University of Montana Foundation

Financial Report

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Montana Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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 auditors' 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.

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Audit Committee
Board of Trustees
University of Montana Foundation

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, 2017, 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.

Emphasis-of-Matter

As discussed in Note 15 to the financial statements, University of Montana Foundation has restated its net assets as of July 1, 2016 to properly record a construction in process asset as well as the net asset classifications of split-interest agreements, beneficial interests in perpetual trusts, and underwater endowment funds. Our opinion is not modified with respect to this matter.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

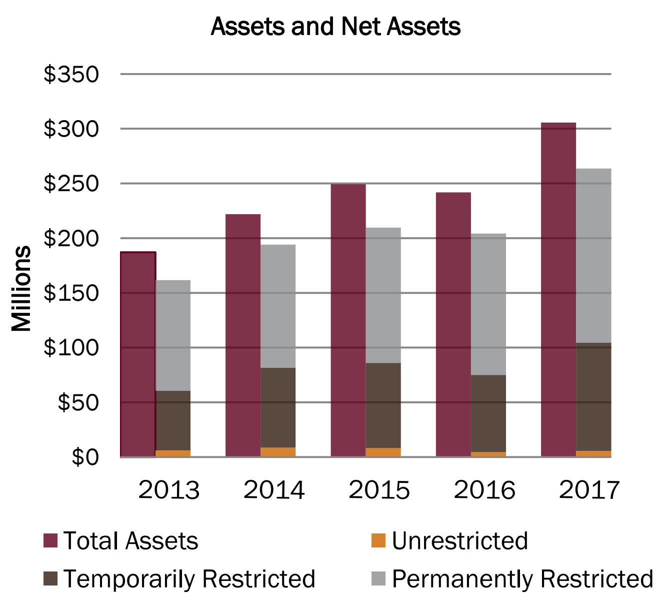
Minneapolis, Minnesota
October 13, 2017

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, 2017. 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.

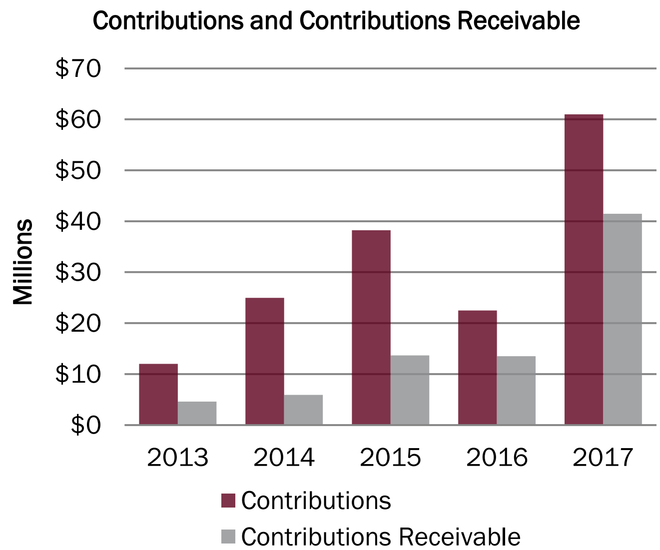
The mission of the Foundation is to ensure the University of Montana's (University) excellence, access and affordability through a public/private funding partnership. The Foundation was established in 1950 as a Section 501(c) (3) organization.

Assets and Net Assets
At June 30, 2017, the Foundation's total assets amounted to $305.6 million, 26% higher than at June 30, 2016. Foundation assets consist primarily of short and long term investments, contributions receivable, and property. Investments make up approximately 71% 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, 2017 amounted to approximately $41.5 million, 207% higher than at June 30, 2016.

