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.

anderson
ZURMUEHLEN

MONTANA
STATE UNIVERSITY
FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2014 and 2013 and the related consolidated 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
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 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, 2014 and 2013 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 13, 2014

CONSOLIDATED FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 600,411	$ 374,783
RECEIVABLES		
Promises to give, net	20,312,599	19,512,336
Notes receivable	550,967	735,851
Other receivables	2,924,210	2,893,589
	23,787,776	23,141,776
INVESTMENTS		
Pooled investments	166,300,216	141,016,703
Real estate	275,250	510,250
Other investments	12,132,988	10,099,543
	178,708,454	151,626,496
Property and equipment, net	4,798,863	4,786,963
Other assets	419,638	357,566
Total assets	$ 208,315,142	$ 180,287,584
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 326,602	$ 305,155
Accrued liabilities	367,476	311,895
Deposits	24,337	27,263
Trust and annuity obligations	6,251,226	5,128,463
Agency funds held for others	10,944,300	10,144,660
Notes payable	2,680,581	2,726,087
Bonds payable	10,000,000	-
Other liabilities	339,301	347,370
	30,933,823	18,990,893
NET ASSETS		
Unrestricted	4,036,349	4,491,687
Temporarily restricted	72,938,520	67,629,971
Permanently restricted	100,406,450	89,175,033
	177,381,319	161,296,691
Total liabilities and net assets	$ 208,315,142	$ 180,287,584

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
REVENUES AND SUPPORT				
Contributions	$ 339,837	$ 10,234,113	$ 10,137,420	$ 20,711,370
Market gain	2,698,452	15,930,617	121,289	18,750,358
Interest and dividends	155,405	513,567	35,330	704,302
Administrative fees	3,040,607	(2,824,018)	(2,857)	213,732
Dues and memberships	302,106	420,580	-	722,686
Rental income	777,158	(15,542)	-	761,616
Contract for services	1,423,757	-	-	1,423,757
Sales, services and other, net	174,511	167,607	334	342,452
Total revenues and support	8,911,833	24,426,924	10,291,516	43,630,273
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of MSU support program restrictions	-	(3,472,987)	-	(3,472,987)
Acquisition and operation of facilities	-	(11,912,173)	-	(11,912,173)
Satisfaction of scholarship restrictions	-	(3,176,549)	-	(3,176,549)
Expiration of restrictions	-	(352,134)	-	(352,134)
Net assets permanently restricted	-	(221,724)	221,724	-
Net assets released from restrictions	18,913,843	-	-	18,913,843
Total net assets released from restrictions	18,913,843	(19,135,567)	221,724	-
EXPENSES				
Program expenses:				
MSU support	15,434,814	-	-	15,434,814
Scholarships	3,201,470	-	-	3,201,470
Support expenses:				
Fundraising	2,638,347	-	-	2,638,347
Administration and general	4,499,550	-	-	4,499,550
Alumni relations	1,619,897	-	-	1,619,897
Subsidiary operations	878,971	-	-	878,971
Total expenses	28,273,049	-	-	28,273,049
Change in value of split interest agreements	(7,965)	17,192	718,177	727,404
Change in net assets	(455,338)	5,308,549	11,231,417	16,084,628
Net assets at beginning of year	4,491,687	67,629,971	89,175,033	161,296,691
Net assets at end of year	$ 4,036,349	$ 72,938,520	$ 100,406,450	$ 177,381,319

