

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





**MONTANA**  
STATE UNIVERSITY  
FOUNDATION

**CONSOLIDATED FINANCIAL REPORT**

**June 30, 2017 and 2016**



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Montana State University Foundation, Inc., and its wholly owned subsidiaries, (collectively referred to as the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Montana State University Foundation, Inc., and its wholly owned subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Anderson Zurmuelen & Co., P.C.*

Bozeman, Montana

October 24, 2017

CONSOLIDATED FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ <u>1,947,149</u>	\$ <u>312,373</u>
RECEIVABLES		
Promises to give, net	17,054,077	70,834,503
Notes receivable	137,409	231,501
Other receivables	<u>4,811,350</u>	<u>6,859,670</u>
	<u>22,002,836</u>	<u>77,925,674</u>
INVESTMENTS		
Pooled investments	223,809,849	158,601,039
Real estate	141,050	141,050
Other investments	<u>11,407,443</u>	<u>10,582,301</u>
	235,358,342	169,324,390
PROPERTY AND EQUIPMENT, net	<u>4,217,084</u>	<u>4,428,938</u>
OTHER ASSETS	<u>542,408</u>	<u>551,290</u>
Total assets	<u>\$ 264,067,819</u>	<u>\$ 252,542,665</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 567,232	\$ 1,066,431
Accrued liabilities	458,033	468,011
Deposits	21,886	23,808
Trust and annuity obligations	4,931,139	5,116,111
Agency funds held for others	10,607,123	10,168,540
Notes payable	2,523,603	2,571,324
Bond payable	3,710,000	5,325,000
Other liabilities	<u>845,395</u>	<u>814,379</u>
	<u>23,664,411</u>	<u>25,553,604</u>
NET ASSETS		
Unrestricted	3,597,931	(1,165,305)
Temporarily restricted	103,950,522	110,769,662
Permanently restricted	<u>132,854,955</u>	<u>117,384,704</u>
	<u>240,403,408</u>	<u>226,989,061</u>
Total liabilities and net assets	<u>\$ 264,067,819</u>	<u>\$ 252,542,665</u>

