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

anderson ZURMUEHLEN

MONTANA STATE UNIVERSITY FOUNDATION

CONSOLIDATED FINANCIAL REPORT

June 30, 2018 and 2017

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Montana State University Foundation, Inc., and its wholly owned subsidiaries, (collectively referred to as the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2018 and 2017, 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.

Report on Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The combining statement of financial position on page 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Anderson ZurMuehlen & Co., P.C.
Bozeman, Montana
December 3, 2018

CONSOLIDATED FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,182,519	$ 1,947,149
RECEIVABLES		
Promises to give, net	15,586,156	17,054,077
Notes receivable	33,941	137,409
Other receivables	5,520,998	4,811,350
	21,141,095	22,002,836
INVESTMENTS		
Pooled investments	219,628,491	223,809,849
Real estate	493,767	141,050
Other investments	11,340,922	11,407,443
	231,463,180	235,358,342
PROPERTY AND EQUIPMENT, net	7,256,083	4,217,084
OTHER ASSETS	784,088	542,408
Total assets	$ 262,826,965	$ 264,067,819

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, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 2,204,715	$ 567,232
Accrued liabilities	902,975	458,033
Deposits	8,687	21,886
Trust and annuity obligations	4,606,336	4,931,139
Agency funds held for others	10,732,551	10,607,123
Notes payable, less unamortized debt issuance costs	3,354,393	2,523,603
Bond payable	2,010,000	3,710,000
Other liabilities	896,908	845,395
	24,716,565	23,664,411
NET ASSETS		
Unrestricted	7,515,952	3,597,931
Temporarily restricted	88,319,166	103,950,522
Permanently restricted	142,275,282	132,854,955
	238,110,400	240,403,408
Total liabilities and net assets	$ 262,826,965	$ 264,067,819

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT				
Contributions	$ 12,267	$ 9,958,685	$ 9,886,359	$ 19,857,311
Market gain on investments	4,416,642	11,329,751	60,444	15,806,837
Interest and dividends	714,556	632,102	149	1,346,807
Administrative fees	4,455,669	(3,801,257)	(390,078)	264,334
Dues and memberships	126,019	-	-	126,019
Rental income	616,052	733	-	616,785
Contract for services	1,558,385	-	-	1,558,385
Sales, services and other, net	149,659	1,150,606	2,829	1,303,094
Total revenues, gains, and support	12,049,249	19,270,620	9,559,703	40,879,572
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of program restrictions:				
To support MSU	-	(5,993,302)	-	(5,993,302)
Acquisition and operation of facilities	-	(23,613,063)	-	(23,613,063)
Satisfaction of scholarship restrictions	-	(5,968,264)	-	(5,968,264)
Net assets permanently restricted	-	(3,528)	3,528	-
Change in restrictions	-	630,489	(630,489)	-
Net assets released from restrictions	35,574,629	-	-	35,574,629
Total net assets released from restrictions	35,574,629	(34,947,668)	(626,961)	-
EXPENSES				
Program expenses:				
MSU support	29,624,578	-	-	29,624,578
Scholarships	5,969,464	-	-	5,969,464
Support expenses:				
Fundraising	2,788,797	-	-	2,788,797
Administration and general	3,135,006	-	-	3,135,006
Alumni relations	757,325	-	-	757,325
Subsidiary operations	1,449,437	-	-	1,449,437
Total expenses	43,724,607	-	-	43,724,607
Change in value of split interest agreements	18,750	45,692	487,585	552,027
Change in net assets	3,918,021	(15,631,356)	9,420,327	(2,293,008)
Net assets at beginning of year	3,597,931	103,950,522	132,854,955	240,403,408
Net assets at end of year	$ 7,515,952	$ 88,319,166	$ 142,275,282	$ 238,110,400