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
REVENUES AND SUPPORT				
Contributions	$ 670,132	$ 3,695,454	$ 6,440,318	$ 10,805,904
Market gain	3,007,988	9,690,490	21,048	12,719,526
Interest and dividends	277,078	517,647	1,223	795,948
Administrative fees	2,555,328	(2,340,989)	(5,095)	209,244
Dues and memberships	241,248	120,068	-	361,316
Rental income	729,605	953	-	730,558
Contract for services	1,337,500	-	-	1,337,500
Sales, services and other, net	116,794	121,365	1,796	239,955
Total revenues and support	8,935,673	11,804,988	6,459,290	27,199,951
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of MSU support program restrictions	-	(2,769,402)	-	(2,769,402)
Acquisition and operation of facilities	-	(1,083,289)	-	(1,083,289)
Satisfaction of scholarship restrictions	-	(2,285,820)	-	(2,285,820)
Imposition of restrictions	-	361,939	-	361,939
Net assets permanently restricted	-	(6,919)	6,919	-
Net assets released from restrictions	5,776,572	-	-	5,776,572
Total net assets released from restrictions	5,776,572	(5,783,491)	6,919	-
EXPENSES				
Program expenses:				
MSU support	3,968,359	-	-	3,968,359
Scholarships	2,286,820	-	-	2,286,820
Support expenses:				
Fundraising	2,476,806	-	-	2,476,806
Administration and general	3,903,198	-	-	3,903,198
Alumni relations	1,051,342			1,051,342
Subsidiary operations	799,070	-	-	799,070
Total expenses	14,485,595	-	-	14,485,595
Change in value of split interest agreements	(76)	16,126	512,536	528,586
Change in net assets	226,574	6,037,623	6,978,745	13,242,942
Net assets at beginning of year	4,265,113	61,592,348	82,196,288	148,053,749
Net assets at end of year	$ 4,491,687	$ 67,629,971	$ 89,175,033	$ 161,296,691

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 16,084,628	$ 13,242,942
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	264,451	254,777
Loss on disposal of assets	-	15,381
Non-cash contributions	(8,181,545)	(1,832,078)
Unrealized gain on investments	(17,120,379)	(10,231,185)
Permanently restricted contributions	(10,137,420)	(6,440,318)
Change in operating assets and liabilities:		
Notes receivable	184,884	(271,329)
Promises to give, net	(800,263)	5,987,863
Other receivables	(30,621)	80,210
Other assets	(62,072)	(147,266)
Accounts payable	21,447	40,647
Accrued liabilities	55,581	29,137
Deposits	(2,926)	(1,143)
Other liabilities	(8,069)	32,928
Annuity obligations	1,122,763	933,551
Agency funds held for others	799,640	761,171
Net cash flows from operating activities	(17,809,901)	2,455,288
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(276,351)	(85,918)
Purchases of investments, net	(2,155,854)	(9,338,627)
Net cash flows from investing activities	(2,432,205)	(9,424,545)

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(45,506)	(42,823)
Proceeds from bonds payable	10,000,000	-
Permanently restricted gains and other changes	375,820	25,891
Permanently restricted contributions	10,137,420	6,440,318
Net cash flows from financing activities	20,467,734	6,423,386
Net change in cash and cash equivalents	225,628	(545,871)
Cash and cash equivalents, beginning of year	374,783	920,654
Cash and cash equivalents, end of year	$ 600,411	$ 374,783
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Cash paid for interest	$ 194,334	$ 167,526

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Montana State University Foundation, Inc. (the 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 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 Foundation include alumni relations, fundraising, and asset management in support of MSU.

Basis of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiaries, Advanced Technology, Inc. (ATI), Montana State University Innovation Campus (MSUIC) and Johnson Family Foundation (JFF). 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 early start-up to large R&D companies. JFF owned a ranch in Stillwater County, Montana, which generated an insignificant amount of pasture rental income and was held for investment purposes as a component of pooled investments. The final parcel of this ranch was sold in the current fiscal year. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying 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. SUMMARY OF 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 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 currently offers 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 reported in the accompanying statement of financial position.

Lifetime Memberships – revenue is recognized when the payment is received, at which time membership is deemed earned and realizable. Proceeds from lifetime memberships are maintained in the Foundation's quasi-endowment, and the earnings are used to provide benefit to members over their lifetime.