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



MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 37,431	\$ 10,182,634	\$ 15,412,970	\$ 25,633,035
Market gain (loss) on investments	2,226,139	14,202,512	(23,073)	16,405,578
Interest and dividends	267,182	492,267	142	759,591
Administrative fees	7,053,211	(6,118,347)	(684,791)	250,073
Dues and memberships	160,953	-	-	160,953
Rental income	536,413	13	-	536,426
Contract for services	1,716,536	-	-	1,716,536
Sales, services and other, net	<u>128,361</u>	<u>369,369</u>	<u>861</u>	<u>498,591</u>
Total revenues and support	<u>12,126,226</u>	<u>19,128,448</u>	<u>14,706,109</u>	<u>45,960,783</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of program restrictions				
to support MSU	-	(4,899,491)	-	(4,899,491)
to support operations	-	(200,000)	-	(200,000)
Acquisition and operation of facilities	-	(15,803,980)	-	(15,803,980)
Satisfaction of scholarship restrictions	-	(5,046,534)	-	(5,046,534)
Net assets permanently restricted	-	(4,384)	4,384	-
Change in restrictions	13,679	(13,679)	-	-
Net assets released from restrictions	<u>25,950,005</u>	<u>-</u>	<u>-</u>	<u>25,950,005</u>
Total net assets released from restrictions	<u>25,963,684</u>	<u>(25,968,068)</u>	<u>4,384</u>	<u>-</u>
<b>EXPENSES</b>				
Program expenses:				
MSU support	20,721,284	-	-	20,721,284
Scholarships	5,049,034	-	-	5,049,034
Support expenses:				
Fundraising	2,939,487	-	-	2,939,487
Administration and general	3,112,457	-	-	3,112,457
Alumni relations	855,640	-	-	855,640
Subsidiary operations	<u>678,419</u>	<u>-</u>	<u>-</u>	<u>678,419</u>
Total expenses	<u>33,356,321</u>	<u>-</u>	<u>-</u>	<u>33,356,321</u>
Change in value of split interest agreements	<u>29,647</u>	<u>20,480</u>	<u>759,758</u>	<u>809,885</u>
Change in net assets	4,763,236	(6,819,140)	15,470,251	13,414,347
Net assets at beginning of year	<u>(1,165,305)</u>	<u>110,769,662</u>	<u>117,384,704</u>	<u>226,989,061</u>
Net assets at end of year	<u>\$ 3,597,931</u>	<u>\$ 103,950,522</u>	<u>\$ 132,854,955</u>	<u>\$ 240,403,408</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 148,682	\$ 67,367,124	\$ 12,165,915	\$ 79,681,721
Market loss on investments	(1,305,041)	(2,641,051)	(54,850)	(4,000,942)
Interest and dividends	119,137	449,115	372	568,624
Administrative fees	3,626,795	(3,147,705)	(284,318)	194,772
Dues and memberships	187,608	-	-	187,608
Rental income	531,503	47	-	531,550
Contract for services	1,619,402	-	-	1,619,402
Sales, services and other, net	<u>154,969</u>	<u>231,427</u>	<u>39</u>	<u>386,435</u>
Total revenues and support	<u>5,083,055</u>	<u>62,258,957</u>	<u>11,827,158</u>	<u>79,169,170</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Satisfaction of program restrictions				
to support MSU	-	(5,003,916)	-	(5,003,916)
to support operations	-	(232,416)	-	(232,416)
Acquisition and operation of facilities	-	(9,776,992)	-	(9,776,992)
Satisfaction of scholarship restrictions	-	(4,111,566)	-	(4,111,566)
Net assets permanently restricted	-	(10,967)	10,967	-
Net assets temporarily restricted	(9,508)	9,508	-	-
Net assets released from restrictions	<u>19,124,890</u>	<u>-</u>	<u>-</u>	<u>19,124,890</u>
Total net assets released from restrictions	<u>19,115,382</u>	<u>(19,126,349)</u>	<u>10,967</u>	<u>-</u>
<b>EXPENSES</b>				
Program expenses:				
MSU support	15,271,168	-	-	15,271,168
Scholarships	4,117,148	-	-	4,117,148
Support expenses:				
Fundraising	3,259,371	-	-	3,259,371
Administration and general	3,263,584	-	-	3,263,584
Alumni relations	1,018,487	-	-	1,018,487
Subsidiary operations	<u>577,985</u>	<u>-</u>	<u>-</u>	<u>577,985</u>
Total expenses	<u>27,507,743</u>	<u>-</u>	<u>-</u>	<u>27,507,743</u>
Change in value of split interest agreements	<u>942</u>	<u>7,008</u>	<u>(69,075)</u>	<u>(61,125)</u>
Change in net assets	(3,308,364)	43,139,616	11,769,050	51,600,302
Net assets at beginning of year	<u>2,143,059</u>	<u>67,630,046</u>	<u>105,615,654</u>	<u>175,388,759</u>
Net assets at end of year	<u>\$ (1,165,305)</u>	<u>\$ 110,769,662</u>	<u>\$ 117,384,704</u>	<u>\$ 226,989,061</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,414,347	\$ 51,600,302
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	257,536	267,942
Noncash contributions	(53,078,450)	(6,319,889)
Unrealized loss on investments	9,729,244	6,075,121
Permanently restricted contributions	(15,412,970)	(12,165,915)
Change in operating assets and liabilities:		
Notes receivable	94,092	325,753
Promises to give, net	53,780,426	(54,617,532)
Other receivables	2,048,320	(3,945,124)
Other assets	8,882	(108,287)
Accounts payable	(499,199)	587,564
Accrued liabilities	(9,978)	91,387
Deposits	(1,922)	(684)
Other liabilities	31,016	365,625
Annuity obligations	(184,972)	(196,333)
Agency funds held for others	438,583	(221,822)
Net cash flows from operating activities	<u>10,614,955</u>	<u>(18,261,892)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(45,682)	(74,736)
Proceeds from (purchases of) investments, net	<u>(21,977,885)</u>	<u>7,628,571</u>
Net cash flows from investing activities	<u>(22,023,567)</u>	<u>7,553,835</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	(47,721)	(51,045)
Payments on bond payable	(1,615,000)	(1,700,000)
Permanently restricted gains and other changes	(706,861)	(338,757)
Permanently restricted contributions	<u>15,412,970</u>	<u>12,165,915</u>
Net cash flows from financing activities	<u>13,043,388</u>	<u>10,076,113</u>
Net change in cash and cash equivalents	1,634,776	(631,944)
Cash and cash equivalents, beginning of year	<u>312,373</u>	<u>944,317</u>
Cash and cash equivalents, end of year	<u>\$ 1,947,149</u>	<u>\$ 312,373</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS</b>		
Cash paid for interest	<u>\$ 223,524</u>	<u>\$ 212,816</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

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

**Basis of Consolidation**

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

**Basis of Presentation**

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

**Classification of Net Assets**

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

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

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

**Classification of Net Assets (Continued)**

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

**Revenue Recognition**

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

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

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

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

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

**Term Memberships** – the Foundation previously offered three and four-year memberships. In 2017, the Foundation allowed members to prepay memberships through June 2019. Term memberships are recognized as revenue over their stated period, starting on the day the initial payment is received. Deferred revenue related to these memberships is presented in the accompanying consolidated statements of financial position with other liabilities.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

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

**Revenue Recognition (Continued)**

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

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

**Fair Value**

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

- Level 1: Quoted market prices available through public exchange venues for identical assets or liabilities.
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs for the asset or liability due to little or no market activity at the measurement date.