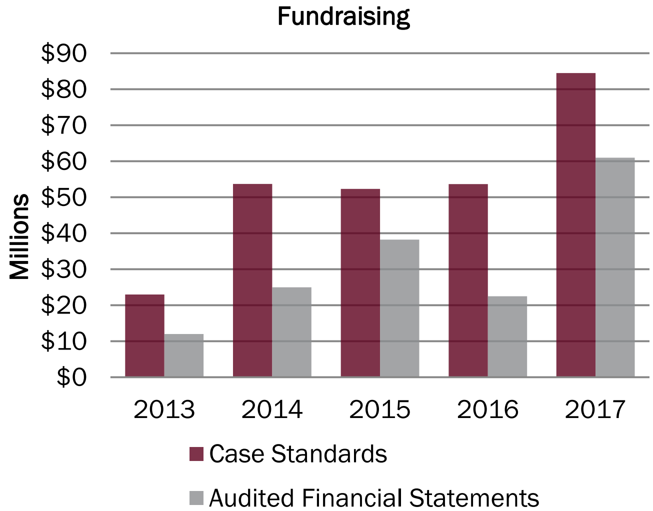


Fundraising
The Foundation reports on fundraising in two ways. The financial statements reflect contributions according to generally accepted accounting principles (GAAP). GAAP does not recognize conditional contributions or bequest contributions as revenue until the condition is met, or until the bequest is realized. In fiscal year 2017, the Foundation recognized $61 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 $84.5 and $53.7 million in contributions in fiscal years 2017 and 2016, respectively.

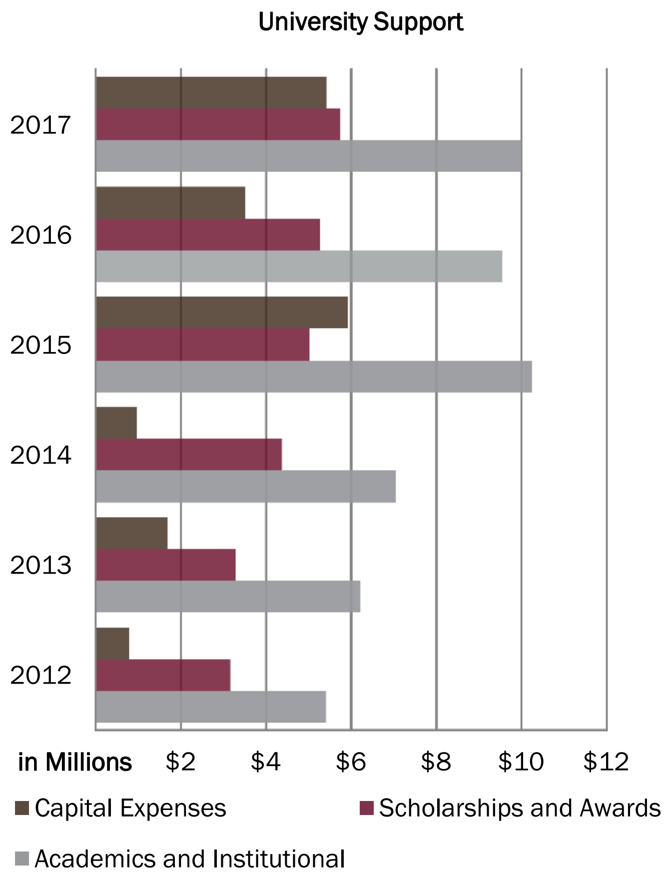
In fiscal year 2017, approximately 69% of the fundraising total was directed towards academic and institutional support for the University, 21% for scholarships, and 10% directed towards capital expenditures.

The following chart depicts GAAP (Audited Financial Statements) and CASE fundraising totals over the past five years.



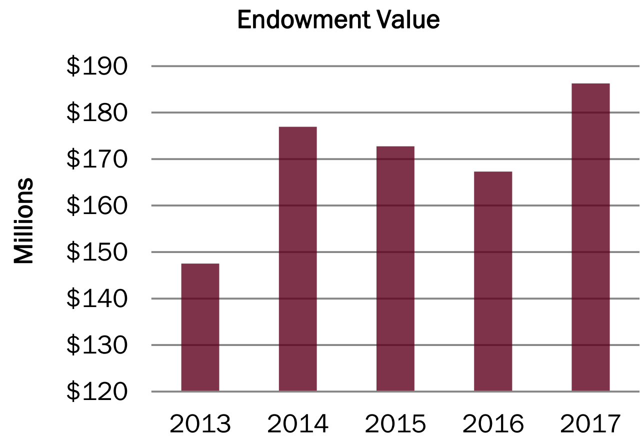
University Support

The Foundation provides funding for students, faculty and programs at the University. In fiscal year 2017, the Foundation provided $21 million in support to the University. Support includes student scholarships, faculty salaries, equipment purchases, as well as 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 one thousand endowed funds, valued at approximately $186.3 million at June 30, 2017, including twenty nine funds valued at approximately $19 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 returns on this portfolio. In fiscal year 2017, the portfolio underperformed its balanced (broad policy) benchmark (65% MSCI ACWI Index and 35% Barclays U.S. Aggregate Bond Index) return of 11.8% due to exceptionally strong U.S. equity markets and the portfolio's relative underweight to U.S. stocks. However, the portfolio is well-diversified and is expected to outperform the broad policy benchmark with less volatility (risk) over the long-term cycles.

