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

UNIVERSITY OF
MONTANA
FOUNDATION

FINANCIAL REPORT

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Audit Committee
Board of Trustees
The University of Montana Foundation
Missoula, Montana

We have audited the accompanying financial statements of The University of Montana Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana Foundation as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Management's Discussion and Analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Anderson ZurMuehlen & Co., P.C.

Missoula, Montana
September 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

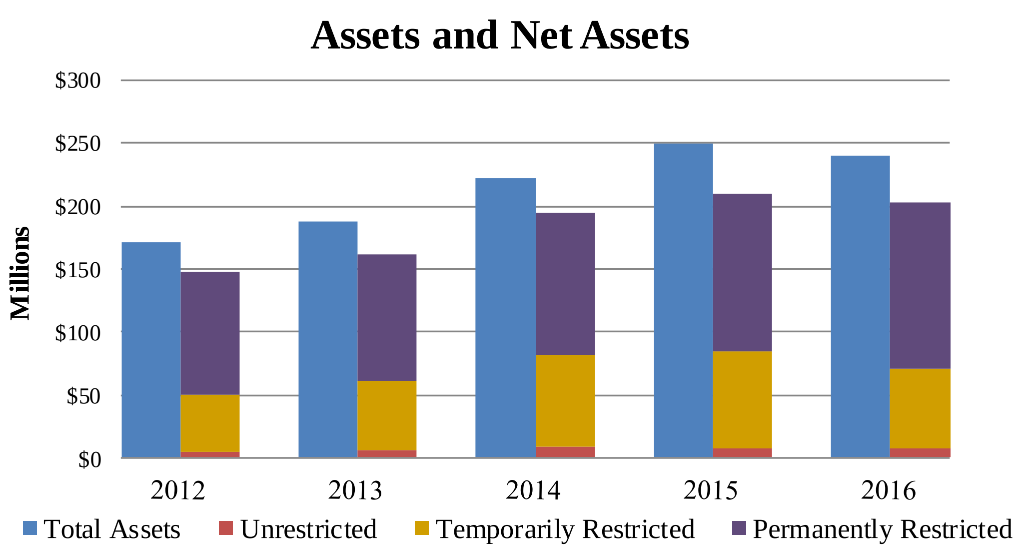
The following discussion and analysis presents an overview of the financial performance of the University of Montana Foundation (Foundation) for the five years ended June 30, 2016. It should be read in conjunction with the related financial statements and footnotes. The financial statements, footnotes and this discussion and analysis were prepared by management and are the responsibility of management.

The mission of the Foundation is to ensure the University of Montana's (University) excellence, access and affordability through a public/private funding partnership. The Foundation was established in 1950 as a Section 501(c)(3) organization.

Assets and Net Assets

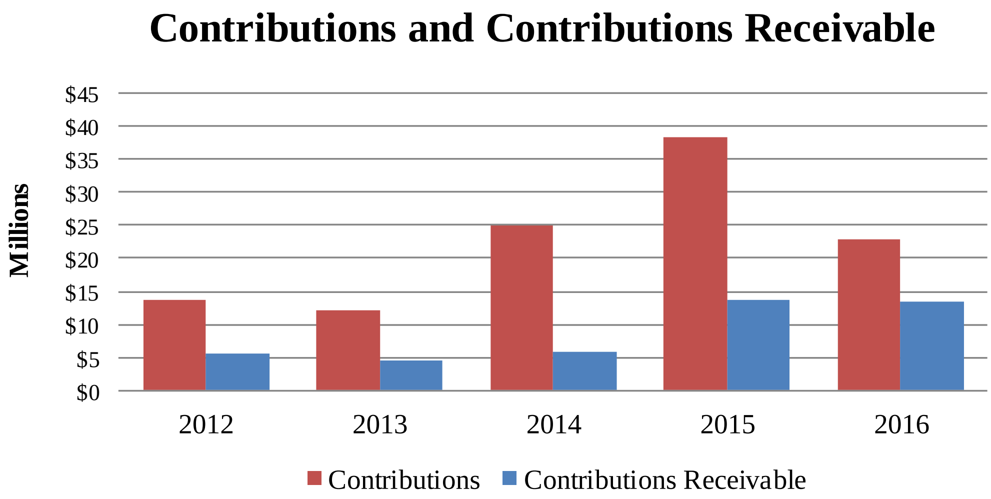
At June 30, 2016, the Foundation's total assets amounted to $240.2 million, 4% lower than at June 30, 2015. Foundation assets consist primarily of short and long investments, contributions receivable, and property. Investments make up approximately 85% of total assets.

The Foundation classifies net assets as unrestricted, temporarily restricted, or permanently restricted in accordance with donor stipulations and time restrictions. Unrestricted net assets are available for internal Foundation operations. Temporarily restricted net assets represent assets where donors have placed restrictions on their use, but which are available for immediate use by the University. Permanently restricted assets are restricted by donors as well, but are invested by the Foundation in perpetuity. Spending allocations from these permanently restricted assets are made available to the University quarterly. The Foundation also holds assets on behalf of other entities affiliated with the University; these assets are known as custodial funds. As illustrated below, a majority of the Foundation's assets are permanently restricted.



Contributions and Contributions Receivable

Contributions receivable at June 30, 2016, amounted to approximately $13.5 million, 1% lower than at June 30, 2015.