The Foundation's policy for determining the timing of significant transfers between Levels 1, 2, and 3 is at the end of the reporting period. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- Promises to give:* Valued by discounting the related cash flows, using the 5-year treasury rate as of the last day of the fiscal year.
- Equity securities:* Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.
- Mutual funds:* Valued at market traded price of shares.
- Debt securities:* Valued at market traded prices.
- Real estate:* Valued at the lesser of most recent appraised value or listed sale value.
- Alternative investments:* Valued at the net asset value (NAV) of shares held at year-end.
- Split interest agreements:* Valued annually using present value techniques, which factor in payment terms, actuarial life expectancy tables, and Internal Revenue Service discount rates at year-end.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

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

**Fair Value (Continued)**

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

**Cash Equivalents**

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

**Investments**

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

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

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

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

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



MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

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

**Property and Equipment**

Buildings, land improvements, and equipment are stated at cost. The Foundation capitalizes all property and equipment with an original cost of \$5,000 or more and more than two years of useful life. Depreciation expense for the years ended June 30, 2017 and 2016, amounted to \$257,536 and \$267,942, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

**Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed**

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

**Administrative Fees**

Administrative fees include an Investment Management Fee and a Gift Service Fee. The Investment Management Fee is an annual 2% fee (charged quarterly) to the endowment and quasi-endowment funds. The Gift Service Fee is a one-time 5% fee assessed on all gifts received.

**Allocation of Support Expenses**

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

**Split-Interest Agreements**

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

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

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

**Split-Interest Agreements (Continued)**

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

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

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

**Income Taxes**

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

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

**Deferred Revenue**

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

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

**Use of Estimates**

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

**Change in Accounting Principles**

Effective July 1, 2016, the Foundation adopted the provision of *FASB Accounting Standards Update (ASU) No. 2015-03 Interest – Imputation of Interest (Subtopic 835-30)*. Prior to 2017, the Foundation’s policy was to present loan origination fees in “Other assets” on the consolidated statements of financial position, net of accumulated amortization. Beginning in 2017, the Foundation has presented these fees as a direct deduction to the related note payable. The new standard is preferable because it simplifies the presentation of loan origination fees and the related note payable. This standard has been applied retrospectively to all periods presented in the consolidated financial statements. Due to this change, the 2016 presentation of “Other assets” decreased from \$561,146 to \$551,290, and the presentation of “Notes payable” decreased from \$2,581,180 to \$2,571,324.

**Reclassifications**

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

**Subsequent Events**

Management has evaluated subsequent events through October 24, 2017, the date which the consolidated financial statements were available to be issued.

**NOTE 2. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2017 and 2016, are available for the following purposes:

	<u>2017</u>	<u>2016</u>
MSU programs	\$ 36,784,347	\$ 34,095,721
MSU students	19,160,880	14,517,937
MSU facilities	45,134,601	59,305,791
Charitable trusts and gift annuities	<u>2,870,694</u>	<u>2,850,213</u>
Total temporarily restricted net assets	<u>\$ 103,950,522</u>	<u>\$ 110,769,662</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 3. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of June 30, 2017 and 2016, are restricted for:

	<u>2017</u>	<u>2016</u>
Investments held in perpetuity, the income from which is expendable to support:		
MSU programs	\$ 46,157,083	\$ 43,385,762
MSU students	79,736,156	67,951,268
MSU facilities	<u>2,207,960</u>	<u>2,160,047</u>
	128,101,199	113,497,077
Charitable trusts and gift annuities	4,668,761	3,806,849
Paid-up life insurance policies that will provide proceeds upon death of insured for an endowment	23,945	19,728
Land required to be used as a recreation area	<u>61,050</u>	<u>61,050</u>
	<u>\$ 132,854,955</u>	<u>\$ 117,384,704</u>

**NOTE 4. ENDOWMENT**

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

**Interpretation of Relevant Law**

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 4. ENDOWMENT (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

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

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

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution value. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2017 and 2016, total funds with deficiencies amounted to \$227,895 and \$975,767, respectively.

**Return Objectives and Risk Parameters**

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

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation, including fixed income, equity securities, private equity, real assets, and absolute return, to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation's spending policy for 2017 and 2016 is a 12-quarter weighted average of the endowment's market value multiplied by the Foundation's spending rate of 4 percent. For both years, certain limits are applied: 1) the expendable amount cannot exceed 5 percent of the market value, and 2) assuming there is not a prohibition in the donor agreement against the use of the original gift, spending is curtailed when the value of the endowment drops to 80 percent of the original contribution amount.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 4. ENDOWMENT (CONTINUED)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)**

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	<u>\$ 97,885</u>	<u>\$ 10,226,622</u>	<u>\$ 127,715,035</u>	<u>\$ 138,039,542</u>

