	$ 2,917,373
In one to five years	38,885,816	14,543,414
Thereafter	30,000	76,500
	72,873,318	17,537,287
Unamortized discount	(1,091,354)	(918,824)
Allowance for uncollectible promises	(947,461)	(401,492)
Promises to give, net	$ 70,834,503	$ 16,216,971

NOTE 5. PROMISES TO GIVE (CONTINUED)

The following table demonstrates the effect of the fair value measurements on the 2016 and 2015 change in net assets:

	2016	2015
New unconditional promises to give	$ 64,541,998	$ 2,739,933
Change in unamortized discount	(172,529)	247,325
Change in uncollectible estimate	(545,969)	(64,520)
Net effect on net assets	$ 63,823,500	$ 2,922,738

The following table represents a reconciliation of the beginning and ending balances of promises receivable for the years ended June 30, 2016 and 2015:

	2016	2015
Promises to give, net, beginning of the year	$ 16,216,971	$ 20,312,599
New unconditional promises to give	64,541,998	2,739,933
Amounts received from promises to give	(9,205,968)	(7,018,366)
Change in unamortized discount	(172,529)	247,325
Change in uncollectible promises	(545,969)	(64,520)
Promises to give, net, end of the year	$ 70,834,503	$ 16,216,971

NOTE 6. NOTES RECEIVABLE

	2016	2015
Note receivable secured by real estate in Missoula County, Montana. Payments are to be received upon the sale of the underlying real estate.	$ -	$ 240,626
Note receivable from the sale of stock of a closely held corporation. Annual principal and interest payments are due through December 31, 2017. Interest accrues on unpaid balances at 3%.	152,000	248,000
Other loans	79,501	68,628
	$ 231,501	$ 557,254

NOTE 7. OTHER RECEIVABLES

	2016	2015
Charitable remainder trusts held by third parties in which the Foundation is a named beneficiary	$ 3,887,230	$ 2,856,232
Matured donor estate in which the Foundation is a named beneficiary	2,875,843	-
Royalties, income, and other receivables	21,981	12,761
ATI leasing receivables	69,691	45,553
MSUIC accounts receivable	4,925	-
	$ 6,859,670	$ 2,914,546

NOTE 8. INVESTMENTS

Pooled Investments

Pooled investments include investments in the Short-Term Investment Pool and the Long-Term Investment Pool. Earnings on the Long-Term Investment Pool are allocated ratably based on invested balances during the year, in accordance with policy.

The components of the pooled investments at June 30, 2016 and 2015, are as follows:

	2016	2015
Short-Term Investment Pool:		
Equity securities	$ 10,757	$ 66,309
Debt securities	5,114,178	5,523,331
Cash equivalents	7,036,917	8,548,666
Total short-term investment pool	12,161,852	14,138,306
Long-Term Investment Pool:		
Equity securities	593,830	-
Mutual funds	24,388,038	27,421,044
Debt securities	6,369,572	6,035,566
Alternative investments	109,775,187	115,072,899
Cash equivalents	5,312,560	2,407,272
Total long-term investment pool	146,439,187	150,936,781
Total pooled investments	$ 158,601,039	$ 165,075,087

NOTE 8. INVESTMENTS (CONTINUED)

Pooled Investments (Continued)

Pooled investments are measured using the fair value inputs as described in Note 1 and are categorized as follows:

		Fair Value as of June 30, 2016		
	Cost	Level 1	Level 3	Total
Cash and cash equivalents	$ 12,349,477			$ 12,349,477
Equity securities		$ 604,587	$ -	604,587
Mutual funds				
International equity		14,201,012	-	14,201,012
Small cap value equity		6,595,804	-	6,595,804
Intermediate term bond		6,369,572	-	6,369,572
Real assets		3,591,222	-	3,591,222
US agency debt securities		5,114,178	-	5,114,178
Alternative investments				
Absolute return		-	30,811,349	30,811,349
Domestic equities		-	27,573,067	27,573,067
International equity		-	16,438,108	16,438,108
Liquidating hedge funds		-	6,519	6,519
Private equity		-	19,909,032	19,909,032
Real assets		-	15,037,112	15,037,112
	$ 12,349,477	$ 36,476,375	$ 109,775,187	$ 158,601,039