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT				
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	128,361	369,369	861	498,591
Total revenues, gains, and support	12,126,226	19,128,448	14,706,109	45,960,783
NET ASSETS RELEASED FROM RESTRICTIONS				
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	25,950,005	-	-	25,950,005
Total net assets released from restrictions	25,963,684	(25,968,068)	4,384	-
EXPENSES				
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	678,419	-	-	678,419
Total expenses	33,356,321	-	-	33,356,321
Change in value of split interest agreements	29,647	20,480	759,758	809,885
Change in net assets	4,763,236	(6,819,140)	15,470,251	13,414,347
Net assets at beginning of year	(1,165,305)	110,769,662	117,384,704	226,989,061
Net assets at end of year	$ 3,597,931	$ 103,950,522	$ 132,854,955	$ 240,403,408

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,293,008)	$ 13,414,347
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	249,227	257,536
Gain on sale of real estate	(50,000)	-
Non-cash contributions	(5,132,289)	(53,078,450)
Unrealized gain on investments	(8,892,925)	(9,729,244)
Permanently restricted contributions	(9,886,359)	(15,412,970)
Change in operating assets and liabilities:		
Notes receivable	103,468	94,092
Promises to give, net	1,467,921	53,780,426
Other receivables	(709,648)	2,048,320
Other assets	(241,680)	8,882
Accounts payable	1,637,483	(499,199)
Accrued liabilities	444,942	(9,978)
Deposits	(13,199)	(1,922)
Other liabilities	51,513	31,016
Trust and annuity obligations	(324,803)	(184,972)
Agency funds held for others	125,428	438,583
Net cash flows from operating activities	(23,463,929)	(8,843,533)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(3,590,943)	(45,682)
Proceeds from sales of investments, net of (purchases)	18,599,749	(2,519,397)
Net cash flows from investing activities	15,008,806	(2,565,079)

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	830,790	(47,721)
Payments on bond payable	(1,700,000)	(1,615,000)
Permanently restricted gains and other changes	(326,656)	(706,861)
Permanently restricted contributions	9,886,359	15,412,970
Net cash flows from financing activities	8,690,493	13,043,388
Net change in cash and cash equivalents	235,370	1,634,776
Cash and cash equivalents, beginning of year	1,947,149	312,373
Cash and cash equivalents, end of year	$ 2,182,519	$ 1,947,149
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Cash paid for interest	$ 228,959	$ 223,524
Cash paid for income taxes	$ 825,951	$ 157,482

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

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 real estate in Bozeman, Montana, and is engaged in leasing office, lab, storage, and production facilities primarily in support of MSU. MSUIC is developing a University-related Research Park to promote economic development and partnerships between high tech-based businesses and the research community of MSU, the region, and the State of Montana. 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 (FASB).

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.

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.

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

Classification of Net Assets (Continued)
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.

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

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

Revenue Recognition (Continued)
Sales (including sales of real estate), services and other income are recognized as revenue upon sale or as the services are provided. Congress passed the Tax Cuts and Jobs Act effective January 1, 2018. This included a provision that contributions made to obtain priority seating were no longer deductible. Contributions meeting certain thresholds to the Bobcat Club Annual Scholarship Fund fall under this provision. As such, contributions relating to preferred seating are included in Sales, services and other, net in temporarily restricted revenue on the accompanying statement of activities for the year ended June 30, 2018.

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, 2018 and 2017.

Promises to give: Valued by discounting the related cash flows, using the 5-year treasury rate.

Equity securities: Common stock is valued at the closing price reported in the active market in which the individual securities are traded.

Mutual funds: Valued at quoted market prices.

Debt securities: Valued at quoted market prices.

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

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

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

Fair Value (Continued)

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

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

Cash and 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.

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

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

Property and Equipment
Buildings, land improvements, and equipment are stated at cost. The Foundation capitalizes all property and equipment with an original cost of $5,000 or more and more than two years of useful life. Depreciation expense for the years ended June 30, 2018 and 2017, amounted to $249,227 and $257,536, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 – 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 Service Fee. The Investment Management Fee is an annual 2% fee (charged quarterly) to the endowment and quasi-endowment funds. The Service Fee is a one-time 5% fee assessed on all contributions, sales, services and other revenue 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. Administration 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.

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

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.

The Foundation has segregated these assets as separate and distinct 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 periodically 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 contributions, 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, amortization, 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 the 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 generate unrelated business income.

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 due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

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

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.