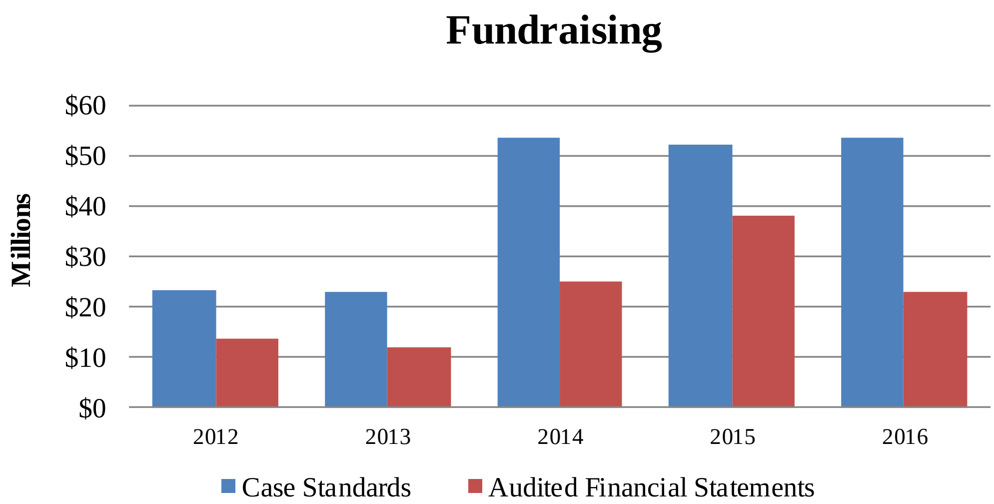
Fundraising

The Foundation reports on fundraising in two ways. The financial statements reflect contributions according to generally accepted accounting principles (GAAP). GAAP does not recognize conditional contributions or bequest contributions as revenue until the condition is met, or until the bequest is realized. In fiscal year 2016, the Foundation recognized $23 million in contributions.

The Foundation also reports its annual fundraising totals using standards published by the Council for Advancement and Support of Education (CASE). CASE allows conditional and bequest contributions to be counted in fundraising totals. CASE also allows for all direct private support to be included in fundraising totals, this would include any private support received directly by the University of Montana. In fiscal year 2014 the Foundation began including direct public support in the fundraising total. Using this broader definition, the Foundation raised approximately $53.7 and $52.3 million in contributions in fiscal years 2016 and 2015, respectively.

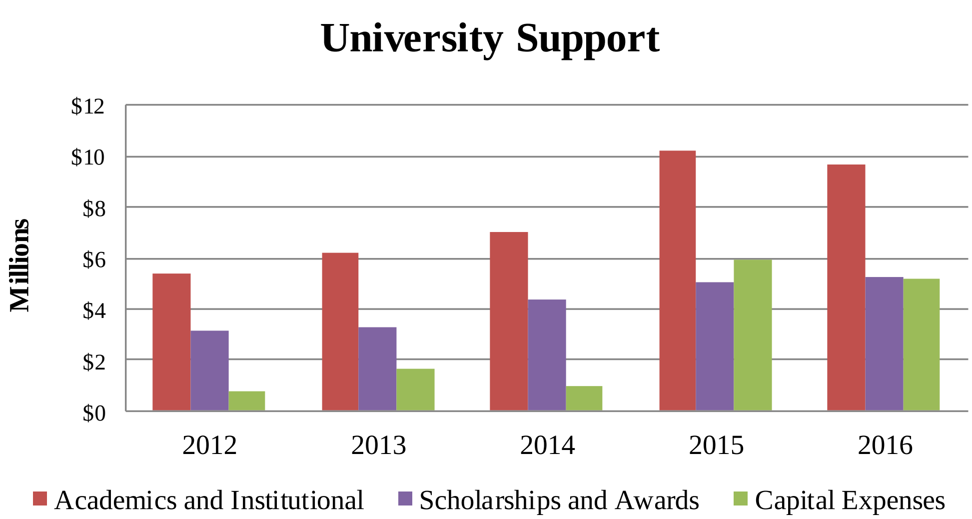
Fundraising (continued)

In fiscal year 2016, approximately 58% of the fundraising total was directed towards academic and institutional support for the University, 37% for scholarships, and 6% directed towards capital expenditures.



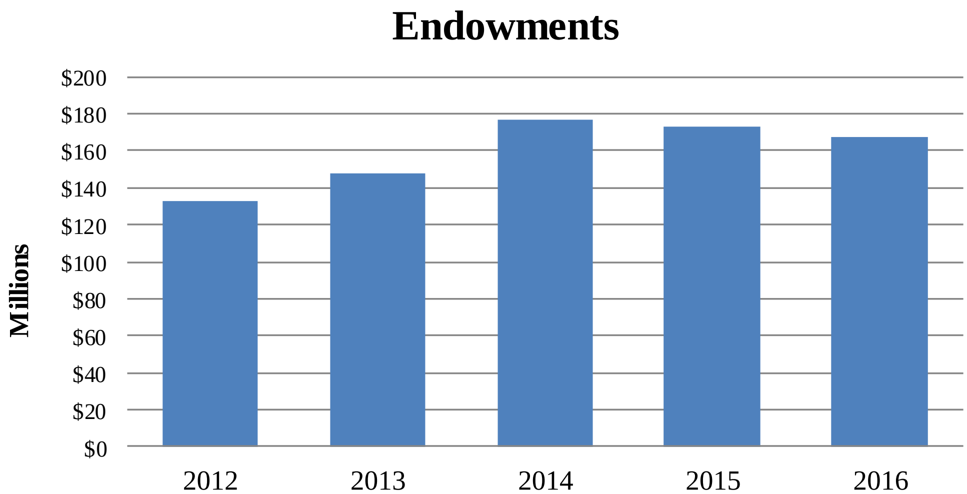
University Support

The Foundation provides funding for students, faculty and programs at the University. In fiscal year 2016, the Foundation provided $20 million in support to the University. Support includes student scholarships, faculty salaries, equipment purchases, as well other expenditures that intend to further the mission of the University. Academic and institutional support as well as scholarship support increased over the past year as a result of a positive fundraising year. Capital support can vary significantly from year to year, as building projects on campus can fluctuate greatly.