		Fair Value as of June 30, 2015		
	Cost	Level 1	Level 3	Total
Cash and cash equivalents	$ 10,955,938			$ 10,955,938
Equity securities		$ 66,309	$ -	66,309
Mutual funds				
International equity		17,076,603	-	17,076,603
Small cap value equity		6,668,846	-	6,668,846
Total return bond				
Low duration bond		6,035,566	-	6,035,566
Real assets		3,675,595	-	3,675,595
US agency debt securities		5,523,331	-	5,523,331
Alternative investments				
Absolute return		-	34,477,459	34,477,459
Domestic equities		-	29,252,982	29,252,982
International equity		-	16,198,654	16,198,654
Liquidating hedge funds		-	6,711	6,711
Private equity		-	19,906,302	19,906,302
Real assets		-	15,230,791	15,230,791
	$ 10,955,938	$ 39,046,250	$ 115,072,899	$ 165,075,087

NOTE 8. INVESTMENTS (CONTINUED)

Other Investments

The components of other investments at June 30, 2016 and 2015, are as follows:

	2016	2015
Equity securities	$ 520,658	$ 525,871
Mutual funds	914,582	989,072
Investments held in trusts for split interest agreements	9,147,061	9,436,656
	$ 10,582,301	$ 10,951,599

Other investments are measured using the fair value inputs described in Note 1 and are categorized as follows:

	Fair Value as of June 30, 2016		
	Level 1	Level 3	Total
Equity securities			
Pharmaceutical industry	$ -	$ 291,250	$ 291,250
Real estate	-	214,469	214,469
Utilities	-	-	-
Mutual funds			
Equity	914,582	-	914,582
Mortgage fund (liquidating)	-	14,939	14,939
Mutual funds for split interest agreements:			
U.S. bonds	1,454,564	-	1,454,564
Non U.S. bonds	1,800,805	-	1,800,805
International equity	1,486,048	-	1,486,048
Money market	651,829	-	651,829
Real estate investment trusts	1,151,658	-	1,151,658
Domestic equity	2,602,157	-	2,602,157
	$ 10,061,643	$ 520,658	$ 10,582,301

NOTE 8. INVESTMENTS (CONTINUED)

Other Investments (Continued)

	Fair Value as of June 30, 2015		
	Level 1	Level 3	Total
Equity securities			
Pharmaceutical industry	$ -	$ 297,550	$ 297,550
Real estate	-	213,240	213,240
Utilities	-	30,000	30,000
Mutual funds			
Equity	989,072	-	989,072
Mortgage fund (liquidating)	-	15,081	15,081
Mutual funds for split interest agreements:			
U.S. bonds	2,562,610	-	2,562,610
Non U.S. bonds	628,043	-	628,043
International equity	1,448,132	-	1,448,132
Money market	241,302	-	241,302
Real estate investment trusts	1,074,809	-	1,074,809
Domestic equity	2,490,961	-	2,490,961
Treasury bills held for split interest agreements	59,999	-	59,999
Real estate for split interest agreements	-	900,800	900,800
	$ 9,494,928	$ 1,456,671	$ 10,951,599

Real Estate

Investments in real estate are stated at fair value using the fair value inputs described in Note 1, and are included in the following line items in the accompanying consolidated statements of financial position:

	2016	2015
Real estate	$ 141,050	$ 342,750
Other investments - split interest agreements	-	900,800
	$ 141,050	$ 1,243,550

NOTE 8. INVESTMENTS (CONTINUED)

Level 3 Fair Value Investments

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2016 and 2015, are reflected in the table below.