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
The Foundation has adopted the provisions of the FASB's *Accounting Standards Update (ASU) No. 2015-07 Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)*. This accounting standard addresses fair value disclosures of investments measured at NAV. The new standard is preferable because it simplifies the investment disclosure requirements. The standard has been applied retrospectively to all periods presented in the financial statements.

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. Such reclassifications resulted in no change to previously reported change in total net assets.

Subsequent Events
Management has evaluated subsequent events through December 3, 2018, 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, 2018 and 2017, are available for the following purposes:

	2018	2017
MSU programs	$ 36,013,883	$ 36,784,347
MSU students	22,984,215	19,160,880
MSU facilities	26,086,015	45,134,601
Charitable trusts and gift annuities	3,235,053	2,870,694
Total temporarily restricted net assets	$ 88,319,166	$ 103,950,522

NOTE 3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2018 and 2017, are restricted for the following purposes:

	2018	2017
Investments held in perpetuity, the income from which is expendable to support:		
MSU programs	$ 52,452,783	$ 46,157,083
MSU students	82,778,009	79,736,156
MSU facilities	2,254,894	2,207,960
	137,485,686	128,101,199
Charitable trusts and gift annuities	4,728,546	4,668,761
Paid-up life insurance policies that will provide proceeds upon death of insured for an endowment	-	23,945
Land required to be used as a recreation area	61,050	61,050
	$ 142,275,282	$ 132,854,955

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.

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, 2018 and 2017, total funds with deficiencies amounted to $77,016 and $227,895, 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 is based on a 12-quarter weighted average of the endowment’s market value multiplied by the Foundation’s spending rate of 4 percent. Certain limits are applied: 1) the expendable amount cannot exceed 5 percent of the endowment's market value, and 2) assuming there is not a prohibition in the donor agreement against the use of the original gift, spending is curtailed when the value of the endowment drops to 80 percent of the original contribution amount.

NOTE 4. ENDOWMENT (CONTINUED)

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 asset composition by restriction as of June 30, 2018, is as follows:

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 318,074	$ 13,587,160	$ 135,490,264	$ 149,395,498

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

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 97,885	$ 10,226,622	$ 126,622,757	$ 136,947,264

Changes in endowment net asset composition by restriction for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 97,885	$ 10,226,622	$ 126,622,757	$ 136,947,264
Investment return:				
Net appreciation (realized and unrealized), including interest and dividends	233,333	10,354,363	-	10,587,696
Net appreciation in excess of original gift value on permanently restricted funds	150,879	-	-	150,879
Contributions and other increases	-	-	9,494,468	9,494,468
Other changes:				
Reclassification of net assets	-	(3,528)	3,528	-
Donor release from restrictions	-	(20,618)	(630,489)	(651,107)
Appropriation of endowment assets for expenditures	(104,693)	(4,278,199)	-	(4,382,892)
Fees	(59,330)	(2,691,480)	-	(2,750,810)
Endowment net assets, end of year	$ 318,074	$ 13,587,160	$ 135,490,264	$ 149,395,498

NOTE 4. ENDOWMENT (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (799,111)	$ 4,314,173	$ 112,329,575	$ 115,844,637
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	-	-	14,288,798	14,288,798
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	(55,169)	(2,313,881)	-	(2,369,050)
Endowment net assets, end of year	$ 97,885	$ 10,226,622	$ 126,622,757	$ 136,947,264

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.

	2018	2017
Endowment net assets	$ 135,490,264	$ 126,622,757
Program related net assets	61,050	61,050
Split interest agreement net assets	6,723,968	6,171,148
Total permanently restricted net assets	$ 142,275,282	$ 132,854,955

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 2.73% at June 30, 2018, and 1.89% at June 30, 2017, which is management's estimate of a risk-free rate of return. The accretion of the discount in subsequent years is reported as additional contributions in the net asset class in which the original pledge was recorded. Payments are due based on the underlying donor agreement. Uncollectible promises are charged to bad debt (administration and general expense) once all attempts at collection have been exhausted.