Endowments

The Foundation manages over nine hundred endowed funds, valued at approximately $167.3 million at June 30, 2016, including twenty-nine funds valued at approximately $18 million managed on behalf of others. A substantial portion of these funds are managed by the Board of Trustee's investment committee, as part of the Foundation's long-term investment portfolio.



Long-Term Investment Portfolio Return

Endowments managed by the Foundation are invested in a long-term investment portfolio. The following chart depicts the one-, three-, five-, and ten-year return on this portfolio. In fiscal year 2016, the portfolio underperformed its balanced (broad policy) benchmark (53% Russell 3000 Index, 12.0% MSCI EAFE Index and 35% Barclays U.S. Aggregate Bond Index) return of 2.7% FY2016 investment results suffered in large part due to negative returns in the international equity and real asset markets during the first half of the year. While prices in emerging equity and real asset markets recovered well in the second half of the fiscal year, the funds still finished down -3.7% for the year.

	Annualized Return			
	1 Year	3 Year	5 Year	10 Year
Long-Term Investment Portfolio	-3.7%	4.4%	4.8%	4.8%
Balanced Index	2.2%	7.7%	7.8%	6.2%
Target Weighted Index	-3.0%	3.6%	4.2%	5.7%

FINANCIAL STATEMENTS

UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS	2016	2015
Cash and Cash Equivalents	$ 10,607,214	$ 6,616,773
Short-Term Investments	5,556,410	11,835,221
Accrued Dividends and Interest	94,711	117,967
Investments	204,592,425	210,773,359
Contributions Receivable, Net	13,516,084	13,679,924
Student Loans and Other Receivables	252,334	255,648
Beneficial Interests in Trusts Held by Others	494,970	651,369
Property, Building and Equipment, Net of Accumulated Depreciation	348,136	75,912
Property Held for Sale	3,290,000	3,543,840
Other Assets	1,456,366	1,713,561
Total assets	$ 240,208,650	$ 249,263,574
LIABILITIES AND NET ASSETS		
Accounts Payable	$ 422,866	$ 1,265,003
Accrued Expenses	65,489	157,145
Compensated Absences	278,684	195,998
Liabilities to External Beneficiaries	15,992,945	15,526,476
Deferred Revenue	-	125,850
Custodial Funds	20,895,717	22,403,599
Total liabilities	37,655,701	39,674,071
NET ASSETS		
Unrestricted		
Undesignated	7,728,299	8,105,171
	7,728,299	8,105,171
Restricted		
Temporarily restricted	63,445,773	77,899,642
Permanently restricted	131,378,877	123,584,690
	194,824,650	201,484,332
Total net assets	202,552,949	209,589,503
Total liabilities and net assets	$ 240,208,650	$ 249,263,574

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

UNIVERSITY OF MONTANA FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 66,981	$ 15,099,093	$ 7,833,232	$ 22,999,306
Interest and dividend income	617,401	2,611,902	-	3,229,303
Net realized and unrealized gains on investments	(154,801)	(6,626,398)	-	(6,781,199)
Administrative fees	499,476	-	-	499,476
Contract for services	550,000	-	-	550,000
Other	(222,432)	1,794,628	-	1,572,196
Net assets released from restrictions - satisfaction of program restrictions	24,807,565	(24,807,565)	-	-
Total revenues, gains and other support	26,164,190	(11,928,340)	7,833,232	22,069,082
Expenses				
Program services				
University support				
Academics and institutional	9,643,467	-	-	9,643,467
Capital expenses	5,167,377	-	-	5,167,377
Scholarships and awards	5,263,299	-	-	5,263,299
Pledge adjustments	1,402	488,291	21,144	510,837
Supporting services				
Fund-raising	2,805,663	-	-	2,805,663
Administrative and general	3,657,721	-	-	3,657,721
Payments to beneficiaries and change in liabilities to external beneficiaries	2,133	2,055,139	-	2,057,272
Total expenses	26,541,062	2,543,430	21,144	29,105,636
Change in net assets before nonoperating items	(376,872)	(14,471,770)	7,812,088	(7,036,554)
Non-operating Revenues (Expenses)				
Reclassification of net assets	-	17,901	(17,901)	-
Change in net assets	(376,872)	(14,453,869)	7,794,187	(7,036,554)
Net Assets				
Beginning of year	8,105,171	77,899,642	123,584,690	209,589,503
End of year	$ 7,728,299	$ 63,445,773	$ 131,378,877	$ 202,552,949

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

UNIVERSITY OF MONTANA FOUNDATION
STATEMENT OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 416,515	$ 26,588,101	$ 11,237,382	$ 38,241,998
Interest and dividend income	618,578	2,573,699	-	3,192,277
Net realized and unrealized gains on investments	(810,014)	(1,602,123)	-	(2,412,137)
Administrative fees	511,233	-	-	511,233
Contract for services	500,000	-	-	500,000
Other	76,796	3,458,250	-	3,535,046
Net assets released from restrictions - satisfaction of program restrictions	25,171,445	(25,171,445)	-	-
Total revenues, gains and other support	26,484,553	5,846,482	11,237,382	43,568,417
Expenses				
Program services				
University support				
Academics and institutional	10,142,032	-	-	10,142,032
Capital expenses	5,922,737	-	-	5,922,737
Scholarships and awards	5,020,747	-	-	5,020,747
Pledge adjustments	2,608	(5,370)	74,457	71,695
Supporting services				
Fund-raising	2,710,286	-	-	2,710,286
Administrative and general	3,120,329	-	-	3,120,329
Payments to beneficiaries and change in liabilities to external beneficiaries	(3,477)	1,071,427	-	1,067,950
Total expenses	26,915,262	1,066,057	74,457	28,055,776
Change in net assets before nonoperating items	(430,709)	4,780,425	11,162,925	15,512,641
Non-operating Revenues (Expenses)				
Reclassification of net assets	-	(12,000)	12,000	-
Change in net assets	(430,709)	4,768,425	11,174,925	15,512,641
Net Assets				
Beginning of year	8,535,880	73,131,217	112,409,765	194,076,862
End of year	$ 8,105,171	$ 77,899,642	$ 123,584,690	$ 209,589,503

UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 15,743,509	$ 19,477,326
Gain (loss) on investments	1,038,486	(25,103)
Other operating receipts and payments, net	2,752,976	4,585,935
Cash paid for university support	(21,332,545)	(20,162,705)
Cash paid for support services	(6,546,054)	(5,802,817)
Nonoperating payments	(1,590,803)	11,787,042
Net custodial funds activity	(1,507,882)	(2,027,456)
Net cash flows from operating activities	(11,442,313)	7,832,222
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase (sales) of short-term investments, net	6,278,810	(6,833,672)
Investment purchases	(21,317,099)	(47,522,848)
Investment withdrawals	22,930,908	37,755,320
Purchase of depreciable assets	(293,097)	(50,357)
Net cash flows from investing activities	7,599,522	(16,651,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted endowments	7,833,232	11,237,382
Net cash flows from financing activities	7,833,232	11,237,382
Net change in cash and cash equivalents	3,990,441	2,418,047
Cash and Cash Equivalents		
Beginning of year	6,616,773	4,198,726
End of year	$ 10,607,214	$ 6,616,773

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

UNIVERSITY OF MONTANA FOUNDATION
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (7,036,554)	$ 15,512,641
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	20,873	9,481
Impairment loss on land held for sale	253,840	-
Undistributed interest and dividends	(3,330,846)	(3,387,127)
Net gain on investments	7,921,228	2,581,884
Permanently restricted contributions	(7,833,232)	(11,237,382)
Contributions receivable	163,839	(7,733,811)
Other receivables	-	39,655
Beneficial interests in trusts held by others	156,399	58,799
Other assets, net	260,510	147,723
Accounts payable, accrued expenses, compensated absences and other liabilities	(851,107)	1,012,823
Liabilities due to external beneficiaries	466,469	12,854,992
Deferred revenue	(125,850)	-
Custodial funds	(1,507,882)	(2,027,456)
Net cash flows from operating activities	$ (11,442,313)	$ 7,832,222
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Contribution of marketable securities	$ 4,971,943	$ 7,917,459

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
The University of Montana Foundation is a nonprofit corporation incorporated under the laws of Montana. The purpose of the Foundation is to promote and support the University of Montana. The activities of the Foundation include fund-raising and administration of donated assets.

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.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash funds on deposit with investment managers are excluded from cash and cash equivalents since they are restricted for investment use.

Short-Term Investments
Short-term investments consist of certificates of deposit, U.S. Treasury securities, and obligations of federal agencies or affiliates. Short-term investments are carried at fair value, which approximates cost.

Classification of Net Assets
The Foundation classifies contributions as unrestricted, temporarily restricted, and permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist primarily of endowment gifts where donors have specified investment in perpetuity to generate returns for specified restricted or unrestricted purposes. Temporarily restricted net assets include term endowments, quasi-endowments (managed as endowments by directive of the Foundation's Board of Trustees), and other gifts restricted as to purpose or time.

When a donor restriction expires (time restriction ends or purpose restriction accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All expenses are reported in unrestricted net assets, after applicable restrictions have been satisfied.

The Foundation reports gifts of land or other real or personal property as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Unrestricted resources are used for internal operations and administration and to benefit the University at the discretion of the Foundation's Board of Trustees.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Funds
Net assets where the Foundation acts only as a custodian or agent are excluded from the statement of activities and reported as a liability on the statement of financial position.

Investments
The Foundation has significant investments in stocks, bonds, and alternative investments, and is therefore subject to the impact of material fluctuations on the market value of these investments. Investments are made primarily by investment managers engaged by the Foundation with the guidance of an investment consultant. The investments are monitored by management and the Investment Committee of the Board of Trustees. Though the market 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.

A significant portion of the investments are marketable debt and equity securities purchased through institutional mutual funds. Investments in marketable debt and equity securities are carried at fair value, determined primarily by quoted market prices. Increases or decreases in fair value are recognized in the current period as investment gains or losses.

The fair values of alternative investments publicly traded on national security exchanges are stated at their closing market prices as of June 30, 2016 and 2015. The fair values of alternative investments not publicly traded on national security exchanges represent the Foundation's pro-rata interest in the net assets of each investment partnership as provided by its managing partner. Because of inherent uncertainties in the valuation of these non-publicly traded alternative investments, those estimated fair values may differ materially from the values that might ultimately be realized.

Investment Pool
Most permanently restricted net assets and certain temporarily restricted net assets participate in an investment pool that operates under the "market value unit method." Under this method, each account is assigned a number of units based on the relationship of the fair value of all investments at the time of entry into the pool. Quarterly, the pooled assets are valued and new unit values are calculated. The new unit value is used to determine the number of units allocated to new accounts entering the pool or to calculate the equity of accounts withdrawing from the pool. Investment pool income, gains, and losses are allocated quarterly to participating accounts based on the number of units held during the period.