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

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

Changes in endowment net asset composition by restriction for the year ended June 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (799,111)	\$ 4,314,173	\$ 113,354,330	\$ 116,869,392
Investment return:				
Net appreciation (realized and unrealized), including interest and dividends	314,634	12,322,939	-	12,637,573
Net appreciation in excess of original gift value on permanently restricted funds	747,872	-	-	747,872
Contributions and other increases	-	-	14,356,321	14,356,321
Other changes:				
Reclassification of net assets	13,679	(18,063)	4,384	-
Appropriation of endowment assets for expenditures	(124,020)	(4,078,546)	-	(4,202,566)
Fees	<u>(55,169)</u>	<u>(2,313,881)</u>	<u>-</u>	<u>(2,369,050)</u>
Endowment net assets, end of year	<u>\$ 97,885</u>	<u>\$ 10,226,622</u>	<u>\$ 127,715,035</u>	<u>\$ 138,039,542</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 4. ENDOWMENT (CONTINUED)**

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

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

Certain permanently restricted net assets held by the Foundation do not meet the definition of endowed assets defined by UPMIFA and disclosed in the tables above. The following table demonstrates the composition of permanently restricted net assets.

	<u>2017</u>	<u>2016</u>
Endowment net assets	\$ 127,715,035	\$ 113,354,330
Program related net assets	61,050	61,050
Split interest agreement net assets	<u>5,078,870</u>	<u>3,969,324</u>
Total permanently restricted net assets	<u>\$ 132,854,955</u>	<u>\$ 117,384,704</u>

**NOTE 5. PROMISES TO GIVE**

Promises to give are recorded at their fair value using a present value approach. This measurement of fair value uses significant unobservable inputs (Level 3 inputs), including estimated timing of receipts and collectability. This calculation includes an applied discount rate of 1.89% at June 30, 2017, and 1.01% at June 30, 2016, which is management's estimate of a risk-free rate of return. The accretion of the discount in subsequent years is reported as additional contribution in the net asset class in which the original pledge was recorded. Payments are due based on the underlying donor agreement. Uncollectible promises are charged to bad debt (administration and general expense) once all attempts at collection have been exhausted.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 5. PROMISES TO GIVE (CONTINUED)**

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2017 and 2016, are scheduled to be received as follows:

	<u>2017</u>	<u>2016</u>
In less than one year	\$ 2,849,568	\$ 33,957,502
In one to five years	15,307,058	38,885,816
Thereafter	<u>10,000</u>	<u>30,000</u>
	18,166,626	72,873,318
Unamortized discount	(811,569)	(1,091,354)
Allowance for uncollectible promises	<u>(300,980)</u>	<u>(947,461)</u>
Promises to give, net	<u>\$ 17,054,077</u>	<u>\$ 70,834,503</u>

The following table demonstrates the effect of the fair value measurements on the 2017 and 2016 change in net assets:

	<u>2017</u>	<u>2016</u>
New unconditional promises to give	\$ 2,855,788	\$ 64,541,998
Change in unamortized discount	279,783	(172,529)
Change in uncollectible estimate	<u>646,482</u>	<u>(545,969)</u>
Net effect on net assets	<u>\$ 3,782,053</u>	<u>\$ 63,823,500</u>

The following table represents a reconciliation of the beginning and ending balances of promises to give for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Promises to give, net, beginning of the year	\$ 70,834,503	\$ 16,216,971
New unconditional promises to give	2,855,788	64,541,998
Amounts received from promises to give	(57,562,479)	(9,205,968)
Change in unamortized discount	279,783	(172,529)
Change in uncollectible promises	<u>646,482</u>	<u>(545,969)</u>
Promises to give, net, end of the year	<u>\$ 17,054,077</u>	<u>\$ 70,834,503</u>

**NOTE 6. NOTES RECEIVABLE**

	<u>2017</u>	<u>2016</u>
Note receivable from the sale of stock of a closely-held corporation. Annual principal and interest payments are due through December 31, 2017. Interest accrues on unpaid balances at 3%.	\$ 56,000	\$ 152,000
Other loans	<u>81,409</u>	<u>79,501</u>
	<u>\$ 137,409</u>	<u>\$ 231,501</u>



MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 7. OTHER RECEIVABLES**

	<u>2017</u>	<u>2016</u>
Charitable remainder trusts held by third parties in which the Foundation is a named beneficiary	\$ 4,202,387	\$ 3,887,230
Matured donor estate in which the Foundation is a named beneficiary	434,417	2,875,843
Royalties, income, and other receivables	9,461	21,981
ATI leasing receivables	53,887	69,691
MSUIC accounts receivable	<u>111,198</u>	<u>4,925</u>
	<u>\$ 4,811,350</u>	<u>\$ 6,859,670</u>

**NOTE 8. INVESTMENTS**

**Pooled Investments**

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

The components of the pooled investments at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Short-Term Investment Pool:		
Equity securities	\$ -	\$ 10,757
Debt securities	5,633,391	5,114,178
Cash equivalents	<u>43,738,095</u>	<u>7,036,917</u>
Total short-term investment pool	<u>49,371,486</u>	<u>12,161,852</u>
Long-Term Investment Pool:		
Equity securities	798,176	593,830
Mutual funds	52,093,214	24,388,038
Debt securities	13,928,976	6,369,572
Alternative investments	91,058,234	109,775,187
Cash equivalents	<u>16,559,763</u>	<u>5,312,560</u>
Total long-term investment pool	<u>174,438,363</u>	<u>146,439,187</u>
Total pooled investments	<u>\$ 223,809,849</u>	<u>\$ 158,601,039</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 8. INVESTMENTS (CONTINUED)**