NOTE 1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

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 revenue 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 establish 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 investments measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value (Continued)

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 statement 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 statement 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.

Alternative investments include institutional funds, private equity funds and limited liability companies. Institutional funds are multi-strategy, comingled 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)
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 2 years of useful life. Depreciation expense for the years ended June 30, 2014 and 2013 amounted to $264,451 and $254,777 , 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 of
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 are charged quarterly by the unrestricted fund to the endowment and quasi-endowment funds, at an annual rate of 2% in 2014 and 2013. These fees are shown as a separate unrestricted revenue line item in the statement of activities.

Allocation of Support Expenses
Fundraising and Alumni Relations expenses include costs directly attributable to those functions. Directly-attributable expenses include salary 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, technology support, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split-Interest Agreements (Continued)
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 for the Foundation's use.

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 donor 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 statement 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.

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.

The Foundation and its subsidiaries are no longer subject to examinations by federal tax authorities for years before 2011.

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 currently offers 3-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 reported in the accompanying statement of financial position under Other liabilities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements in conformity with GAAP. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation of the current-year 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 13, 2014, the date which the financial statements were available for issue.

NOTE 2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 and 2013 are available for the following purposes:

	2014	2013
MSU Support	$ 35,293,738	$ 42,310,745
Student aid	20,939,882	15,045,767
Facilities operations and acquisition	13,798,301	7,497,842
Charitable trusts and gift annuities	2,906,599	2,775,617
Total temporarily restricted net assets	$ 72,938,520	$ 67,629,971

NOTE 3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2014 and 2013 are restricted for:

	2014	2013
Investments held in perpetuity, the income from which is expendable to support:		
MSU support	$ 36,112,247	$ 30,201,453
Student aid	57,796,048	53,244,760
Facilities operations and acquisition	2,199,712	2,154,325
	96,108,007	85,600,538
Charitable trusts and gift annuities	4,223,754	3,506,495
Paid-up life insurance policies that will provide proceeds upon death of insured for an endowment	13,639	6,950
Land required to be used as a recreation area	61,050	61,050
	$ 100,406,450	$ 89,175,033

NOTE 4. ENDOWMENT

The Foundation's endowment consists of numerous individual funds. The endowment includes donor-restricted endowment funds. These permanently restricted 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.

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.

NOTE 4. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

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 generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2014 and 2013 total funds with deficiencies amounted to $38,615 and $192,451, 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.

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 2014 and 2013 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.

NOTE 4. ENDOWMENT (CONTINUED)

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 June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ 493,247	$ 16,561,278	$ 95,974,916	$ 113,029,441

Endowment net asset composition by restriction as of June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ 29,022	$ 7,343,235	$ 85,494,821	$ 92,867,078

Changes in endowment net asset composition by restriction for the year ended June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 29,022	$ 7,343,235	$ 85,494,821	$ 92,867,078
Investment return:				
Net appreciation (realized and unrealized), including interest and dividends	506,820	14,418,563	-	14,925,383
Net appreciation in excess of original gift value on permanently restricted funds	153,836	-	-	153,836
Contributions	-	-	10,258,371	10,258,371
Other Changes				
Reclassification of assets	-	(221,724)	221,724	-
Appropriation of endowment assets for expenditures	(127,786)	(3,028,388)	-	(3,156,174)
Fees	(68,645)	(1,950,408)	-	(2,019,053)
Endowment net assets, end of year	$ 493,247	$ 16,561,278	$ 95,974,916	$ 113,029,441

NOTE 4. ENDOWMENT (CONTINUED)

Changes in endowment net asset composition by restriction for the year ended June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,230,001)	$ 2,908,343	$ 78,862,748	$ 83,449,433
Investment return:				
Net depreciation (realized and unrealized), including interest and dividends	378,679	8,839,948	-	9,218,627
Net depreciation in excess of original gift value on permanently restricted funds	1,069,118	-	-	1,069,118
Contributions	-	-	6,625,154	6,625,154
Other Changes				
Reclassification of assets	-	(6,919)	6,919	-
Appropriation of endowment assets for expenditures	(124,829)	(2,703,563)	-	(2,828,392)
Fees	(63,945)	(1,694,574)	-	(1,758,519)
Endowment net assets, end of year	$ 29,022	$ 7,343,235	$ 85,494,821	$ 92,867,078

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.