In order to maintain the real value of permanently restricted net assets, the Foundation has adopted a policy whereby a portion of pooled investment return in excess of the spending rate is classified as temporarily restricted net assets. During 2016 and 2015, the annual spending rate was 4.25% of the average of the fair value of the preceding twelve quarter-ends, with the average of the past four quarter-ends weighted at 70%, and the average of the previous eight quarter-ends weighted at 30%.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fees

The Foundation assesses an administrative fee on the pooled investments based on the market value of the pool as of June 30 each year. The annual administrative fee was 2.25% and 2% for June 30, 2016 and 2015, respectively. The Foundation also assesses a one-time development fee on current gifts. Current gifts secured through the phonathon are assessed a one-time fee of 15%. Realized bequests and proceeds from the sale of real property are assessed a one-time fee of 10%. All other outright non-scholarship, non-endowed gifts are assessed a one-time fee of 6%. Total fees in 2016 and 2015 were $4,527,189 and $4,166,148, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenue in accordance with donor stipulations. The estimated allowance for uncollectible promises to give is based on the Foundation's historical collection percentages. Unconditional and conditional promises to give are valued using discount rates as of the date of the gift.

Deferred Revenue

Funds received in advance of services rendered are reported as deferred revenue.

Split-Interest Agreements

Some donors enter into trust or other arrangements under which the Foundation has a beneficial interest. The Foundation has either a remainder interest or a "lead interest," where distributions are received during the term of the agreement. Frequently, the term of the agreement is for the remaining life of an individual(s) designated by the donor. For irrevocable agreements where the Foundation has control of the assets, assets are recorded at their estimated fair value upon notification of the beneficial interest, provided that reliable information is available. A liability for payments to other beneficiaries is estimated at the present value of the expected future payments to beneficiaries. For irrevocable agreements where the Foundation does not have control over the assets (generally held in an outside trust), the present value of the Foundation's beneficial interest is recorded as beneficial interests in trusts held by others, provided that reliable information is available. For revocable agreements where the Foundation has control over the assets, the assets are recorded as a refundable advance and included in the liability to external beneficiaries. Revocable interests where the Foundation does not have control over the assets are considered conditional promises to give, and, accordingly, are not recorded. For fiscal years 2016 and 2015, present value calculations use discount rates as of the date of gift and standard actuarial tables for estimating remaining lives of donors and beneficiaries.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels, as described below:

- Level 1—Quoted prices in active markets as of the measurement date;
- Level 2—Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3—Significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

There are three general valuation techniques that may be used to measure fair value, as described below:

- Market Approach—Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- Cost Approach—Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- Income Approach—Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Contributed Assets and Donated Services

Assets donated to the Foundation are recorded at their fair value as of the date of the gift. No amounts have been reflected in the statements for donated services because no objective basis is available to measure the value of such services.

Supporting Services

Certain personnel and other costs are allocated to administrative and fund-raising services on the basis of estimated time identifiable with such services.

Scholarships

The Foundation provides scholarships to University of Montana students. The University awards these scholarships under an agreement with the Foundation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets
Real property investments and other assets are reported at the lower of the appraised value at the time of donation or the estimated fair value.

Depreciable Assets
Depreciable assets consist of office furniture and equipment, computer equipment, and buildings. Items are stated at cost (or original fair value if contributed) and depreciation is charged on a straight-line basis over estimated useful lives of five to forty years. Capital assets purchased on behalf of University of Montana departments are classified as expense by the Foundation since the University assumes control immediately after purchase. Repair and maintenance costs are expensed as incurred and betterments in excess of $1,500 are capitalized.

Advertising Costs
Advertising costs, which relate principally to fund-raising activities, are expensed as incurred and totaled $70,316 and $121,878, for 2016 and 2015, respectively.

Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Income Taxes
The Foundation is exempt from state and federal income taxes under Internal Revenue Code Section 501(c)(3).

With few exceptions, the Foundation is no longer subject to examinations by tax authorities for years before 2012.

Reclassifications
Certain funds have been reclassified in the statements of activities to reflect management's determination of the funds' proper net assets classification, or as directed by donors. Certain information in the prior year financial statements has been reclassified for comparative purposes to conform with the presentation in the current year financial statements. The change in net assets and net assets for 2015 are unchanged due to these reclassifications.

Subsequent Events
Management has evaluated subsequent events though September 29, 2016, the date which the financial statements were available for issue.

NOTE 2. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows at June 30:

	2016	2015
Cash	$ 5,444,861	$ 4,407,919
Money Market Funds	4,578,711	827,999
Cash to be Received (Invested)	583,642	1,380,855
Total Cash and Cash Equivalents	$ 10,607,214	$ 6,616,773

At June 30, 2016 and 2015, bank balances for these accounts exceeded insured limits by $7,876,861 and $4,629,204, respectively. The Foundation invests available cash in bank repurchase agreements, which are backed by U.S. Government and U.S. Government Agency Securities.

In accordance with GAAP, cash to be invested in long-term investments is considered investments when received, and is reflected in these statements as such.

NOTE 3. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows at June 30:

	2016	2015
Certificates of Deposit	$ 1,503,138	$ 8,404,445
U.S. Treasury and Federal Agency Obligations	4,053,272	3,371,058
Mutual Funds	-	59,718
Total	$ 5,556,410	$ 11,835,221

Under GAAP, U.S. Treasury and Federal Agency Obligations are considered Level 2 inputs which are quoted prices for similar assets in active markets (market approach). Mutual funds and marketable securities are valued using Level 1 inputs which are quoted prices for identical assets in active markets (market approach).

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable in excess of one year are discounted to their net present value using a discount rate based on the three-year U.S. Treasury note rate at the time of contribution (the discount rate used varied between 0.7% and 6.3%). The schedule of payments is as follows at June 30:

	2016	2015
In one year or less	$ 4,325,432	$ 2,381,623
Between one and five years	8,801,556	10,678,762
More than five years	1,332,476	1,500,286
Total contributions	14,459,464	14,560,671
Less allowance for uncollectible amounts	(698,393)	(279,182)
Less discount to present value of future cash flov	(244,987)	(601,565)
Total reductions	(943,380)	(880,747)
Contributions receivable, net	$ 13,516,084	$ 13,679,924

At June 30, 2016, the Foundation had a contribution receivable from one donor which represented 41.3% of total gross contributions receivable.