	1 Yr	3 Yr	5 Yr	10 Yr
Long-Term Portfolio	10.7%	2.4%	7.4%	4.2%
Balanced Index	11.8%	4.1%	7.7%	4.3%
Target Weighted Index	10.4%	2.7%	7.1%	3.2%

Note: annualized returns

STATEMENT OF FINANCIAL POSITION

as of June 30, 2017

		2017
ASSETS		
Cash and Cash Equivalents	$	15,517,617
Short-Term Investments		7,477,443
Accrued Dividends and Interest		175,973
Investments		217,291,564
Contributions Receivable, Net		41,464,334
Student Loans and Other Receivables		284,304
Beneficial Interests in Trusts Held by Others		8,628,183
Fixed Assets, net		456,265
Property Held for Sale		2,349,060
Construction in Process		10,721,016
Other Assets		1,232,104
Total assets	$	305,597,863
LIABILITIES AND NET ASSETS		
Accounts Payable	$	2,655,984
Accrued Expenses		71,785
Compensated Absences		265,557
Liabilities to External Beneficiaries		16,974,836
Custodial Funds		22,067,548
Total liabilities		42,035,710
NET ASSETS		
Unrestricted		
Undesignated		5,723,178
		5,723,178
Restricted		
Temporarily Restricted		98,901,977
Permanently Restricted		158,936,998
		257,838,975
Total net assets		263,562,153
Total liabilities and net assets	$	305,597,863

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

STATEMENT OF ACTIVITES

for the period ended as of June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 84,712	$ 32,153,885	$ 28,746,558	$ 60,985,155
Interest and dividend income	712,097	1,837,727	-	2,549,824
Net realized and unrealized gains on investments	1,845,100	12,492,026	-	14,337,126
Administrative fees	599,413	-	-	599,413
Contract for services	550,000	-	-	550,000
Net revaluation of trusts and split-interest agreements	1,145	15,850	893,121	910,116
Income from perpetual trust	-	355,504	-	355,504
Other	30,888	7,785,299	35,716	7,851,903
Net assets released from restrictions	26,157,487	(26,157,487)	-	-
Total revenues, gains and other support	29,980,842	28,482,804	29,675,395	88,139,041
Expenses				
University support				
Academics and institutional	9,822,312	-	-	9,822,312
Capital expenses	5,413,495	-	-	5,413,495
Scholarships and awards	5,734,825	-	-	5,734,825
Total University support	20,970,632	-	-	20,970,632
Supporting services				
Fundraising	2,811,098	-	-	2,811,098
Administrative and general	4,057,287	-	-	4,057,287
Total expenses	27,839,017	-	-	27,839,017
Change in net assets before non-operating items	2,141,825	28,482,804	29,675,395	60,300,024
Non-operating Revenues (Expenses)				
Impairment Loss	(940,940)	-	-	(940,940)
Reclassification of Fund Equity	-	(54,520)	54,520	-
Total Non-operating Revenues(Expenses)	(940,940)	(54,520)	54,520	(940,940)
Change in net assets	1,200,885	28,428,284	29,729,915	59,359,084
Net assets beginning of year, as previously reported	7,728,299	63,445,773	131,824,877	202,552,949
Restatement of net assets (see Note 15)	(3,206,006)	7,027,920	(2,171,794)	1,650,120
Net assets beginning of year, as restated	4,522,293	70,473,693	129,207,083	204,203,069
Net assets end of year	$ 5,723,178	$ 98,901,977	$ 158,936,998	$ 263,562,153