**Pooled Investments (Continued)**

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

	Cost	Fair Value as of June 30, 2017		Total
		Level 1	Level 3	
Cash and cash equivalents	\$ 60,297,858	\$ -	\$ -	\$ 60,297,858
U.S. equity securities		798,176	-	798,176
Mutual funds				
Domestic equities		13,202,242	-	13,202,242
International equity		27,250,404	-	27,250,404
Real assets		11,640,568	-	11,640,568
U.S. agency debt securities		19,562,367	-	19,562,367
Alternative investments				
Absolute return		-	23,458,167	23,458,167
Domestic equities		-	12,621,348	12,621,348
Fixed income		-	4,790,012	4,790,012
Hedge funds		-	19,841,775	19,841,775
Private equity		-	17,467,107	17,467,107
Real assets		-	12,879,825	12,879,825
	<u>\$ 60,297,858</u>	<u>\$ 72,453,757</u>	<u>\$ 91,058,234</u>	<u>\$ 223,809,849</u>

	Cost	Fair Value as of June 30, 2016		Total
		Level 1	Level 3	
Cash and cash equivalents	\$ 12,349,477	\$ -	\$ -	\$ 12,349,477
U.S. equity securities		604,587	-	604,587
Mutual funds				
Domestic equities		6,595,804	-	6,595,804
International equity		14,201,012	-	14,201,012
Real assets		3,591,222	-	3,591,222
U.S. agency debt securities		11,483,750	-	11,483,750
Alternative investments				
Absolute return		-	24,260,956	24,260,956
Domestic equities		-	21,604,468	21,604,468
Fixed income		-	4,404,097	4,404,097
International equity		-	10,662,881	10,662,881
Hedge funds		-	18,300,738	18,300,738
Private equity		-	16,793,729	16,793,729
Real assets		-	13,748,318	13,748,318
	<u>\$ 12,349,477</u>	<u>\$ 36,476,375</u>	<u>\$ 109,775,187</u>	<u>\$ 158,601,039</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 8. INVESTMENTS (CONTINUED)**

**Other Investments**

The components of other investments at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Equity securities	\$ 462,173	\$ 520,658
Mutual funds	1,000,470	914,582
Cash and cash equivalents	70,000	-
Investments held in trusts for split interest agreements	<u>9,874,800</u>	<u>9,147,061</u>
	<u>\$ 11,407,443</u>	<u>\$ 10,582,301</u>

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

	<u>Fair Value as of June 30, 2017</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 70,000	\$ -	\$ 70,000
Equity securities			
Pharmaceutical industry	-	200,200	200,200
Real estate	-	248,569	248,569
Mutual funds			
Equity	1,000,470	-	1,000,470
Mortgage fund (liquidating)	-	13,404	13,404
Mutual funds for split interest agreements:			
U.S. bonds	2,230,583	-	2,230,583
Non U.S. bonds	449,780	-	449,780
International equity	2,190,341	-	2,190,341
Money market	192,651	-	192,651
Real estate investment trusts	1,274,705	-	1,274,705
Domestic equity	<u>3,536,740</u>	<u>-</u>	<u>3,536,740</u>
	<u>\$ 10,945,270</u>	<u>\$ 462,173</u>	<u>\$ 11,407,443</u>
	<u>Fair Value as of June 30, 2016</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Equity securities			
Pharmaceutical industry	\$ -	\$ 291,250	\$ 291,250
Real estate	-	214,469	214,469
Mutual funds			
Equity	914,582	-	914,582
Mortgage fund (liquidating)	-	14,939	14,939
Mutual funds for split interest agreements:			
U.S. bonds	1,454,564	-	1,454,564
Non U.S. bonds	1,800,805	-	1,800,805
International equity	1,486,048	-	1,486,048
Money market	651,829	-	651,829
Real estate investment trusts	1,151,658	-	1,151,658
Domestic equity	<u>2,602,157</u>	<u>-</u>	<u>2,602,157</u>
	<u>\$ 10,061,643</u>	<u>\$ 520,658</u>	<u>\$ 10,582,301</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 8. INVESTMENTS (CONTINUED)**

**Real Estate**

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

<u>2017</u>	<u>2016</u>
<u>\$ 141,050</u>	<u>\$ 141,050</u>

**Level 3 Fair Value Investments**

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2017 and 2016, are reflected in the table below.