Conditional promises to give are not presented in the financial statements and represent bequests and other revocable gifts. As of June 30, 2016 and 2015, conditional promises to give were valued at approximately $45,800,000 and $44,600,000, respectively.

NOTE 5. INVESTMENTS

Investments are stated at fair value, determined based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Cost is determined using the specific identification method. The Foundation determined the fair value of its marketable securities through the application of GAAP.

As required by GAAP, 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.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices with active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based on significant unobservable prices or inputs where there is little or no market activity for the asset at the measurement date.

Level 3 assets include: hedge funds, alternative investments, real estate, and equities.

- Fair value for the hedge funds aggregate values reported by each underlying fund as reported to the Foundation on a monthly basis and are based on net asset value.
- Alternative investments include holdings in twelve “funds of funds” as of June 30, 2016, and eleven as of June 30, 2015. Each “funds of funds” is structured as a limited partnership that in turn invests in a portfolio of underlying partnerships most of which make and hold investments in privately owned companies. These underlying investments as well as the limited partnerships holding them are illiquid investments with values periodically determined by each managing partner and are based on net asset value.
- Fair value for the equities is based on an independent appraised value of the held shares each quarter.
- Fair value for the real estate was based on an independent appraisal of the real estate at the date contributed to the Foundation.

NOTE 5. INVESTMENTS (CONTINUED)

Investments itemized below were measured at fair value using the market approach.

Fair Value Measurements at June 30, 2016

Investments	Cash and Cash Equivalents	Level 1	Level 2	Level 3	Total
U.S. Government Securities	$ -	$ -	$ 5,025,870	$ -	$ 5,025,870
Corporate Stocks	-	3,159,424	-	-	3,159,424
Mutual Funds	-	28,013,053	-	-	28,013,053
Corporate Bonds	-	-	9,513,805	74,492	9,588,297
Managed Separate Investment Accounts					
Global Equities	-	45,800,683	-	19,881,682	65,682,365
Global Fixed Income	-	11,606,082	10,000,833	5,821,860	27,428,775
Real Assets	-	2,852,538	-	26,012,041	28,864,579
Diversifying Strategies	-	13,920,665	-	21,639,387	35,560,052
Other - Money Market Funds	1,270,010	-	-	-	1,270,010
Total	$ 1,270,010	$ 105,352,445	$ 24,540,508	$ 73,429,462	$ 204,592,425

Fair Value Measurements at June 30, 2015

Investments	Cash and Cash Equivalents	Level 1	Level 2	Level 3	Total
U.S. Government Securities	$ -	$ -	$ 5,588,584	$ -	$ 5,588,584
Corporation Stocks	-	3,119,106	-	-	3,119,106
Mutual Funds	-	29,775,339	-	-	29,775,339
Corporate Bonds	-	-	8,234,767	-	8,234,767
Managed Separate Investment Accounts					
Global Equities	-	49,738,987	-	19,914,578	69,653,565
Global Fixed Income	-	11,815,942	10,152,917	5,367,173	27,336,032
Real Assets	-	3,344,849	-	24,657,116	28,001,965
Diversifying Strategies	-	16,412,038	-	21,771,543	38,183,581
Other - Money Market Funds	880,420	-	-	-	880,420
Total	$ 880,420	$ 114,206,261	$ 23,976,268	$ 71,710,410	$ 210,773,359

NOTE 5. INVESTMENTS (CONTINUED)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Global Equities	Global Fixed Income	Diversifying Strategies	Real Assets	Real Estate	Total
July 1, 2014	$ 19,927,984	$ 5,170,859	$ 15,800,384	$ 22,798,597	$ -	$ 63,697,824
Total gains (realized/unrealized)	1,306,567	641,044	971,159	30	-	2,918,800
Purchases, issuance, and (settlements)	(1,319,973)	(444,730)	5,000,000	1,858,489	-	5,093,786
June 30, 2015	19,914,578	5,367,173	21,771,543	24,657,116	-	71,710,410
Total gains (losses) (realized/unrealized)	(240,901)	482,839	(1,132,156)	(138,619)	24,915	(1,003,922)
Purchases, issuance, and (settlements)	208,005	(28,152)	1,000,000	1,493,544	49,577	2,722,974
June 30, 2016	$ 19,881,682	$ 5,821,860	$ 21,639,387	$ 26,012,041	$ 74,492	$ 73,429,462
The amount of gains or losses for the year ended June 30, 2015, included in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	$ 668,402	$ 528,167	$ (509,085)	$ 977,346	$ -	$ 1,664,830
The amount of losses for the year ended June 30, 2016, included in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	$ (1,027,209)	$ (406,422)	$ (1,132,156)	$ (1,128,137)	$ (8,008)	$ (3,701,932)

NOTE 5. INVESTMENTS (CONTINUED)

Certain investments valued using Level 3 category inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2016, detailed in the following table, are subject to capital calls and specific redemption terms.

Security Type	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Global Equities	$ 19,881,682	$ 10,462,240	Annual to Not Liquid	100 days
Global Fixed Income	5,821,860	170,208	Not Liquid	N/A
Real Assets	26,012,041	6,475,603	Not Liquid	N/A
Diversifying Strategies	21,639,387	-	Quarterly to Semi-Annually	65-95 days
Total	$ 73,354,970	$ 17,108,051		

At June 30, 2016 and 2015, investments totaling $20,818,282 and $22,326,606, respectively, relate to split-interest agreements.