NOTE 5. PROMISES TO GIVE (CONTINUED)

Promises to give, net of present value discounts and allowance for uncollectible promises, at June 30, 2018 and 2017, are scheduled to be received as follows:

	2018	2017
In less than one year	$ 3,984,839	$ 2,849,568
In one to five years	12,898,371	15,307,058
Thereafter	26,316	10,000
	16,909,526	18,166,626
Unamortized discount	(1,021,047)	(811,569)
Allowance for uncollectible promises	(302,323)	(300,980)
Promises to give, net	$ 15,586,156	$ 17,054,077

The following table represents a reconciliation of the beginning and ending balances of promises to give for the years ended June 30, 2018 and 2017:

	2018	2017
Promises to give, net, beginning of the year	$ 17,054,077	$ 70,834,503
New unconditional promises to give	12,031,946	2,855,788
Amounts received from promises to give	(13,289,045)	(57,562,479)
Change in unamortized discount	(209,478)	279,783
Change in uncollectible promises	(1,344)	646,482
Promises to give, net, end of the year	$ 15,586,156	$ 17,054,077

NOTE 6. NOTES RECEIVABLE

	2018	2017
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
Other loans	33,941	81,409
	$ 33,941	$ 137,409

NOTE 7. OTHER RECEIVABLES

	2018	2017
Charitable remainder trusts held by third parties in which the Foundation is a named beneficiary	$ 5,158,132	$ 4,202,387
Matured donor estate in which the Foundation is a named beneficiary	140,000	434,417
Royalties, income, and other receivables	13,338	9,461
ATI leasing receivables	152,483	53,887
MSUIC accounts receivable	57,045	111,198
	$ 5,520,998	$ 4,811,350

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, 2018 and 2017, are as follows:

	2018	2017
Short-Term Investment Pool:		
Mutual funds	$ 3,160,923	$ 3,125,269
Debt securities	2,420,226	2,508,122
Cash equivalents	25,150,751	43,738,095
Total short-term investment pool	30,731,900	49,371,486
Long-Term Investment Pool:		
Equity securities	721,121	798,176
Mutual funds	90,203,902	59,663,500
Debt securities	-	6,358,690
Alternative investments	96,061,352	91,058,234
Cash equivalents	1,910,216	16,559,763
Total long-term investment pool	188,896,591	174,438,363
Total pooled investments	$ 219,628,491	$ 223,809,849

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:

	Amortized Cost	Fair Value as of June 30, 2018 Level 1	Level 3	Total
Cash and cash equivalents	$ 27,060,967	$ -	$ -	$ 27,060,967
U.S. equity securities		721,121	-	721,121
Mutual funds				
Domestic equities		19,108,907	-	19,108,907
Fixed income		26,154,572	-	26,154,572
International equity		32,358,068	-	32,358,068
Real assets		15,743,278	-	15,743,278
U.S. agency debt securities		2,420,226	-	2,420,226
Alternative investments				
Absolute return		-	22,836,152	22,836,152
Domestic equities		-	13,078,962	13,078,962
Fixed income		-	4,749,323	4,749,323
Hedge funds		-	20,644,501	20,644,501
Private equity		-	18,132,282	18,132,282
Real assets		-	16,620,132	16,620,132
	$ 27,060,967	$ 96,506,172	$ 96,061,352	$ 219,628,491

	Amortized Cost	Fair Value as of June 30, 2017 Level 1	Level 3	Total
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
Fixed income		10,695,555	-	10,695,555
International equity		27,250,404	-	27,250,404
Real assets		11,640,568	-	11,640,568
U.S. agency debt securities		8,866,812	-	8,866,812
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
	$ 60,297,858	$ 72,453,757	$ 91,058,234	$ 223,809,849

NOTE 8. INVESTMENTS (CONTINUED)

Other Investments

The components of other investments at June 30, 2018 and 2017, are as follows:

	2018	2017
Equity securities	$ 337,810	$ 462,173
Mutual funds	1,010,222	1,000,470
Cash and cash equivalents	-	70,000
Investments held in trusts for split interest agreements	9,992,890	9,874,800
	$ 11,340,922	$ 11,407,443