	2014	2013
Endowment net assets	$ 95,974,916	$ 85,494,821
Program related net assets	61,050	61,050
Split interest agreement net assets	4,370,484	3,619,162
Total permanently restricted net assets	$ 100,406,450	$ 89,175,033

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 1.62% at June 30, 2014 and 1.41% at June 30, 2013, 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.

NOTE 5. PROMISES TO GIVE (CONTINUED)

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2014 and 2013 are scheduled to be received as follows:

	2014	2013
In less than one year	$ 5,231,004	$ 1,772,030
In one to five years	13,913,121	14,120,613
Thereafter	2,671,595	5,223,501
	21,815,720	21,116,144
Unamortized discount	(1,166,149)	(1,290,324)
Allowance for uncollectible promises	(336,972)	(313,484)
Promises to give, net	$ 20,312,599	$ 19,512,336

The following table demonstrates the effect of the fair value measurements on the 2014 and 2013 change in net assets:

	2014	2013
New unconditional promises to give	$ 7,131,944	$ 1,434,850
Change in unamortized discount	124,175	(397,110)
Change in uncollectible pledges	(23,487)	69,817
Net effect on net assets	$ 7,232,632	$ 1,107,557

The following table represents a reconciliation of the beginning and ending balances of promises receivable for the year ended June 30, 2014 and 2013:

	2014	2013
Promises to give, net, beginning of the year	$ 19,512,336	$ 25,500,199
New unconditional promises to give	7,131,944	1,434,849
Amounts received from promises to give	(6,432,369)	(7,095,419)
Change in unamortized discount	124,175	(397,110)
Change in uncollectible promises	(23,487)	69,817
Promises to give, net, end of the year	$ 20,312,599	$ 19,512,336

NOTE 6. NOTES RECEIVABLE

During the year ended June 30, 2012, the Foundation was assigned a one-third interest in a note receivable as part of the settlement of an estate. The note is secured by real estate in Missoula County, Montana and was valued at $274,214 and $393,786 at June 30, 2014 and 2013, respectively. Payments are to be received upon the sale of the underlying real estate lots.

NOTE 6. NOTES RECEIVABLE (CONTINUED)

During the year ended June 30, 2013, the Foundation sold 8,500 shares of stock of a closely held corporation in exchange for a note to be repaid ratably over 5 years. A down payment of $50,480 was made on December 31, 2012. Annual principal and interest payments are due through December 31, 2017. Interest accrues on unpaid balances at 3%.

NOTE 7. OTHER RECEIVABLES

The Foundation is the named beneficiary of two charitable remainder trusts held by third parties. The estimated benefit of these trusts has been recorded at the present value of the future interest. As of June 30, 2014 and 2013, these amounts total $2,846,730 and $2,812,667 respectively.

NOTE 8. INVESTMENTS

Pooled Investments

Pooled investments include investments in the Short Term Investment Pool and the Long Term Investment Pool. Earnings on the investment pools are allocated ratably based on invested balances during the year, in accordance with policy. Other investments include annuity trusts and certain permanent endowments that are separately invested.