The total return on investments was approximately -3.4% and -0.62% in 2016 and 2015, respectively. The total return on long-term pooled investments only was approximately -3.7% and -0.50% in 2016 and 2015, respectively.

Investment income is reported net of investment manager fees, which range from .1% to 1.2% of investment value.

NOTE 6. ENDOWMENT

The Foundation's endowment consists of numerous individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law
The Board of Trustees has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) 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 MUPMIFA. In accordance with MUPMIFA, 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.

NOTE 6. ENDOWMENT (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,885,927)	$ 15,340,941	$ 110,634,467	$ 124,089,481
Board-designated endowment funds	474,394	-	-	474,394
Assets held under split-interest agreements	-	-	6,567,813	6,567,813
Charitable trusts held outside the Foundation	-	-	8,758,390	8,758,390
Nonpooled investments	-	-	5,418,207	5,418,207
	$ (1,411,533)	$ 15,340,941	$ 131,378,877	$ 145,308,285

Changes in net assets composition by type of fund for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 321,313	$ 26,305,597	$ 123,584,690	$ 150,211,600
Investment return				
Depreciation (realized and unrealized), net of interest and dividends	(1,712,881)	(1,925,514)	-	(3,638,395)
Contributions	-	-	7,833,232	7,833,232
Other changes				
Reclassification of assets				
Pledge adjustment	-	-	(21,144)	(21,144)
Reclassification of net asset	-	-	(17,901)	(17,901)
Appropriation of endowment assets for expenditures	(19,965)	(5,867,885)	-	(5,887,850)
Fees	-	(3,171,257)	-	(3,171,257)
Endowment net assets, end of year	$ (1,411,533)	$ 15,340,941	$ 131,378,877	$ 145,308,285

NOTE 6. ENDOWMENT (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (157,583)	$ 26,305,597	$ 102,560,731	$ 128,708,745
Board-designated endowment funds	478,896	-	-	478,896
Assets held under split-interest agreements	-	-	6,095,724	6,095,724
Charitable trusts held outside the Foundation	-	-	8,758,390	8,758,390
Nonpooled investments	-	-	6,169,845	6,169,845
	$ 321,313	$ 26,305,597	$ 123,584,690	$ 150,211,600

Changes in net assets composition by type of fund for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 478,698	$ 32,723,855	$ 112,409,765	$ 145,612,318
Investment return				
Appreciation (realized and unrealized), net of interest and dividends	(137,012)	851,871	-	714,859
Contributions	-	-	11,237,382	11,237,382
Other changes				
Reclassification of assets				
Pledge adjustment	-	-	(74,457)	(74,457)
Reclassification of net asset	-	-	12,000	12,000
Appropriation of endowment assets for expenditures	(20,373)	(4,737,545)	-	(4,757,918)
Fees	-	(2,532,584)	-	(2,532,584)
Endowment net assets, end of year	$ 321,313	$ 26,305,597	$ 123,584,690	$ 150,211,600

NOTE 6. ENDOWMENT (CONTINUED)

Permanently Restricted Net Assets
Permanently restricted net assets of the Foundation are comprised primarily of donor-restricted endowment funds. The funds are pooled together in a Long-Term Investment Portfolio. In addition to these funds, permanently restricted net assets contain charitable gift annuities and remainder trusts where the Foundation is trustee. At the point where these annuities and remainder trusts terminate, the proceeds will be transferred to the Long-Term Investment Portfolio. Donors have also donated to the Foundation, physical assets such as funds held in trust outside the Foundation for permanently restricted purposes. Permanently restricted net assets also include nonpooled investments that include restricted pledge receivables, and physical assets such as property. These assets when sold or received will be transferred to the Long-Term Investment Portfolio.

Long-Term Portfolio Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were total deficiencies as of June 30, 2016 and 2015 of $1,885,927 and $158,851, respectively.

Return Objectives and Risk Parameters
The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well certain unrestricted funds, as well as a portion of its restricted current funds. 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 cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

Long-Term Portfolio Spending Policy and How the Investment Objectives Relate to Spending Policy
The Foundation has a policy of appropriating for distribution each year 4.25% of the average fair value of its endowment fund's average fair value at the end of the preceding twelve quarters. The average is weighted, with the average of the past four quarter-ends receiving a 70% weight, and the average of remaining eight quarter-ends receiving a 30% weight. In establishing this policy, the Foundation considered 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.

NOTE 7. PROPERTY, BUILDING, AND EQUIPMENT

At June 30, property, building and equipment consisted of:

	2016	2015
Land	$ 990,109	$ 990,109
Building	3,598,160	3,852,000
Computer equipment and software	117,138	182,552
Leasehold improvements	32,788	9,823
Office furniture and fixtures	336,258	151,468
	5,074,453	5,185,952
Less accumulated depreciation	(1,436,317)	(1,566,200)
	3,638,136	3,619,752
Less property held for sale, measured at fair value on a nonrecurring basis	3,290,000	3,543,840
	$ 348,136	$ 75,912

Depreciation expense was $20,873 and $9,481 in 2016 and 2015, respectively.

Sourdough Island accounts for $963,000 of the land total above and $3,598,160 and $3,852,000 of the building total for fiscal 2016 and 2015, respectively. Sourdough Island is classified as held for sale; therefore, no depreciation expense was taken on the property in fiscal year 2016 and 2015. In fiscal year 2016, the basis of the building was reduced by $253,840 to reflect a reduction in the estimated fair value of the property. The fair value was based on an independent appraisal of the property (market approach) using significant unobservable inputs (Level 3 asset). Accumulated depreciation for the property at June 30, 2016 and 2015 was $1,271,160.