	Alternative Investments	Equities	Real Estate	Total
June 30, 2014	$ 113,585,603	$ 308,113	$ 1,241,050	$ 115,134,766
Total gains or losses (realized/unrealized)	2,717,825	249,860	2,500	2,970,185
Purchases and contributions	9,800,115	-	-	9,800,115
Sales and settlements	(11,030,644)	(2,102)	-	(11,032,746)
June 30, 2015	115,072,899	555,871	1,243,550	116,872,320
Total gains or losses (realized/unrealized)	(978,275)	1,229	-	(977,046)
Purchases and contributions	5,676,474	-	-	5,676,474
Sales and settlements	(9,995,911)	(36,442)	(1,102,500)	(11,134,853)
June 30, 2016	$ 109,775,187	$ 520,658	$ 141,050	$ 110,436,895

Alternative investments valued using Level 3 inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2016 and 2015, which are all alternative investments, are detailed in the following tables and are subject to capital calls and specific redemption terms.

June 30, 2016

Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Monthly	120 days	$ 5,775,227	5.26%	$ -
Monthly	30 days	5,641,626	5.14%	-
Monthly	15 days	13,820,469	12.59%	-
Quarterly	60 days	11,125,008	10.13%	-
Quarterly	90 days	11,035,275	10.05%	600,000
Bi-annually	45 days	6,556,912	5.97%	-
Bi-annually	60 days	5,971,137	5.44%	-
Annually	45 days	12,051,998	10.98%	-
Annually	65 days	6,185,881	5.64%	-
None	n/a	31,611,654	28.80%	17,202,000
		$ 109,775,187	100.00%	$ 17,802,000

NOTE 8. INVESTMENTS (CONTINUED)

Level 3 Fair Value Investments (Continued)

June 30, 2015

Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Monthly	120 days	$ 4,947,153	4.30%	$ -
Monthly	30 days	6,270,489	5.45%	-
Monthly	15 days	13,546,728	11.77%	-
Quarterly	60 days	13,079,770	11.37%	-
Quarterly	90 days	11,023,023	9.58%	-
Bi-annually	45 days	7,817,854	6.79%	-
Annually	45 days	19,768,211	17.18%	-
Annually	65 days	6,999,496	6.08%	-
None	n/a	31,620,175	27.48%	23,186,000
		$ 115,072,899	100.00%	$ 23,186,000

Refer to Note 19 for discussion on unfunded commitments.

Investment income is recorded net of fees charged by the third-party asset managers of approximately $1,960,000 and $2,020,000 for 2016 and 2015, respectively.

Investment income (loss) in the consolidated financial statements is recorded net of income allocated to agency funds. Investment income (loss) is as follows:

	2016	2015
Interest and dividends	$ 599,917	$ 940,106
Realized gains	2,265,393	2,854,246
Unrealized losses	(6,295,758)	(2,395,945)
	(3,430,448)	1,398,407
Less: income allocated to agencies	(1,870)	(85,303)
	$ (3,432,318)	$ 1,313,104

Investment income is presented on the consolidated financial statements as follows:

	2016	2015
Market gain (loss)	$ (4,000,942)	$ 431,449
Interest and dividends	568,624	881,655
	$ (3,432,318)	$ 1,313,104

NOTE 9. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015, consist of the following:

	2016	2015
Land and improvements	$ 1,316,111	$ 1,316,111
Buildings	6,667,056	6,611,820
Computers and related equipment and software	354,711	376,457
Equipment	210,251	190,751
	8,548,129	8,495,139
Less accumulated depreciation	(4,119,191)	(3,872,995)
	$ 4,428,938	$ 4,622,144

The carrying value of buildings held for lease (included above) are:

	2016	2015
Buildings held for lease, at cost	$ 4,647,715	$ 4,592,479
Less accumulated depreciation	(3,153,153)	(3,004,183)
	$ 1,494,562	$ 1,588,296

NOTE 10. AGENCY FUNDS HELD FOR OTHERS

The Foundation held the following amounts as of June 30, 2016 and 2015, for the following named organizations:

	2016	2015
Museum of the Rockies	$ 403,073	$ 434,679
Montana State University	7,916,637	8,440,703
Montana State University Bobcat Club	1,848,830	1,514,980
Agency funds held for others	$ 10,168,540	$ 10,390,362

Earnings on these assets are credited to each organization’s agency account.