The components of the pooled investments at June 30, 2014 and 2013 are as follows:

	2014	2013
Short-Term Investment Pool:		
Equity securities	$ 1,005,754	$ -
Mutual funds	1,951,427	4,289,487
Debt securities	1,102,821	2,507,454
Cash equivalents	11,603,852	2,001,189
Total short-term investment pool	15,663,854	8,798,130
Long Term Investment Pool:		
Mutual funds	35,862,209	29,849,354
Real estate	-	2,408,200
Alternative investments	113,585,603	97,200,122
Cash equivalents	1,188,550	2,760,897
Total long-term investment pool	150,636,362	132,218,573
Total pooled investments	$ 166,300,216	$ 141,016,703

NOTE 8. INVESTMENTS (CONTINUED)

Pooled Investments (Continued)

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

		Fair Value as of June 30, 2014		
	Cost	Level 1	Level 3	Total
Cash and cash equivalents	$ 12,792,402	$ -	$ -	$ 12,792,402
Equity Securities	-	1,005,754	-	1,005,754
Mutual Funds				
International equity	-	16,740,967	-	16,740,967
Small Cap Value equity	-	6,189,437	-	6,189,437
Total Return bond	-	4,057,286	-	4,057,286
Low duration bond	-	1,951,427	-	1,951,427
Real Assets	-	5,019,772	-	5,019,772
Real Estate	-	3,854,747	-	3,854,747
US Agency Debt Securities	-	1,102,821	-	1,102,821
Alternative investments				
Absolute Return	-	-	31,812,539	31,812,539
Domestic Equities	-	-	27,431,990	27,431,990
International Equity	-	-	16,929,972	16,929,972
Liquidating Hedge Funds	-	-	6,176	6,176
Private Equity	-	-	21,000,774	21,000,774
Real Assets	-	-	16,404,152	16,404,152
	$ 12,792,402	$ 39,922,211	$ 113,585,603	$ 166,300,216

		Fair Value as of June 30, 2013		
	Cost	Level 1	Level 3	Total
Cash and cash equivalents	$ 4,762,086	$ -	$ -	$ 4,762,086
Mutual Funds				
International equity	-	14,080,018	-	14,080,018
Small Cap Value equity	-	7,233,820	-	7,233,820
Total Return bond	-	5,104,322	-	5,104,322
Low duration bond	-	4,289,487	-	4,289,487
Real Estate	-	3,431,194	-	3,431,194
US Agency Debt Securities	-	2,507,454	-	2,507,454
Real Estate	-	-	2,408,200	2,408,200
Alternative investments				
Absolute Return	-	-	28,074,176	28,074,176
Domestic Equities	-	-	23,028,761	23,028,761
International Equity	-	-	13,205,134	13,205,134
Liquidating Hedge Funds	-	-	39,691	39,691
Private Equity	-	-	20,047,873	20,047,873
Real Assets	-	-	12,804,487	12,804,487
	$ 4,762,086	$ 36,646,295	$ 99,608,322	$ 141,016,703

Other Investments

The components of other investments at June 30, 2014 and 2013 are as follows:

	2014	2013
Equity securities	$ 308,113	$ 344,837
Mutual funds	1,049,138	974,175
Investments held in trusts for split interest agreements	10,775,737	8,780,531
	$ 12,132,988	$ 10,099,543

NOTE 8. INVESTMENTS (CONTINUED)

Other Investments (Continued)

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

	Fair Value as of June 30, 2014		
	Level 1	Level 3	Total
Equity Securities			
Pharmaceutical industry	$ -	$ 6,300	$ 6,300
Real estate	-	284,630	284,630
Mutual Funds			
Equity	1,049,138	-	1,049,138
Mortgage Fund (liquidating)	-	17,183	17,183
Mutual Funds for split interest agreements			
High Quality Bonds	3,867,593	-	3,867,593
High Yield Bonds	229,203	-	229,203
International Equity	1,432,999	-	1,432,999
Money Market	520,573	-	520,573
Real Estate Securities	1,180,752	-	1,180,752
Large cap equity	2,139,846	-	2,139,846
Small Cap Equity	438,971	-	438,971
Real Estate for split interest agreements	-	965,800	965,800
	$ 10,859,075	$ 1,273,913	$ 12,132,988