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

	Fair Value as of June 30, 2018		
	Level 1	Level 3	Total
Cash and cash equivalents	$ -	$ -	$ -
Equity securities			
Banking	1,984	-	1,984
Pharmaceutical industry	-	200,200	200,200
Real estate	-	130,825	130,825
Mutual funds			
Equity	1,010,223	-	1,010,223
Mortgage fund (liquidating)	-	4,800	4,800
Mutual funds for split interest agreements:			
U.S. bonds	2,288,539	-	2,288,539
Non U.S. bonds	464,486	-	464,486
International equity	2,095,940	-	2,095,940
Money market	181,320	-	181,320
Real estate investment trusts	1,356,607	-	1,356,607
Domestic equity	3,605,998	-	3,605,998
	$ 11,005,097	$ 335,825	$ 11,340,922

NOTE 8. INVESTMENTS (CONTINUED)

Other Investments (Continued)

	Fair Value as of June 30, 2017		
	Level 1	Level 3	Total
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	3,536,740	-	3,536,740
	$ 10,945,270	$ 462,173	$ 11,407,443

Real Estate

Investments in real estate are stated at fair value using the fair value inputs described in Note 1, and consist of the following as of June 30, 2018 and 2017.

2018	2017
$ 493,767	$ 141,050

NOTE 8. INVESTMENTS (CONTINUED)

Level 3 Fair Value Investments

Investment activity specific to investments valued with Level 3 inputs for the years ended June 30, 2018 and 2017, are reflected in the table below.

	Alternative Investments	Equities	Real Estate	Total
July 1, 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	(47,032,432)	(1,535)	-	(47,033,967)
June 30, 2017	91,058,234	462,173	141,050	91,661,457
Total gains or losses (realized/unrealized)	9,184,254	(1,478)	50,000	9,232,776
Purchases and contributions	16,823,646	-	302,717	17,126,363
Sales and settlements	(21,004,782)	(124,870)	-	(21,129,652)
June 30, 2018	$ 96,061,352	$ 335,825	$ 493,767	$ 96,890,944

Alternative investments valued using Level 3 inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2018 are detailed in the following table and are subject to capital calls and specific redemption terms.

June 30, 2018

Redemption Frequency	Redemption Notice Period	Fair Value	% of Total	Unfunded Commitments
Daily	2 days	$ 4,843,268	5.04%	-
Monthly	120 days	6,514,977	6.78%	-
Monthly	90 days	6,696,170	6.97%	-
Monthly	60 days	4,800,384	5.00%	-
Monthly	45 days	5,136,800	5.35%	-
Monthly	15 days	9,362,187	9.75%	-
Quarterly	60 days	3,716,775	3.87%	-
Quarterly	90 days	2,150,860	2.24%	-
Semi-annually	45 days	7,433,354	7.74%	-
Annually	45 days	398,955	0.42%	-
Annually	65 days	98,870	0.10%	-
Annually	90 days	5,407,015	5.63%	-
None	n/a	39,501,736	41.12%	25,530,000
		$ 96,061,352	100.00%	$ 25,530,000

NOTE 8. INVESTMENTS (CONTINUED)

Level 3 Fair Value Investments (Continued)
Alternative investments valued using Level 3 inputs are reported at net asset values calculated by the investment manager. These investments, at June 30, 2017 are detailed in the following table 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%	-
Semi-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	35,143,312	38.59%	20,885,000
		$ 91,058,234	100.00%	$ 20,885,000

Refer to Note 19 for discussion on unfunded commitments.

Investment income is recorded net of fees charged by the third-party asset managers of approximately $2,070,000 and $2,010,000 in 2018 and 2017, respectively.