NOTE 10. AGENCY FUNDS HELD FOR OTHERS (CONTINUED)

Assets held on behalf of these organizations as of June 30, 2016 and 2015, are included in the Foundation's consolidated statements of financial position as follows:

	2016	2015
Short-term investment pool	$ 957,307	$ 857,912
Long-term investment pool	9,211,233	9,532,450
Agency funds held for others	$ 10,168,540	$ 10,390,362

NOTE 11. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS

Unrestricted funds have borrowed $2,026,547 at June 30, 2016 and 2015, from the Short-Term Investment Pool. This long-term loan was used to invest in ATI and bears no interest.

Temporarily restricted funds borrowed $102,715 and $101,011 at June 30, 2016 and 2015, respectively, from the Short-Term Investment Pool. This is a bridge loan, dated October 2008, which is serviced by outstanding pledge balances and pays annual interest of 4.1%.

Temporarily restricted funds owe unrestricted funds $14,333 and $10,416 at June 30, 2016 and 2015, respectively. These are short-term operational balances.

Temporarily restricted funds borrowed $150,000 at June 30, 2015, from the Bobcat Track and Field Endowment to complete the track and field capital improvements. This balance was paid off during the year ended June 30, 2016, using payments received on outstanding pledge balances and was zero interest.

Temporarily restricted funds borrowed $1,177,845 and $1,942,521 at June 30, 2016 and 2015, respectively, from the Long-Term Investment Pool. This is a bridge loan dated August 2011, which is serviced by outstanding pledge balances and pays annual interest calculated by adding 3% and the 5-year Treasury bill rate adjusted monthly.

The Foundation has invested $10,000,000 at June 30, 2016 and 2015, of the temporarily restricted funds, which are typically invested in the short-term pool, into the long-term pool. This was done to maximize the returns on investments for the short-term investments.

NOTE 12. NOTES PAYABLE

Notes payable at June 30, 2016 and 2015, consist of the following:

	2016	2015
ATI fixed rate 6.04% note payable, due in monthly installments of $13,346, including principal and interest with a balloon payment of $1,928,302 due November 2017; secured by property. The Company cannot prepay the loan; all major lease agreements with tenants must be approved by the lender; insurance, tax, and maintenance reserve accounts must be maintained with the lender; and all current and future lease agreements are assigned to the lender.	$ 1,981,922	$ 2,019,121
6% note payable through May 31, 2017 when the interest rate becomes New York Prime rate plus 2.75%, due in monthly installments of $4,188 with a balloon payment of $497,986 due June 1, 2022. The Foundation cannot prepay the loan before July 1, 2017.	599,258	613,104
	$ 2,581,180	$ 2,632,225

Maturities of notes payable subsequent to June 30, 2016, are scheduled as follows:

Years Ending June 30	Notes Payable
2017	$ 54,582
2018	1,957,647
2019	16,569
2020	17,591
2021	18,676
2022-2026	516,115
	$ 2,581,180

Interest expense during the years ended June 30, 2016 and 2015, amounted to $171,316 and $169,697, respectively.

NOTE 13. BOND PAYABLE

Bond payable at June 30, 2016 and 2015, consists of the following:

	2016	2015
Financing agreement with Montana State University to cover the debt service on bonds financed by the University; due in annual principal payments of the greater of $500,000 or 85% of pledge receipts and monthly interest payments at SIFMA or 70% of LIBOR + 0.65%, secured by net pledged revenues.	$ 5,325,000	$ 7,025,000

Interest expense during the years ended June 30, 2016 and 2015, amounted to $50,822 and $61,054, respectively.