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

STATEMENT OF FUNCTIONAL EXPENSES

for the period ended as of June 30, 2017

	University support	Fundraising	Administrative and general	Total
Direct University Support	$ 17,377,943	$ -	$ -	$ 17,377,943
Accounting and auditing	18,691	-	45,536	64,227
Advertising and promotion	41,463	531	34,859	76,853
Bank and trust manager fees	7,068	-	123,845	130,913
Contracted services and honorariums	470,349	358,423	138,916	967,688
Depreciation	-	-	51,576	51,576
Dues and publications	81,162	2,439	7,442	91,043
Entertainment	208,915	46,437	98,213	353,565
Insurance	5,142	-	73,111	78,253
Legal expense	550	236	55,043	55,829
Licenses and taxes	437	172	8,496	9,105
Office	1,739,010	39,946	103,429	1,882,385
Postage	4,274	34,253	22,571	61,098
Printing	10,523	21,054	37,470	69,047
Professional development	27,778	8,383	31,661	67,822
Recruitment	2,815	1,097	10,959	14,871
Rent	9,289	155	242,857	252,301
Repairs and maintenance	3,156	-	4,398	7,554
Salaries and fringe benefits	17,647	2,125,767	2,711,335	4,854,749
Software acquisition and maintenance	27,041	-	144,941	171,982
Supplies	728,071	3,949	38,580	770,600
Telephone	70	34,141	24,281	58,492
Travel, lodging and relocation	189,238	134,115	47,768	371,121
	$ 20,970,632	$ 2,811,098	$ 4,057,287	$ 27,839,017

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

CASH FLOW STATEMENT

for the period ended as of June 30, 2017

		2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	59,359,084
Adjustments to reconcile change in net assets to		
Net cash provided by operating activities:		
Permanently restricted contributions		(28,746,558)
Contributions of investment securities		(9,372,828)
Net gain on investments		(14,337,126)
Net gain on investment held for others		(1,737,572)
Impairment loss on held for sale property		940,940
Net revaluation of trusts and split-interest agreements		(910,116)
Contribution of trust and split interest agreements		(741,889)
Depreciation and amortization		51,576
Change in assets and liabilities:		
Accrued dividends and interest		(81,262)
Pledges receivable		8,725,572
Other assets		224,262
Accounts payable and accrued liabilities		1,177,988
Net cash provided by operating activities		14,552,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in short term investments		(1,921,033)
Capital expenditures		(8,182,299)
Decrease in notes receivable		(31,970)
Purchases of securities		(22,942,607)
Proceeds from the sale of securities		31,247,251
Net cash used by investing activities		(1,830,658)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on amounts due beneficiaries		(1,055,577)
Permanently restricted contributions		(7,927,264)
Change in deposits held in custody		1,171,831
Net cash used by financing activities		(7,811,010)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,910,403
Cash and Cash Equivalents, beginning of year		10,607,214
Cash and Cash Equivalents, end of year	$	15,517,617
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Contributions and pledge payments of investment securities	$	9,372,828
Construction in process additions in accounts payable	$	1,048,298

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
The University of Montana Foundation (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 fundraising 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 gifts restricted as to purpose or time that are temporary in nature which are released upon the passage of time or satisfaction of purposes.

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.

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, 2017. 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.

The Foundation has calculated the total return on investments was approximately 10.2% in fiscal year 2017. Additionally, the total return on only the long-term pooled investments was approximately 10.7% in fiscal year 2017.

Investment income is reported net of investment manager fees, which range from .1% to 2% of investment value.

At June 30, 2017 investments totaling $22,364,935 relate to split-interest agreements.

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 2017, 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%.

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% for fiscal year 2017. 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 2017 were $4,764,053.

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 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 market 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 2017, present value calculations use discount rates as of the date of gift and standard actuarial tables for estimating remaining lives of donors and beneficiaries.

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 fundraising 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.

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, leasehold improvements, 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 expenses 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 fundraising activities, are expensed as incurred and totaled $76,853 for 2017.

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 2013.

Reclassifications
Certain funds have been reclassified in the statement of activities to reflect management's determination of the funds' proper net asset classification, or as directed by donors.

Subsequent Events
Management has evaluated subsequent events though October 13, 2017 the date which the financial statements were available for issue.

2. CASH AND CASH EQUIVALENTS

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

		2017
Cash	$	9,347,221
Money Market Funds		5,120,590
Cash to be Received (Invested)		1,049,806
Total Cash and Cash Equivalents	$	15,517,617

At June 30, 2017 bank balances for these accounts exceeded insured limits by $11,719,913. 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.