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

	2018	2017
Interest and dividends	$ 1,384,756	$ 796,104
Realized gains	7,128,744	7,070,789
Unrealized gains	9,452,109	10,393,580
	17,965,609	18,260,473
Less: income allocated to agencies	(811,965)	(1,095,304)
	$ 17,153,644	$ 17,165,169

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

	2018	2017
Market gain on investments	$ 15,806,837	$ 16,405,578
Interest and dividends	1,346,807	759,591
	$ 17,153,644	$ 17,165,169

NOTE 9. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017, consists of the following:

	2018	2017
Land and improvements	$ 4,594,282	$ 1,347,918
Buildings	6,684,817	6,680,930
Computer hardware and software	356,187	354,712
Equipment	161,164	199,117
	11,796,450	8,582,677
Less accumulated depreciation	(4,540,367)	(4,365,593)
	$ 7,256,083	$ 4,217,084

The carrying value of buildings held for lease (on the previous page) as of June 30, 2018 and 2017 are:

	2018	2017
Buildings held for lease, at cost	$ 4,655,887	$ 4,655,887
Less accumulated depreciation	(3,452,727)	(3,302,940)
	$ 1,203,160	$ 1,352,947

NOTE 10. AGENCY FUNDS HELD FOR OTHERS

The Foundation held the following amounts as of June 30, 2018 and 2017, for the following named organizations:

	2018	2017
Museum of the Rockies, Inc.	$ 451,665	$ 437,183
Montana State University	8,364,870	8,263,003
Montana State University Bobcat Club	1,916,016	1,906,937
Agency funds held for others	$ 10,732,551	$ 10,607,123

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

Assets held on behalf of these organizations as of June 30, 2018 and 2017, are included in the Foundation’s consolidated statements of financial position as follows:

	2018	2017
Short-term investment pool	$ 546,058	$ 634,978
Long-term investment pool	10,186,493	9,972,145
Agency funds held for others	$ 10,732,551	$ 10,607,123

NOTE 11. TRANSACTIONS BETWEEN UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS

Unrestricted funds have borrowed $2,026,547 at both June 30, 2018 and 2017, from the Short-Term Investment Pool. This long-term loan was used to invest in ATI and bears no interest.

Temporarily restricted funds borrowed $965,123 and $1,068,593 at June 30, 2018 and 2017, respectively, from the Long-Term Investment Pool. This is a bridge loan dated August 2011, which is serviced by outstanding pledge balances. During 2017 it paid annual interest calculated by adding 3% and the 5-year Treasury bill rate, adjusted monthly. Interest was suspended as of July 1, 2017.

The Foundation has invested $13,000,000 and $10,000,000 at June 30, 2018 and 2017, respectively, 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, 2018 and 2017, consist of the following:

	2018		2017	
	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
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. This note was refinanced in October 2017.	$ -	$ -	$ 1,942,040	$ 1,969
ATI fixed rate 5.33% note payable, with 6 monthly consecutive interest payments beginning December 2017, and then 113 monthly installments of $19,378, starting June 2018, including principal and interest with a balloon payment of $1,817,047 due October 2027. This loan is secured by the property and assignment of rents on 900, 910, and 920 Technology Blvd., Bozeman, MT 59718.	2,808,365	23,069	-	-
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.	569,097	-	583,532	-
Total debt	3,377,462	$ 23,069	2,525,572	$ 1,969
Less: unamortized debt issuance costs	(23,069)		(1,969)	
Total notes payable, net of unamortized debt issuance costs	$ 3,354,393		$ 2,523,603	

NOTE 12. NOTES PAYABLE (CONTINUED)

Maturities of notes payable subsequent to June 30, 2018, are scheduled as follows:

Years Ending June 30	Notes Payable
2019	$ 101,652
2020	107,043
2021	113,505
2022	614,968
2023	105,025
Thereafter	2,335,269
	$ 3,377,462

Interest expense during the years ended June 30, 2018 and 2017, amounted to $179,781 and $163,929, respectively.

NOTE 13. BOND PAYABLE

Bond payable at June 30, 2018 and 2017, consists of the following:

	2018	2017
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.	$ 2,010,000	$ 3,710,000

The remaining balance of $2,010,000 is due in January 2019. Interest expense during the years ended June 30, 2018 and 2017, amounted to $54,789 and $64,285, respectively.