	Alternative Investments	Equities	Real Estate	Total
June 30, 2015	\$ 115,072,899	\$ 555,871	\$ 1,243,550	\$ 116,872,320
Total gains or losses (realized/unrealized)	(978,275)	1,229	-	(977,046)
Purchases and contributions	5,676,474	-	-	5,676,474
Sales and settlements	<u>(9,995,911)</u>	<u>(36,442)</u>	<u>(1,102,500)</u>	<u>(11,134,853)</u>
June 30, 2016	109,775,187	520,658	141,050	110,436,895
Total gains or losses (realized/unrealized)	11,050,398	(56,950)	-	10,993,448
Purchases and contributions	17,265,081	-	-	17,265,081
Sales and settlements	<u>(47,032,432)</u>	<u>(1,535)</u>	<u>-</u>	<u>(47,033,967)</u>
June 30, 2017	<u>\$ 91,058,234</u>	<u>\$ 462,173</u>	<u>\$ 141,050</u>	<u>\$ 91,661,457</u>

Alternative investments valued using Level 3 inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2017 and 2016 are detailed in the following tables and are subject to capital calls and specific redemption terms.

June 30, 2017				
Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Daily	2 days	\$ 4,584,757	5.03%	\$ -
Monthly	120 days	6,382,771	7.01%	-
Monthly	45 days	4,787,023	5.26%	-
Monthly	15 days	9,333,820	10.25%	-
Quarterly	60 days	3,287,528	3.61%	-
Quarterly	90 days	4,761,135	5.23%	-
Bi-annually	45 days	6,972,871	7.66%	-
Annually	45 days	7,059,882	7.75%	-
Annually	65 days	3,709,294	4.07%	-
Annually	90 days	5,035,841	5.53%	-
None	n/a	<u>35,143,312</u>	<u>38.59%</u>	<u>20,885,000</u>
		<u>\$ 91,058,234</u>	<u>100.00%</u>	<u>\$ 20,885,000</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 8. INVESTMENTS (CONTINUED)**

**Level 3 Fair Value Investments (Continued)**

June 30, 2016				
Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Monthly	120 days	\$ 5,775,227	5.26%	\$ -
Monthly	30 days	5,641,626	5.14%	-
Monthly	15 days	13,820,469	12.59%	-
Quarterly	60 days	11,125,008	10.13%	-
Quarterly	90 days	11,035,275	10.05%	600,000
Bi-annually	45 days	6,556,912	5.97%	-
Bi-annually	60 days	5,971,137	5.44%	-
Annually	45 days	12,051,998	10.98%	-
Annually	65 days	6,185,881	5.64%	-
None	n/a	31,611,654	28.80%	17,202,000
		<u>\$ 109,775,187</u>	<u>100.00%</u>	<u>\$ 17,802,000</u>

Refer to Note 19 for discussion on unfunded commitments.

Investment income is recorded net of fees charged by the third-party asset managers of approximately \$2,010,000 and \$1,960,000 in 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 796,104	\$ 599,917
Realized gains	7,070,789	2,265,393
Unrealized gains (losses)	<u>10,393,580</u>	<u>(6,295,758)</u>
	18,260,473	(3,430,448)
Less: income allocated to agencies	<u>(1,095,304)</u>	<u>(1,870)</u>
	<u>\$ 17,165,169</u>	<u>\$ (3,432,318)</u>

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

	<u>2017</u>	<u>2016</u>
Market gain (loss) on investments	\$ 16,405,578	\$ (4,000,942)
Interest and dividends	<u>759,591</u>	<u>568,624</u>
	<u>\$ 17,165,169</u>	<u>\$ (3,432,318)</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 9. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 1,347,918	\$ 1,316,111
Buildings	6,680,930	6,667,056
Computers and related equipment and software	354,712	354,711
Equipment	<u>199,117</u>	<u>210,251</u>
	8,582,677	8,548,129
Less accumulated depreciation	<u>(4,365,593)</u>	<u>(4,119,191)</u>
	<u>\$ 4,217,084</u>	<u>\$ 4,428,938</u>

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

	<u>2017</u>	<u>2016</u>
Buildings held for lease, at cost	\$ 4,655,886	\$ 4,647,715
Less accumulated depreciation	<u>(3,302,940)</u>	<u>(3,153,153)</u>
	<u>\$ 1,352,946</u>	<u>\$ 1,494,562</u>

**NOTE 10. AGENCY FUNDS HELD FOR OTHERS**

The Foundation held the following amounts as of June 30, 2017 and 2016, for the following named organizations:

	<u>2017</u>	<u>2016</u>
Museum of the Rockies	\$ 437,183	\$ 403,073
Montana State University	8,263,003	7,916,637
Montana State University Bobcat Club	<u>1,906,937</u>	<u>1,848,830</u>
Agency funds held for others	<u>\$ 10,607,123</u>	<u>\$ 10,168,540</u>

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

Assets held on behalf of these organizations as of June 30, 2017 and 2016, are included in the Foundation's consolidated statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Short-term investment pool	\$ 634,978	\$ 957,307
Long-term investment pool	<u>9,972,145</u>	<u>9,211,233</u>
Agency funds held for others	<u>\$ 10,607,123</u>	<u>\$ 10,168,540</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 11. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS**

Unrestricted funds have borrowed \$2,026,547 at June 30, 2017 and 2016, from the Short-Term Investment Pool. This long-term loan was used to invest in ATI and bears no interest.