3. SHORT TERM INVESTMENTS

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

		2017
Certificates of Deposit	$	2,694,786
U.S. Treasury and Federal Obligations		4,782,657
Total Short Term Investments	$	7,477,443

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).

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:

		2017
In one year or less	$	7,569,464
Between one and five years		13,556,288
More than five years		23,605,000
Less: discount and allowance for uncollectible pledges		(3,266,418)
Contributions receivable, net	$	41,464,334

At June 30, 2017, the Foundation had a contribution receivable from one donor which represented 53.3% 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, 2017, conditional promises to give were valued at approximately $62,500,000.

5. Fair Value Measurement

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 are 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.

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.

The following is a description of the valuation methodology used for assets measured at fair value:

Fair value for the hedge funds aggregate values reported by each underlying fund as reported to the Foundation on a monthly basis are based on net asset value.

Alternative investments include holdings in eighteen “funds of funds” as of June 30, 2017. 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.

Beneficial interests in perpetual trust assets are valued at the current fair value of the underlying assets using observable market inputs based on its beneficial interest in the trust. The assets are categorized as Level 3. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the trust that are outside of the control and management of the Foundation.

The following table is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2017:

	Level 1	Level 2	Level 3	At NAV	Total
Investments					
U.S. Government Securities	-	$ 5,382,757	-	-	$ 5,382,757
Corporate Stocks	2,014,625	-	-	-	2,014,625
Mutual Funds	22,316,146	-	-	-	22,316,146
Corporate Bonds	-	7,953,078	-	-	7,953,078
Managed Separate Investment Accounts					
Global Equities	55,936,401	-	-	19,993,351	75,929,752
Global Fixed Income	11,139,427	10,341,977	-	8,480,723	29,962,127
Real Assets	5,587,142	-	-	29,275,269	34,862,411
Diversifying Strategies	15,310,131	-	-	23,269,503	38,579,634
Cash and short-term investments	291,034	-	-	-	291,034
Total Investments	112,594,906	23,677,812	-	81,018,846	217,291,564
Beneficial Interest	-	-	8,628,183	-	8,628,183
Total	$112,594,906	$ 23,677,812	$ 8,628,183	$ 81,018,846	$225,919,747

Changes in assets for which fair value is measured based on Level 3 inputs are summarized below for the year ended June 30, 2017:

Beneficial Interest (LEVEL 3)

	2017
Balance, Beginning of Year	$ 8,158,072
Net (loss)/gain, realized and unrealized	825,615
Maturities	(355,504)
Balance, End of Year	$ 8,628,183

The investments that are valued using net asset values calculated by the investment managers are subject to capital calls and specific redemption terms as detailed in the table below.

Security Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equities	$ 19,993,351	$ 9,463,756	Annual to Not Liquid	100 days
Global Fixed Income	8,480,723	7,148,780	Not Liquid	N/A
Real Assets	29,275,269	5,233,466	Not Liquid	N/A
Diversifying Strategies	23,269,503	-	Quarterly to Semi-Annually	65-95 days
Total	$ 81,018,846	$21,846,002		

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.

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (798,787)	$ 19,696,550	$ 119,389,848	$ 138,287,611
Board-designated endowment funds	484,855	-	-	484,855
Assets held under split-interest agreements	-	-	5,221,861	5,221,861
Charitable trusts held outside the Foundation	-	-	8,444,607	8,444,607
Pledges and non-pooled investments	-	-	25,880,682	25,880,682
	$ (313,932)	$ 19,696,550	$ 158,936,998	$ 178,319,616

Changes in net assets composition by type of fund for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$ (1,411,533)	$ 13,964,377	$ 129,207,083	$ 141,759,927
Investment income	1,117,505	13,027,489	-	14,144,994
Contributions	-	-	28,746,558	28,746,558
Reclassification of net assets	-	(1,080)	54,520	53,440
Net revaluation of split-interest agreements	-		893,121	893,121
Distributions	(19,904)	(4,521,052)	-	(4,540,956)
Fees	-	(2,773,184)	-	(2,773,184)
Other Income	-	-	35,716	35,716
Balance, end of year	$ (313,932)	$ 19,696,550	$ 158,936,998	$ 178,319,616

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 non-pooled 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, 2017 of $798,787.

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.