NOTE 14. OTHER LIABILITIES

The components of other liabilities are as follows as of June 30, 2016 and 2015:

	2016	2015
Deferred membership revenue	$ 3,212	$ 9,483
Deferred rental revenue	9,277	14,866
Other miscellaneous deferrals	-	106,058
Liability to MSU for deferred compensation	801,890	318,347
	$ 814,379	$ 448,754

Liability to MSU for Deferred Compensation

In 2010, the Foundation entered into a memorandum of understanding with MSU whereby the Foundation committed to provide $50,000 annually to MSU, for a period not to exceed 10 years, beginning in January 2025. These payments are earmarked for deferred compensation costs associated with a key MSU employee. Payments are contingent on pre-determined employee performance milestones. The Foundation has determined that payment on this agreement is probable, and has estimated the liability using the present value method, using a 3.25% discount rate.

In 2016, the Foundation entered into a memorandum of understanding with MSU whereby the Foundation committed to provide $100,000 annually to MSU, for a period not to exceed 5 years, beginning in January 2020. These payments are earmarked for deferred compensation costs associated with a key MSU employee. Payments are contingent on pre-determined employee performance milestones. The Foundation has determined that payment on this agreement is probable and has estimated the liability using the present value method using a 1.01% discount rate.

NOTE 15. INCOME TAXES

Foundation

The Foundation is subject to income taxes on unrelated business income. Certain alternative investments generate such income. For 2015 and 2016, the Foundation paid $109,000 and $23,359, respectively.

ATI

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Current income taxes:		
Federal	$ -	$ -
State	(50)	(50)
	$ (50)	$ (50)

	2016	2015
Deferred income tax (expense) benefit:		
Federal	$ 1,653	$ (3,038)
State	709	(1,302)
	$ 2,362	$ (4,340)

The effective tax rate differs from the statutory tax rates applicable to corporations, as shown below, as a result of permanent differences between book and tax recognition, as follows:

	2016	2015
Statutory federal rate	15.00%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	1.12%	0.80%
Total effective income tax rate	22.87%	22.55%

Deferred income tax assets and liabilities are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. Deferred income taxes arising from timing differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the timing differences are expected to reverse.

NOTE 15. INCOME TAXES (CONTINUED)

The components of the net deferred tax assets on the accompanying consolidated statements of financial position, included in other assets, as of June 30, 2016 and 2015, related to the following:

	2016	2015
Current deferred income tax assets, net of liabilities:		
Cash to accrual liabilities	$ (17,410)	$ (11,850)
Cash to accrual assets	26,899	28,654
Accelerated depreciation and amortization	5,071	4,111
Net deferred income tax asset	$ 14,560	$ 20,915
Non-current deferred income tax assets		
Net operating losses	$ 137,264	$ 128,547

The ultimate realization of deferred income tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss carry-forwards are deductible. Based on available evidence, ATI believes it is more likely than not all of the deferred income tax assets will be realized. Accordingly, ATI has not established a valuation allowance for the deferred income tax assets.

ATI has $631,486 of unused net operating losses for income tax reporting purposes, which may be used to offset future taxable income of ATI. The unused net operating losses will be available to apply to taxable income in years through 2035.

The following book-to-tax differences reconcile ATI's pre-tax book loss to ATI's federal taxable income:

	2016	2015
Pre-tax income (loss)	$ (10,061)	$ 19,466
Permanent differences	(50)	386
Accounts receivable	(24,138)	(25,227)
Accounts payable	(2,298)	(19,380)
Accrued liabilities and prepaid rents	(187)	(178)
Other cash to accrual differences, net	(7,015)	9,708
Depreciation	4,413	4,414
Net operating losses created	39,336	10,811
Federal taxable income	$ -	$ -

NOTE 16. RETIREMENT PLAN

The Foundation administers a defined contribution retirement plan through TIAA-CREF covering all employees that meet eligibility requirements. Participation by eligible employees is mandatory. Participants defer 5% of their salary. The Plan requires matching contributions by the Foundation of 7% of a participant's regular salary. Expenses related to the Plan amounted to $253,734 and $264,497 for the years ended June 30, 2016 and 2015, respectively.