NOTE 14. OTHER LIABILITIES

The components of other liabilities are as follows as of June 30, 2018 and 2017:

	2018	2017
Deferred membership revenue	$ 28,620	$ 6,207
Deferred rental revenue	-	10,446
Deferred income taxes	34,695	-
Other miscellaneous deferrals	-	11,204
Liability to MSU for deferred compensation	833,593	817,538
	$ 896,908	$ 845,395

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. Income tax expense for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Current income taxes:		
Federal	$ (506,065)	$ (130,147)
State	(137,008)	(25,599)
Total income tax expense	$ (643,073)	$ (155,746)

NOTE 15. INCOME TAXES (CONTINUED)

ATI

Income tax expense for ATI, the Foundation's for-profit subsidiary, for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Current income taxes:		
Federal	$ (466,492)	$ -
State	(125,590)	(50)
	(592,082)	(50)
Deferred income tax (expense) benefit:		
Federal	(133,168)	4,574
State	(59,925)	1,961
	(193,093)	6,535
Total income tax (expense) benefit	$ (785,175)	$ 6,485

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:

	2018	2017
Statutory federal rate	27.50%	15.00%
Statutory state rate	6.75%	6.75%
Permanent differences	-4.64%	0.15%
Total effective income tax rate	29.61%	21.90%

The components of ATI's net deferred tax assets and liabilities on the accompanying consolidated statements of financial position, included in other assets and other liabilities, as of June 30, 2018 and 2017, relate to the following:

	2018	2017
Deferred income tax (liabilities) assets:		
Cash to accrual assets	$ (57,444)	$ (20,945)
Cash to accrual liabilities	11,741	28,556
Accelerated depreciation and amortization	11,008	6,030
Net operating loss carryforward	-	144,718
Net deferred income tax (liability) asset	$ (34,695)	$ 158,359

NOTE 15. INCOME TAXES (CONTINUED)

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

	2018	2017
Pre-tax income (loss)	$ 2,651,843	$ (29,617)
Permanent differences	601	(50)
Accounts receivable	(74,235)	(14,273)
Accounts payable	(89,091)	6,652
Accrued liabilities and prepaid rents	2,528	(201)
Other cash to accrual differences, net	(137,680)	(811)
Depreciation	4,413	4,413
Net operating losses created	-	33,887
Net operating losses used	(665,374)	-
Federal taxable income	$ 1,693,005	$ -

NOTE 16. CONTINGENCY

Management has been made aware that its subsidiary, ATI, filed an invalid election with the Internal Revenue Service to be recognized as a subchapter S corporation effective July 1, 2017. ATI has initiated correspondence with the Internal Revenue Service to confirm the invalidity of the subchapter S election. Management, with counsel from its outside consultants, believes that the election was invalid because it did not meet the regulatory requirements for a valid subchapter S election. Accordingly, the accompanying consolidated financial statements present the income tax liability for the year ended June 30, 2018 assuming the continued recognition of ATI as a subchapter C corporation. If the Internal Revenue Service determines that ATI's subchapter S election is valid, then the Company may be subject to an unrelated business income tax liability associated with ATI's taxable income during the year ended June 30, 2018.

NOTE 17. RETIREMENT PLAN

The Foundation maintains a defined contribution retirement plan administered by third-party custodian TIAA. 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 $241,740 and $259,577 for the years ended June 30, 2018 and 2017, respectively.

NOTE 18. LEASING ARRANGEMENTS

ATI leases office and parking space to both unrelated and related parties. Total rental income from unrelated and related parties amounted to $500,588 and $484,745 for the years ended June 30, 2018 and 2017, respectively. Future lease revenues to be received from unrelated and related parties under non-cancelable leases at June 30, 2018, are as follows:

2019	$ 530,808
2020	452,166
2021	344,008
2022	324,196
2023	330,680
Thereafter	1,450,044
	$ 3,431,902

ATI leases a building and office space to MSU. The lease term is five years and annual lease payments were $291,802 and $164,296 in 2018 and 2017, respectively.

NOTE 19. NON-CASH ACTIVITY

During the years ended June 30, 2018 and 2017, the Foundation received insurance, securities, and land contributions of $5,132,289 and $53,078,450, respectively. The Foundation also received in-kind contributions of $289,941 and $367,673 for the years ended June 30, 2018 and 2017, respectively.