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

Temporarily restricted funds owe unrestricted funds \$14,333 at June 30, 2016. These are short-term operational balances.

Temporarily restricted funds borrowed \$1,068,593 and \$1,177,845 at June 30, 2017 and 2016, respectively, from the Long-Term Investment Pool. This is a bridge loan dated August 2011, which is serviced by outstanding pledge balances and pays annual interest calculated by adding 3% and the 5-year Treasury bill rate adjusted monthly.

The Foundation has invested \$10,000,000 at June 30, 2017 and 2016, of the temporarily restricted funds, which are typically invested in the short-term pool, into the long-term pool. This was done to maximize the returns on investments for the short-term investments.

**NOTE 12. NOTES PAYABLE**

Notes payable at June 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
ATI fixed rate 6.04% note payable, due in monthly installments of \$13,346, including principal and interest with a balloon payment of \$1,928,302 due November 2017; secured by property. The Company cannot prepay the loan; all major lease agreements with tenants must be approved by the lender; insurance, tax, and maintenance reserve accounts must be maintained with the lender; and all current and future lease agreements are assigned to the lender.	\$ 1,942,040	\$ 1,981,922
Less unamortized debt issuance costs	<u>(1,969)</u>	<u>(9,856)</u>
	1,940,071	1,972,066
6.5% note payable due in monthly installments of \$4,438 with a balloon payment of \$496,774 due June 1, 2022; secured by property.	<u>583,532</u>	<u>599,258</u>
	<u>\$ 2,523,603</u>	<u>\$ 2,571,324</u>

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 12. NOTES PAYABLE (CONTINUED)**

Maturities of notes payable subsequent to June 30, 2017, are scheduled as follows:

<u>Years Ending June 30</u>	<u>Notes Payable</u>
2018	\$ 1,956,475
2019	16,758
2020	17,880
2021	19,077
2022	<u>515,382</u>
	<u>\$ 2,525,572</u>

Interest expense during the years ended June 30, 2017 and 2016, amounted to \$163,929 and \$166,994, respectively.

**NOTE 13. BOND PAYABLE**

Bond payable at June 30, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Financing agreement with Montana State University to cover the debt service on bonds financed by the University; due in annual principal payments of the greater of \$500,000 or 85% of pledge receipts and monthly interest payments at SIFMA or 70% of LIBOR + 0.65%, secured by net pledged revenues.	<u>\$ 3,710,000</u>	<u>\$ 5,325,000</u>

Subsequent minimum principal payments are scheduled as follows:

<u>Years Ending June 30</u>	<u>Bond Payable</u>
2018	\$ 500,000
2019	500,000
2020	500,000
2021	500,000
2022	500,000
2023-2025	<u>1,210,000</u>
	<u>\$ 3,710,000</u>

Interest expense during the years ended June 30, 2017 and 2016, amounted to \$64,285 and \$50,822, respectively.



MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 14. OTHER LIABILITIES**

The components of other liabilities are as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Deferred membership revenue	\$ 6,207	\$ 3,212
Deferred rental revenue	10,446	9,277
Other miscellaneous deferrals	11,204	-
Liability to MSU for deferred compensation	<u>817,538</u>	<u>801,890</u>
	<u>\$ 845,395</u>	<u>\$ 814,379</u>

**Liability to MSU for Deferred Compensation**

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

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

**NOTE 15. INCOME TAXES**

*Foundation*

The Foundation is subject to income taxes on unrelated business income. Certain alternative investments generate such income. For 2017 and 2016, the Foundation paid \$157,482 and \$109,044, respectively.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 15. INCOME TAXES (CONTINUED)**

*ATI*

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Current income taxes:		
Federal	\$ -	\$ -
State	<u>(50)</u>	<u>(50)</u>
	<u>(50)</u>	<u>(50)</u>
Deferred income tax benefit:		
Federal	4,574	1,653
State	<u>1,961</u>	<u>709</u>
Total income tax benefit	<u>6,535</u>	<u>2,362</u>
	<u>\$ 6,485</u>	<u>\$ 2,312</u>

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

	<u>2017</u>	<u>2016</u>
Statutory federal rate	15.00%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	<u>0.15%</u>	<u>1.23%</u>
Total effective income tax rate	<u>21.90%</u>	<u>22.98%</u>

The components of ATI's net deferred tax assets on the accompanying consolidated statements of financial position, included in other assets, as of June 30, 2017 and 2016, related to the following:

	<u>2017</u>	<u>2016</u>
Deferred income tax assets:		
Cash to accrual assets	\$ (20,945)	\$ (17,410)
Cash to accrual liabilities	28,556	26,899
Accelerated depreciation and amortization	6,030	5,071
Net operating loss carryforward	<u>144,718</u>	<u>137,264</u>
Net deferred income tax asset	<u>\$ 158,359</u>	<u>\$ 151,824</u>

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

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 15. INCOME TAXES (CONTINUED)**

*ATI (Continued)*

ATI has \$665,373 of unused net operating losses for income tax reporting purposes, which may be used to offset future taxable income of ATI. The unused net operating losses will be available to apply to taxable income in years through 2036.