	Fair Value as of June 30, 2013		
	Level 1	Level 3	Total
Equity Securities			
Pharmaceutical industry	$ -	$ 6,300	$ 6,300
Real estate	-	320,095	320,095
Mutual Funds			
Equity	974,175	-	974,175
Mortgage Fund (liquidating)	-	18,442	18,442
Mutual Funds for split interest agreements			
Bond	2,005,108	-	2,005,108
High Yield	538,925	-	538,925
International Equity	816,229	-	816,229
Money Market	1,249,139	-	1,249,139
Real Estate Securities	534,718	-	534,718
S&P Indexed fund	2,634,443	-	2,634,443
Small Cap Equity	331,169	-	331,169
Real Estate for split interest agreements	-	670,800	670,800
	$ 9,083,906	$ 1,015,637	$ 10,099,543

NOTE 8. INVESTMENTS (CONTINUED)

Real Estate

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

	2014	2013
Pooled investments	$ -	$ 2,408,200
Real estate	275,250	510,250
Other investments - split interest agreements	965,800	670,800
	$ 1,241,050	$ 3,589,250

Level 3 Fair Value Investments

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2014 and 2013 are reflected in the table below.

	Alternative Investments	Equities	Real Estate	Total
June 30, 2012	$ 76,015,118	$ 643,947	$ 5,336,050	$ 81,995,115
Total gains or losses (realized/unrealized)	10,483,703	31,370	(916,800)	9,598,273
Purchases and contributions	16,923,381	-	-	16,923,381
Sales and settlements	(6,222,080)	(330,480)	(830,000)	(7,382,560)
June 30, 2013	97,200,122	344,837	3,589,250	101,134,209
Total gains or losses (realized/unrealized)	13,616,261	(35,465)	172,412	13,753,208
Purchases and contributions	11,994,235	-	370,000	12,364,235
Sales and settlements	(9,225,015)	(1,259)	(2,890,612)	(12,116,886)
June 30, 2014	$ 113,585,603	$ 308,113	$ 1,241,050	$ 115,134,766

Certain investments valued using Level 3 category inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2014 and June 30, 2013, which are all alternative investments, are detailed in the following tables, and are subject to capital calls and specific redemption terms.

June 30, 2014

Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Monthly	120 days	5,839,673	5.14%	-
Monthly	30 days	5,921,491	5.21%	-
Monthly	15 days	18,359,983	16.16%	-
Quarterly	60 days	13,670,419	12.04%	-
Quarterly	90 days	10,653,002	9.38%	-
Biannually	45 days	7,525,041	6.62%	-
Annually	45 days	12,364,052	10.89%	-
Annually	65 days	6,271,405	5.52%	-
None	n/a	32,980,537	29.04%	28,541,000
		113,585,603	100.00%	28,541,000

NOTE 8. INVESTMENTS (CONTINUED)

Level 3 Fair Value Investments (continued)

June 30, 2013

Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Monthly	120 days	4,347,533	4.47%	-
Monthly	15 days	11,758,791	12.10%	-
Quarterly	30 days	4,706,393	4.84%	-
Quarterly	60 days	16,286,957	16.76%	-
Quarterly	65 days	24,769	0.03%	-
Quarterly	90 days	9,491,691	9.77%	-
Biannually	45 days	5,874,412	6.04%	-
Annually	45 days	12,149,153	12.50%	3,000,000
Annually	65 days	5,453,822	5.61%	-
None	n/a	27,106,600	27.89%	13,653,000
		97,200,121	100.00%	16,653,000

Investment income is recorded net of fees charged by the third-party asset managers of approximately $1,870,000 and $1,540,000 for 2014 and 2013, respectively.