NOTE 17. LEASING ARRANGEMENTS

ATI leases office and parking space to both unrelated and related parties. Total rental income from unrelated and related parties amounted to $492,508 and $543,150 for the years ended June 30, 2016 and 2015, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2016, are as follows:

2017	$ 400,741
2018	151,684
2019	123,814
2020	36,522
	$ 712,761

ATI leases a building and office space to MSU. The lease term is five years and annual lease revenues were $164,296 in 2016 and 2015.

NOTE 18. NONCASH ACTIVITY

During the years ended June 30, 2016 and 2015, the Foundation received insurance, securities, and land contributions of $6,319,889 and $3,053,295, respectively. The Foundation also received in-kind contributions of $73,159 and $76,567 for the years ended June 30, 2016 and 2015, respectively.

NOTE 19. COMMITMENTS

The Foundation has entered into several limited partnership agreements for private equity funds, as part of its investment in alternative investments. As part of these agreements, the Foundation has made a commitment to fund a total of $117,548,000 to these various funds. At June 30, 2016, the Foundation had invested approximately $99,746,000, leaving a remaining commitment to be satisfied of $17,802,000.

NOTE 20. SPLIT INTEREST AGREEMENTS

The Foundation has entered into several agreements under which the Foundation has a beneficial interest. Contribution revenue recognized in relation to these agreements during the years ended June 30, 2016 and 2015, amounted to $197,073 and $165,783, respectively.

Assets held under these agreements are disclosed in Note 8. Liabilities are presented separately in the accompanying consolidated statements of financial position and recorded at fair value, calculated as the present value of the expected future payments to beneficiaries. The terms vary depending on life expectance, and the discount rate used in the calculation was 2.0% for both years ended June 30, 2016 and 2015.

The Foundation holds two charitable remainder unitrusts in which 49% of the remainder will be distributed to other charitable organizations. The remainder liability to others is estimated at $280,140 and $268,263 at June 30, 2016 and 2015, respectively.

Annuity obligations are reported at fair value, and all holdings are categorized as Level 3. The activity in these liabilities is reflected in the table below:

	2016	2015
Trust and annuity obligations, beginning of year	$ 5,312,444	$ 6,251,226
New agreements	99,407	233,578
Annuitant distributions	(380,644)	(381,989)
Matured agreements	(20,660)	(61,000)
Rescinded agreement	-	(884,626)
Actuarial changes	105,564	155,255
Trust and annuity obligations, end of year	$ 5,116,111	$ 5,312,444

NOTE 21. RELATED PARTY TRANSACTIONS

Montana State University (MSU) is deemed to be a related party of the Foundation due to the collaborative nature between these two entities. The Foundation and MSU have entered into an operating agreement that outlines their respective roles in managing investments, event coordination, and alumni relations activities. For each of the years ended June 30, 2016 and 2015, MSU paid the Foundation $1,575,000 and $1,200,000, respectively, in accordance with the agreement. This amount is presented under contract services in the accompanying consolidated financial statements. As of June 30, 2016 and 2015, the Foundation had accounts payable to MSU in the amount of $986,985 and $390,268, respectively, for reimbursement of costs.

NOTE 22. CONCENTRATION OF REVENUES

During year ended June 30, 2016, the Foundation recognized a $45,000,000 pledge from a single donor, which represents 57% of total contributions for the year. As of June 30, 2016, $42,193,500 of this pledge was included in promises to give, which represents 58% of outstanding pledges at the end of the year.