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

	<u>2017</u>	<u>2016</u>
Pre-tax loss	\$ (29,617)	\$ (10,061)
Permanent differences	(50)	(50)
Accounts receivable	(14,273)	(24,138)
Accounts payable	6,652	(2,298)
Accrued liabilities and prepaid rents	(201)	(187)
Other cash to accrual differences, net	(811)	(7,015)
Depreciation	4,413	4,413
Net operating losses created	<u>33,887</u>	<u>39,336</u>
Federal taxable income	<u>\$ -</u>	<u>\$ -</u>

**NOTE 16. RETIREMENT PLAN**

The Foundation administers a defined contribution retirement plan through TIAA covering all employees that meet eligibility requirements. Participation by eligible employees is mandatory. Participants defer 5% of their salary. The Plan requires matching contributions by the Foundation of 7% of a participant's regular salary. Expenses related to the Plan amounted to \$259,577 and \$253,734 for the years ended June 30, 2017 and 2016, respectively.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 17. LEASING ARRANGEMENTS**

ATI leases office and parking space to both unrelated and related parties. Total rental income from unrelated and related parties amounted to \$492,508 and \$543,150 for the years ended June 30, 2017 and 2016, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2017, are as follows:

2018	\$ 184,275
2019	123,814
2020	<u>36,522</u>
	<u>\$ 344,611</u>

ATI leases a building and office space to MSU. The lease term is five years and annual lease revenues were \$164,296 in 2017 and 2016.

**NOTE 18. NONCASH ACTIVITY**

During the years ended June 30, 2017 and 2016, the Foundation received insurance, securities, and land contributions of \$53,078,450 and \$6,319,889, respectively. The Foundation also received in-kind contributions of \$367,673 and \$73,159 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 19. COMMITMENTS**

The Foundation has entered into several limited partnership agreements for private equity funds, as part of its investment in alternative investments. As part of these agreements, the Foundation has made a commitment to fund a total of \$115,621,000 to these various funds. At June 30, 2017, the Foundation had invested approximately \$94,736,000, leaving a remaining commitment to be satisfied of \$20,885,000.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017 and 2016

**NOTE 20. SPLIT INTEREST AGREEMENTS**

The Foundation has entered into several agreements under which the Foundation has a beneficial interest. Contribution revenue recognized in relation to these agreements during the years ended June 30, 2017 and 2016, amounted to \$955,484 and \$197,073, respectively.

Assets held under these agreements are disclosed in Note 8. Liabilities are presented separately in the accompanying consolidated statements of financial position and recorded at fair value, calculated as the present value of the expected future payments to beneficiaries. The terms vary depending on life expectancy, and the discount rate used in the calculation was 2.4% and 2.0% for the years ended June 30, 2017 and 2016, respectively.

The Foundation holds one charitable remainder unitrust at June 30, 2017, and two charitable remainder unitrusts at June 30, 2016, in which 49% of the remainder will be distributed to other charitable organizations. The remainder liability to others is estimated at \$26,590 and \$280,140 at June 30, 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Trust and annuity obligations, beginning of year	\$ 5,116,111	\$ 5,312,444
New agreements	983,830	99,407
Annuitant distributions	(391,850)	(380,644)
Matured agreements	(1,091,348)	(20,660)
Actuarial changes	314,396	105,564
Trust and annuity obligations, end of year	<u>\$ 4,931,139</u>	<u>\$ 5,116,111</u>

**NOTE 21. RELATED PARTY TRANSACTIONS**

Montana State University (MSU) is deemed to be a related party of the Foundation due to the collaborative nature between these two entities. The Foundation and MSU have entered into an operating agreement that outlines their respective roles in managing investments, event coordination, and alumni relations activities. For each of the years ended June 30, 2017 and 2016, MSU paid the Foundation \$1,575,000, in accordance with the agreement. This amount is presented under contract services in the accompanying consolidated financial statements. As of June 30, 2017 and 2016, the Foundation had accounts payable to MSU in the amount of \$431,070 and \$986,985, respectively, for reimbursement of costs.

MONTANA STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017 and 2016

**NOTE 22. CONCENTRATION OF REVENUES**

During year ended June 30, 2016, the Foundation recognized a \$45,000,000 pledge from a single donor, which represents 57% of total contributions for the year. As of June 30, 2016, \$42,193,500 of this pledge was included in promises to give, which represents 58% of outstanding pledges at the end of the year. This pledge was paid in full as of June 30, 2017.



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