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

	2014	2013
Interest and dividends	$ 739,872	$ 836,483
Realized gain	2,115,726	1,939,617
Unrealized gain	17,941,745	11,759,037
	20,797,343	14,535,137
Less: Agency income	(1,342,683)	(1,019,663)
	$ 19,454,660	$ 13,515,474

Investment income is shown on the financial statements as follows:

	2014	2013
Market gain	$ 18,750,358	$ 12,719,526
Interest and dividends	704,302	795,948
	$ 19,454,660	$ 13,515,474

NOTE 9. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014 and 2013 consists of the following:

	2014	2013
Land and improvements	$ 1,264,500	$ 1,144,234
Buildings	6,579,080	6,559,530
Computers and related equipment and software	417,687	356,361
Equipment	207,692	132,483
	8,468,959	8,192,608
Less accumulated depreciation	(3,670,096)	(3,405,645)
	$ 4,798,863	$ 4,786,963

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

	2014	2013
Cost	$ 4,559,739	$ 4,540,189
Less accumulated depreciation	(2,859,724)	(2,715,464)
	$ 1,700,015	$ 1,824,725

NOTE 10. AGENCY FUNDS HELD FOR OTHERS

The Foundation held the following amounts as of June 30, 2014 and 2013 for the following named organizations:

	2014	2013
Organization:		
Museum of the Rockies	$ 490,531	$ 445,341
Montana State University	8,857,554	8,210,591
Montana State University Bobcat Club	1,596,215	1,488,728
Agency funds held for others	$ 10,944,300	$ 10,144,660

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

Assets held on behalf of these organizations as of June 30, 2014 and 2013 are included in the Foundation's consolidated statement of financial position as follows:

	2014	2013
Short-term investment pool	$ 1,161,933	$ 1,248,681
Long-term investment pool	9,782,367	8,895,979
Agency funds held for others	$ 10,944,300	$ 10,144,660

NOTE 11. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS

Unrestricted funds have borrowed $2,026,547 at June 30, 2014 and 2013, from the Short Term Investment Pool. This long term loan was used to invest in ATI and bears no interest.

Temporarily restricted funds borrowed $169,983 and $167,667 at June 30, 2014 and 2013, 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 $9,647 and $11,582 at June 30, 2014 and 2013, respectively. These are short term operational balances.

Temporarily restricted funds borrowed $150,000 at June 30, 2014 and 2013 from the Bobcat Track and Field Endowment to complete the track and field capital improvements. This will be serviced by outstanding pledge balances and bears no interest.

Temporarily restricted funds borrowed $2,224,892 at June 30, 2014 and $2,727,351 at June 30, 2013 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, 2014 and 2013 of the temporarily restricted funds, typically invested in the short term pool, in 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, 2014 and 2013 consist of the following:

	2014	2013
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.	$ 2,054,435	$ 2,087,657
6% note payable through May 31, 2017 when the interest rate becomes New York Prime rate plus 2.75%, due in monthly installments of $4,187.96 with a balloon payment of $497,986 due June 1, 2022. The Foundation cannot prepay the loan before July 1, 2017.	626,146	638,430
	$ 2,680,581	$ 2,726,087

NOTE 12. NOTES PAYABLE (CONTINUED)

Maturities of notes payable subsequent to June 30, 2014 are scheduled as follows:

Years Ending June 30	Notes Payable
2015	$ 48,356
2016	51,045
2017	54,582
2018	1,957,647
2019	16,569
2020-2023	552,382
	$ 2,680,581

Interest expense during the years ended June 30, 2014 and 2013 amounted to $172,561 and $175,256, respectively.

NOTE 13. BOND PAYABLE

Bond payable at June 30, 2014 and 2013 consist of the following:

	2014	2013
Financing agreement with Montana State University to cover the debt service on bonds financed by the University; due in yearly 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.	$ 10,000,000	$ -

Interest expense during the years ended June 30, 2014 and 2013 amounted to $29,943 and $0, respectively.