7. Fixed Assets

At June 30, fixed assets consisted of:

Land	$	27,109
Computer equipment and software		60,177
Leasehold improvements		136,576
Office furniture and fixtures		335,220
		559,081
Less accumulated depreciation		(102,816)
Total Fixed Assets, net	$	456,265

Depreciation expense was $51,576 in 2017.

Sourdough Island is classified as held for sale as of year-end; therefore no depreciation expense was taken on the property in fiscal year 2017. In fiscal year 2017, the basis of the building and land was reduced by $940,940 to reflect a reduction in the estimated fair value of the property. This reduction is shown as an impairment loss in the non-operating section of the Statement of Activities. Accumulated depreciation on the property at June 30, 2017 was $1,271,160.

The construction in process asset is the Washington-Grizzly Champions Center which will be donated to the University of Montana upon completion.

8. OTHER ASSETS

At June 30, other assets consisted of:

Cash surrender value of life insurance	$	582,314
Investment in UM buildings		550,032
Other		99,758
Total Other Assets	$	1,232,104

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. As of yearend, the foundation maintains its ownership interest in Stone Mountain but no dollar value is assigned to the ownership interest.

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:		
2018	$	239,804
2019		239,804
2020		239,804
2021		239,804
2022		266,593
Thereafter		4,069,754
	$	5,295,563

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 market 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 2017 the liability was calculated using standard actuarial tables. Discount rates used in the calculation range from 1.2% to 9.6%.

At June 30, 2017, the liability due to external beneficiaries was $16,974,836. Changes in the liability from year to year occur when the present value calculation is updated.

11. RESTRICTED NET ASSETS

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

		2017
Temporarily Restricted		
Scholarships	$	26,105,451
Academics and institutional support		42,378,426
Capital additions		30,418,100
Total temporarily restricted net assets	$	98,901,977
Permanently Restricted		
Scholarships	$	74,612,203
Academics and institutional support		83,769,154
Capital additions		555,641
Total permanently restricted net assets	$	158,936,998

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 $352,511 for 2017.

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 during 2017 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 2017.

In 2016 the Foundation entered into an operating lease with the University of Montana for office space. Terms of the lease include annual rent of approximately $240,000 with the lease period running from April 1, 2016 through March 31, 2036. Rent expense was $239,804 in fiscal year 2017.

The Foundation receives cash and non-cash donations to support the programs, faculty and staff of the University of Montana. In fiscal year 2017, the Foundation transferred $17.4 million of cash donations to the University. The Foundation also transferred $1 million of non-cash donations to the University in fiscal year 2017.

In February 2015, the Foundation entered into an agreement with the Board of Regents 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-Grizzly Champions Center. Under the lease 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.

14. COMMITMENTS AND CONTINGENCIES

During 1996, the Foundation received a real property contribution (Sourdough Island) originally 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 leased the facility to the University for a nominal annual fee. This lease agreement expired in January of 2017.

15. NET ASSET RESTATEMENT

The Foundation has restated its net assets as of July 1, 2016 to properly reflect the appropriate accounting treatment of a construction in process assets and to properly reflect the classification of certain net assets. The below table summarizes the restatements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Underwater funds (a)	$ (3,206,006)	$ 3,206,006	-	-
Split interest agreements and beneficial interests in trusts (b)	-	2,171,794	(2,171,794)	-
Construction in process asset (c)	-	1,650,120	-	1,650,120
Net Restatements	$ (3,206,006)	$ 7,027,920	$ (2,171,794)	$ 1,650,120

Item a) the Foundation previously showed underwater funds as an addition to temporarily restricted net assets but these amounts should be subtracted from unrestricted net assets. Therefore, these amounts have been moved to the correct net asset category as of July 1, 2016.

Item b) The Foundation evaluated their interpretation of the guidance on accounting for split interest agreements and beneficial interests in trusts. This resulted in the restatement of certain net assets as of July 1, 2016 to conform to the required presentation.

Item c) the Foundation did not capitalize but rather expensed the costs related to a construction project on the UM campus. These expenditures should have been presented as a construction in process asset as of June 30, 2016. In addition to creating this asset we are correspondingly increasing temporarily restricted net asset as the construction in process asset is restricted to be given to the University. Net assets as of July 1, 2016 have been increased to correctly account for this construction in process asset.