NOTE 20. COMMITMENTS

The Foundation has entered into several limited partnership agreements for private equity funds, as part of its holdings in alternative investments. As part of these agreements, the Foundation has made a commitment to fund a total of $129,020,000 to these various funds. At June 30, 2018, the Foundation had invested approximately $103,490,000, leaving a remaining commitment to be satisfied of $25,530,000.

NOTE 21. SPLIT INTEREST AGREEMENTS

The Foundation has entered into several agreements under which the Foundation has a beneficial interest. Contributions recognized in relation to these agreements for the years ended June 30, 2018 and 2017, amounted to $412,786 and $955,484, respectively.

NOTE 21. SPLIT INTEREST AGREEMENTS (CONTINUED)

Assets held under these agreements are disclosed in Note 8. Liabilities are presented separately in the accompanying consolidated statements of financial position and are recorded at fair value, calculated as the present value of the expected future payments to beneficiaries. The terms vary depending on life expectancy, and the discount rate used in the calculation was 3.4% and 2.4% for the years ended June 30, 2018 and 2017, respectively.

The Foundation holds one charitable remainder unitrust at June 30, 2018 and 2017, in which 49% of the remainder will be distributed to other charitable organizations. The remainder liability to others is estimated at $27,752 and $26,590 at June 30, 2018 and 2017, respectively.

Trust and 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:

	2018	2017
Trust and annuity obligations, beginning of year	$ 4,931,139	$ 5,116,111
New agreements	37,622	983,830
Annuitant distributions	(471,553)	(391,850)
Matured agreements	(110,765)	(1,091,348)
Actuarial changes	219,893	314,396
Trust and annuity obligations, end of year	$ 4,606,336	$ 4,931,139

NOTE 22. 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 the years ended June 30, 2018 and 2017, MSU paid the Foundation $1,500,000 and $1,575,000, respectively, in accordance with the agreement. This amount is presented under contract services in the accompanying consolidated financial statements. As of June 30, 2018 and 2017, the Foundation had accounts payable to MSU in the amount of $2,092,618 and $431,070, respectively, for reimbursement of costs.

S U P P L E M E N T A L   I N F O R M A T I O N

MONTANA STATE UNIVERSITY FOUNDATION, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
June 30, 2018

	MSUF	ATI	MSUIC	Consolidated
ASSETS				
Cash and cash equivalents	$ 1,781,985	$ 275,622	$ 124,912	$ 2,182,519
RECEIVABLES:				
Promises to give, net	15,586,156	-	-	15,586,156
Notes receivable	33,941	-	-	33,941
Other receivables	5,311,470	152,483	57,045	5,520,998
	20,931,567	152,483	57,045	21,141,095
INVESTMENTS:				
Pooled investments	219,628,491	-	-	219,628,491
Real estate	493,767	-	-	493,767
Other investments	11,340,922	-	-	11,340,922
	231,463,180	-	-	231,463,180
PROPERTY AND EQUPMENT, net	1,910,391	1,499,121	3,846,571	7,256,083
OTHER ASSETS	530,572	253,516	-	784,088
Total assets	$ 256,617,695	$ 2,180,742	$ 4,028,528	$ 262,826,965
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	$ 2,181,037	$ 21,979	$ 1,699	$ 2,204,715
Accrued liabilities	890,672	12,303	-	902,975
Deposits	-	8,687	-	8,687
Trust and annuity obligations	4,606,336	-	-	4,606,336
Agency funds held for others	10,732,551	-	-	10,732,551
Notes payable	569,097	2,785,296	-	3,354,393
Bonds Payable	2,010,000	-	-	2,010,000
Other liabilities	862,213	34,695	-	896,908
	21,851,906	2,862,960	1,699	24,716,565
NET ASSETS				
Unrestricted	4,171,341	(682,218)	4,026,829	7,515,952
Temporarily restricted	88,319,166	-	-	88,319,166
Permanently restricted	142,275,282	-	-	142,275,282
	234,765,789	(682,218)	4,026,829	238,110,400
Total liabilities and net assets	$ 256,617,695	$ 2,180,742	$ 4,028,528	$ 262,826,965