NOTE 14. OTHER LIABILITIES

The components of other liabilities are as follows as of June 30, 2014 and 2013:

	2014	2013
Deferred membership revenue	$ 22,493	$ 37,559
Deferred rental revenue	5,925	11,472
Liability to MSU for ARS check	2,703	-
Liability to MSU for deferred compensation	308,180	298,339
	$ 339,301	$ 347,370

NOTE 14. OTHER LIABILITIES (CONTINUED)

Liability to MSU for Deferred Compensation
In March 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.

NOTE 15. INCOME TAXES

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Deferred income tax benefit:		
Federal	$ 16,910	$ 50,075
State	7,247	21,411
	$ 24,157	$ 71,486

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:

	2014	2013
Statutory federal rate	15.00%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	-0.18%	-0.03%
Total effective income tax rate	21.57%	21.72%

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. The components of the net deferred tax assets on the accompanying statement of financial position, included in other assets, as of June 30, 2014 and 2013 related to the following:

	2014	2013
Current deferred income tax assets, net of liabilities:		
Cash to accrual liabilities	$ (6,544)	$ (11,514)
Cash to accrual assets	31,012	20,612
Accelerated depreciation and amortization	3,151	2,048
Net operating loss carryforward	126,183	118,449
Net deferred income tax asset	$ 153,802	$ 129,595

NOTE 15. INCOME TAXES (CONTINUED)

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.

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

	2014	2013
Pre-tax loss	$ (111,979)	$ (329,385)
Permanent differences	847	428
Temporary differences		
Accounts receivable	20,523	12,674
Accounts payable	53,306	26,539
Accrued liabilities and prepaid rents	(167)	(157)
Other cash to accrual differences, net	(3,156)	16,909
Depreciation	5,068	7,617
Net operating loss carryforward	35,558	265,375
Federal taxable income	$ -	$ -

ATI has $580,796 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 2034.

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 $265,294 and $236,724 for the years ended June 30, 2014 and 2013, 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 $494,934 and $450,459 for the years ended June 30, 2014 and 2013, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2014 are as follows:

2015	$ 381,507
2016	248,427
2017	244,102
2018	22,132
	$ 896,168

ATI leases a building and office space to MSU. The lease term is five years and annual lease revenues were $164,296 in 2014 and $147,401 in 2013, net of taxes, insurance, and other annual operating expenses.

Johnson Family Foundation leases a house and pasture to unrelated parties. Total rental income amounted to $4,883 and $32,041 for the years ended June 30, 2014 and 2013, respectively.

NOTE 18. NON CASH ACTIVITY

During the years ended June 30, 2014 and 2013, the Foundation received insurance, securities, and land contributions of $8,181,545 and $1,832,078, respectively. The Foundation also received in-kind contributions of $174,659 and $245,300 for the years ended June 30, 2014 and 2013, 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 $117,392,000 to these various funds. At June 30, 2014, the Foundation had invested approximately $88,851,000 leaving a remaining commitment to be satisfied of $28,541,000.

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, 2014 and 2013 amounted to $540,625 and $348,922.

Assets held under these agreements are disclosed in Note 8. Liabilities are presented separately in the accompanying statement of financial position, and are 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 2.2% for the year ended June 30, 2014 and 1.2% for the year ended June 30, 2013.

In 2014, the Foundation accepted a charitable remainder unitrust in which 49% of the remainder will be distributed to other charitable organizations. The remainder liability to others is estimated at $424,768 at June 30, 2014.

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:

	2014	2013
Trust and annuity obligations, beginning of year	$ 5,128,463	$ 4,194,912
New agreements	1,192,336	1,034,489
Annuitant distributions	(625,038)	(340,986)
Matured agreements	(96,324)	(172,148)
Actuarial changes	651,789	412,196
Trust and annuity obligations, end of year	$ 6,251,226	$ 5,128,463

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, which outlines their respective roles in managing investments, event coordination, and alumni relations activities. For each of the years ended June 30, 2014 and 2013, MSU paid the Foundation $1,200,000 in accordance with the agreement. This amount is presented under contract services in the accompanying financial statements.

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