NOTE 8. OTHER ASSETS

At June 30, other assets consisted of:

	2016	2015
Cash surrender value of life insurance	$ 567,058	$ 571,612
Investment in UM buildings	550,032	529,457
Equity investment in Stone Mountain, Ltd.	235,617	228,447
Note receivable from Stone Mountain, Ltd.	-	237,566
Prepaid expenses	20,058	19,085
Other	83,601	127,394
	$ 1,456,366	$ 1,713,561

NOTE 8. OTHER ASSETS (CONTINUED)

In previous years under the Montana Endowment Tax Credit, donors were allowed to designate their endowed annuity gift for building construction purposes. Donors gave under this tax credit to the Law School, Business School, and the Phyllis J. Washington Education Center. As a result, the Foundation holds a small interest in both buildings.

In June 2012, the Foundation acquired through an estate gift, a 31.67% interest in Stone Mountain, Ltd. The Foundation has the ability to exercise significant influence as a result of the acquired interest, and therefore accounts for this interest in Stone Mountain using the equity method for investments.

In fiscal year 2012, the Foundation was assigned rights to two promissory notes, held by an estate. The notes receivable relate to the corresponding allocation of an equity interest in Stone Mountain, Ltd. The Foundation's interest in the first note was paid in full in fiscal year 2016 and had a balance of $237,566, at June 30, 2015. This note had a stated interest rate of 1% over prime, with a floor of 7%. The second note was paid in full in fiscal year 2014. Payments on notes were received when there was sufficient income activity generated in Stone Mountain, Ltd. to produce a note payment.

NOTE 9. LEASE COMMITMENTS

The Foundation leases office space under an operating lease agreement that expires March 31, 2036. Future minimum lease payments under these leases are as follows:

Year ending June 30:	
2017	$ 239,840
2018	239,840
2019	239,840
2020	239,840
2021	239,840
Thereafter	4,336,347
	$ 5,535,547

NOTE 10. LIABILITIES TO EXTERNAL BENEFICIARIES

Some donors enter into trust or other arrangements under which the Foundation has a beneficial interest. For irrevocable agreements where the Foundation has control of the assets, assets are recorded at their estimated fair value upon notification of the beneficial interest, provided that reliable information is available. A liability for payments to other beneficiaries is estimated at the present value of the expected future payments to beneficiaries, calculated by using an IRS life expectancy table and the discount rate determined at the date of the gift. For fiscal year 2016 and 2015 the liability was calculated using standard actuarial tables. Discount rates used in the calculation range from 1.4% to 10.6%.

At June 30, 2016 and 2015, the liability due to external beneficiaries was $15,992,945 and $15,526,476, respectively. Changes in the liability from year to year occur when the present value calculation is updated.

NOTE 11. RESTRICTED NET ASSETS

At June 30, restricted net assets were available for the following purposes:

	2016	2015
Temporarily Restricted		
Scholarships	$ 22,845,573	$ 18,566,706
Academics and institutional support	27,701,714	34,560,300
Capital additions	12,898,486	24,772,636
Total temporarily restricted net assets	$ 63,445,773	$ 77,899,642
Permanently Restricted		
Scholarships	$ 61,345,579	$ 60,209,951
Academics and institutional support	69,476,138	62,919,430
Capital additions	557,160	455,309
Total permanently restricted net assets	$ 131,378,877	$ 123,584,690

NOTE 12. RETIREMENT PLAN

The Foundation has a qualified tax deferred annuity plan, which covers substantially all permanent employees. Employer contributions to the plan are eleven percent of eligible employees' salaries beginning after six months of service. Each employee allocates contributions to one or more investment funds sponsored by the custodial agent. The annuity payments under the plan depend on the amounts contributed by the Foundation, and the investment performance of invested contributions. Foundation contributions to the plan amounted to $333,358 and $284,126 for 2016 and 2015, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

The relationship between the Foundation and the University of Montana is governed by a two year operating agreement. Under the terms of that agreement, the University paid $550,000 and $500,000 during each of 2016 and 2015, respectively, for services provided by the Foundation. Additionally, as part of the agreement for performing fund raising services, the University provided the Foundation with certain information technology services, and other related items in 2016 and 2015.

The Foundation entered into an operating lease with the University of Montana for office space as described in Note 9. Terms of the lease include annual rent of approximately $240,000 with the lease commencing on April 1, 2016 through March 31, 2036.

Rent expense was $172,582 and $146,232 in fiscal year 2016 and 2015, respectively.

The Foundation receives cash and non-cash donations to support the programs, faculty and staff of the University of Montana. In fiscal year 2016 and 2015, the Foundation transferred $15,576,789 and $16,875,439, respectively, of cash donations to the University. The Foundation also transferred $479,740 and $625,442 of non-cash donations to the University in fiscal year 2016 and 2015, respectively.

In February 2015, the Foundation entered into an agreement with the Board of Regents (the BOR) of the Montana University System under which the BOR leases a parcel of land between the Washington Grizzly Stadium and the Adams Center to the Foundation. The lease requires the Foundation to plan, design and construct the Washington Champions Center. Under the lease the BOR agrees to use private donations, ticket sales and other financing to reimburse the Foundation for all costs incurred related to this expansion project and to indemnify the Foundation for any claims or liabilities related to the project. Simultaneous with this lease the Foundation entered into a memorandum of understanding with the University of Montana under which the University manages all aspects of the project on the Foundation's behalf. These arrangements have had no impact on the Foundation's financial statements as all expenses incurred are offset by reimbursements from the University.

NOTE 14. COMMITMENTS AND CONTINGENCIES

During 1996, the Foundation received a real property contribution (Sourdough Island) valued at $4,815,000. Upon eventual sale of the property, the donor agreement provides for allocation of the net sales proceeds to all campuses under the jurisdiction of the University of Montana. The Foundation leases the facility to the University for a nominal annual fee. The lease agreement will expire in January of 2017.

anderson ZURMUEHLEN

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